

**Influence of the recent changes in EU VAT regulations on the financial situation of British micro businesses providing digital services to end consumers.**

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<b>Report/thesis title</b> Influence of the recent changes in EU VAT regulations on the financial situation of British micro businesses providing digital services to end consumers.	<b>Number of pages and appendix pages</b> 55 + 28
<p>This Bachelor's thesis report aims to present the process and results of research focusing on the influence of the recent changes in EU VAT regulations on the financial situation of British micro businesses providing digital services to end consumers. In particular it studies the amendments in Regulation (EC) No 1798/2003, which has been in force since January 1, 2015, and states the shift of place of supply from the seller to the buyer in case of telecommunications, broadcasting and electronically supplied services.</p> <p>Despite the fact, that recent EU VAT changes were aimed at big, multinational organizations, which before 2015 benefited from a possibility to register only in one EU Member State with the lowest VAT rate, the new law appears to be a big concern for the smallest companies. It resulted in an obligation for all enterprises providing cross-border electronic services to end consumers from the European Union to register to a VAT system and use VAT rates applicable in each of the EU Member States they sell to, as well as to collect and store data on the location of their customers. From among all the affected organisations, micro businesses in the United Kingdom seem to suffer the most, due to Europe's highest VAT exemption threshold (£81,000 at the time of the research).</p> <p>The theoretical part of the thesis focuses on indirect taxation, with a special emphasis on value added tax. Short history and an overview of current systems of VAT are presented, including key concepts such as value added tax, cross-border sales of goods and services, place of supply, minimal human intervention and VAT MOSS.</p> <p>The research performed was of a quantitative nature and used a 28-questions survey. The inquiries concerned issues regarding VAT obligations, cross-border sales, compliance costs, profitability and the overall financial situation of the respondents. Data collecting process took place between 2 and 23 November 2015 and was carried out in two ways: a hyperlink posted online and provided by e-mail. Due to a very low number of respondents, the author made every effort to support the results with thorough secondary research in order to improve the credibility of the study.</p> <p>The thesis research confirmed that the financial and overall situation of British micro businesses providing digital services to consumers from other EU Member States is alarming. Most of the companies reported a decrease in cross-border sales, an increase of costs and a substantial drop in profitability. The study also revealed that many of the entrepreneurs struggle to sustain their operations due to new obligations imposed upon them by VAT MOSS.</p>	
<b>Keywords</b> VAT, VAT MOSS, value added tax, digital services, micro business	

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# **1 Introduction**

This report aims to present the process and results of research focusing on the influence of the recent changes in EU VAT regulations on the financial situation of British micro businesses providing digital services to private customers. Changes in question refer to Amendments in Regulation (EC) No 1798/2003, which has been in force since January 1, 2015, and states the shift of place of supply in case of telecommunications, broadcasting and electronically supplied services.

New legislation forced many micro businesses to VAT registration, even though they were tax-exempt prior to the changes, due to locally defined thresholds. Moreover, the duty of determining an exact place of residence of their customers became not only problematic, but also costly for the sole proprietors and small family businesses around Europe. Expenditures on software adjustments, new designs of websites, and changes in pricing due to different VAT rates, as well as general confusion among entrepreneurs, might have not only negatively influenced their international operations, but also crippled overall financial situation of many of them.

The main purpose of the report is to familiarize the reader with the problem, and present conclusions regarding research on factors which were the most influential on micro business' profitability and overall finances. The theoretical framework, including concepts of indirect taxation, history and current systems of VAT, e-commerce industry, and the meaning of micro businesses for the economy is presented in Chapters 2, 3 & 4, and is intended to provide background information for better understanding of the researched phenomenon.

From Chapter 5, the reader can learn some details of how the research had been planned, executed, and analysed for the purpose of presenting the results in Chapter 6. The last chapter draws conclusions from the research results, as well as gives comments on its reliability and validity.

## **1.1 Research Question**

The thesis topic emerged from the news on the EU VAT changes for suppliers of digital services; in particular, from alarming comments of micro businesses' owners around the Europe. The change of VAT legislation came as surprise to many of them, and already prior to the new regulations implementation date, many of entrepreneurs had expressed their concerns about ability to meet specific expectations of European Commission, as well as about their impact on companies' day-to-day operations.

Issues raised by micro businesses' owners during the turn of the year encouraged the author to further investigate the problem, in particular the impact on overall financial situation of these companies. "Influence of the recent changes in EU VAT regulations on the financial situation of British micro businesses providing digital services to end consumers" had been formulated as the main thesis topic, which later on was explored during 2015 by searching for the answers to main Research Question (RQ) and five supportive Investigative Questions (IQs) of the thesis, presented in Table 1.

Table 1. Research Question and Investigative Questions of the thesis.

<b>RQ:</b>	<b>How have the recent changes in EU VAT regulations influenced the financial situation of British micro businesses providing digital services?</b>
<b>IQ1:</b>	What are current VAT regulations for digital service providers in United Kingdom?
<b>IQ2:</b>	What are micro businesses and what is their meaning for the economy?
<b>IQ3:</b>	What is e-commerce?
<b>IQ4:</b>	How have the recent changes in VAT regulations influenced micro businesses' international operations at the e-commerce market?
<b>IQ5:</b>	How have the recent changes in VAT regulations influenced overall profitability of the British micro businesses providing digital services in EU?

In order to organise the thesis process, an overlay matrix was created. It presents theoretical framework and methods used by the researcher concerning answering to set IQs, as well as the outcomes of these processes. Overlay matrix is attached as Appendix 1.

## 1.2 Delimitation

Even though, the mentioned changes affected companies of all sizes, the research focused exclusively on micro businesses. As mentioned before, despite the fact that recent EU VAT changes were aimed at big, multinational organizations (i.e.: Google, Apple, etc.), which before 2015 benefited from possibility to register only in one Member State with the lowest VAT rate (like Luxembourg or Ireland), it is not them who struggle with the consequences. It is the smallest, often one-person companies that were affected the most by transformation costs and results of the change. This is why the research was focused particularly on this group, and changes in their financial situation in practice.

The author of the thesis decided to research micro businesses only from one Member State mainly due to bachelor thesis' limitations. United Kingdom was chosen on the ac-

count of materials available in English language. In addition, British micro businesses were said to be affected the most because of country's relatively high VAT registration threshold. After the new changes, many of the companies were obliged to register to the system despite previous VAT exemption, and became taxable on cross-border sales no matter how low their revenues. Also accessibility to relevant data and information, as well as broadening the international aspect of the thesis, influenced the choice of this country.

### **1.3 Anticipated benefits**

The thesis topic enables the author and the readers to study VAT system in EU in more details. Due to constant changes in legislation and diversity of VAT systems valid in different countries, it is hard (if possible at all), even for the financial specialists, to stay updated and fully aware of VAT regulations for each industry. Hence the need for more well-trained VAT experts around the world can be noticed. It is enough to browse through job advertisements in order to understand how significant demand there is for VAT managers, especially among big, international companies. Hopefully, the theoretical framework of the thesis can be used as a condensed source of information about value added tax in general, and especially in the industry of digital services, by not only other accounting students but also active accounting professionals that seek help in understanding often confusing legislation.

As the controversy around the recent changes of VAT regulations seemed to be a hot topic among entrepreneurs, the research was designed to contribute to real data collection on serious consequences of forced VAT responsibilities, and support micro businesses' actions towards establishing an exemption threshold that would exclude the smallest companies from this obligation. However, the author had not managed to collect big number of survey responses, and therefore the usefulness of the study may be questioned by EU digital VAT exemption threshold lobbyists.

### **1.4 Key concepts**

In order to fully understand the next chapters of the thesis, few basic concepts had to be introduced to the reader. The definitions below were made to clarify the meaning behind expressions used throughout the report in the context of this thesis. These key concepts include issues such as:

- indirect taxation
- value added tax
- Member States
- cross-border sales of goods and services

- place of supply
- micro business
- digital service
- VAT MOSS
- minimal human intervention.

#### **1.4.1 Indirect taxation**

Indirect taxes (such as VAT or excise) are those imposed on transactions rather than assets or wealth (Martinez-Vasquez, Vulovic & Liu 2011, 37). As opposed to direct taxes, they are not levied on particular taxpayer, and therefore are not directly paid by them. This kind of taxes is mostly imposed on goods and services by increasing their end prices. Even though they are paid by the consumers, they are collected and transferred to government on behalf of the exact taxpayers by the intermediaries, for example retailers.

Two main types of indirect tax are distinguished: specific unit tax and ad valorem tax. While the first one is determined as a fixed sum of money per one unit (for example tax on alcohol or a package of cigarettes), the latter one is given as a percentage of the value of a good or service. VAT is the most common ad valorem indirect tax in Europe. (Economics Online 2015.)

#### **1.4.2 Value added tax**

Value added tax is an example of a consumption tax and is currently collected by governments of Canada and European Union. This particular tax is levied every time the value is added to a product (or service) at any stage of production, distribution or end sale. (Choi and Meek 2011, 433.) More details on how VAT is calculated and collected can be found in Chapter 2.1.1.

#### **1.4.3 Member States**

Every time the expression “Member State(s)” is used within this report, it concerns one or more countries currently belonging to the European Union. During the time of writing the thesis (2015) European Union included 28 countries presented in the Table 2. Next to each country the year of concession and its currency are given.



Table 2. Member States of European Union (European Commission 2015a).

Country	Year of entry	Currency	Country	Year of entry	Currency
Austria	1995	EUR	Belgium	1958	EUR
Bulgaria	2007	BGN	Croatia	2013	HRK
Cyprus	2004	EUR	Czech Republic	2004	CZK
Denmark	1973	DKK	Estonia	2004	EUR
Finland	1995	EUR	France	1958	EUR
Germany	1958	EUR	Greece	1981	EUR
Hungary	2004	HUF	Ireland	1973	EUR
Italy	1958	EUR	Latvia	2004	EUR
Lithuania	2004	EUR	Luxembourg	1958	EUR
Malta	2004	EUR	Netherlands	1958	EUR
Poland	2004	PLN	Portugal	1986	EUR
Romania	2007	RON	Slovakia	2004	EUR
Slovenia	2004	EUR	Spain	1986	EUR
Sweden	1995	SEK	United Kingdom	1973	GBP

#### 1.4.4 Cross-border sales of goods and services

For the purpose of this thesis, the author defined “cross-border sales” as every sale of good(s) or service(s) from one country to another within the borders of European Union. The expression was mostly referred to transactions made exclusively between a supplier from one Member State and end consumer residing in another Member State.

#### 1.4.5 Place of supply

Place of supply is defined as the exact place where the good or services are delivered, and therefore, where the obligation of paying value added tax occurs. In case of services, specifying the place of supply may appear problematic, as it depends on several factors: type of service, number of business locations, and location of your customers. (HMRC 2014a.) More details on place of supply can be found in Chapter 2.1.4.

#### **1.4.6 Micro business**

According to European Commission, a company is called a micro business if two conditions are fulfilled. Firstly, the enterprise cannot employ more than 10 people. Secondly, its annual turnover and/or annual balance sheet total is not higher than 2 million euros. (Commission Recommendation 2003.)

#### **1.4.7 Digital services**

Digital services include telecommunication, broadcasting and electronic services. The report focuses on the latter which are defined as:

Electronically supplied services' include services which are delivered over the Internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology.

(European Commission 2015b.)

These include sales of things such as:

- automatically downloadable photos, screensavers, ebooks, and similar (i.e.: pdf files)
- website supply or web hosting services
- software and its updates
- automatically downloadable music files, movies, games, etc.
- subscriptions to online magazines
- advertising space online
- distance maintenance of programs and equipment.

(Lomas 2014.)

#### **1.4.8 VAT MOSS**

VAT Mini One Stop Shop (VAT MOSS) is tax registration scheme, which enables the business to send only one VAT return and payment per quarter, instead of registering to VAT systems separately in each Member State it sales to. Registering to VAT MOSS shifts the duty of sending relevant payments to the proper tax authorities in other EU countries, from the company to its domestic tax authority. (HMRC 2014b.)

Within this report, the term is also used to describe 2015 changes in EU VAT regulations concerning sales of digital services.

#### **1.4.9 Minimal human intervention**

Minimal human intervention is a term used by European Commission in order to distinguish electronically supplied services from others. However, when it comes to clear definition what exactly should be understood by “minimal human intervention” and how much “human intervention” is enough to exclude a service as digital covered by VAT MOSS, no one correct answer can be provided. There is no consistency in explanations from HMRC, thus each case should be considered individually. (McKenna 28 November 2014).

In this report the term should be understood following Juliet E. McKenna (28 November 2014): simply as a physical action that must be taken by the person in order to make a digital transaction possible.

## **2 Introduction to Value Added Tax (VAT)**

This chapter's main aim is to introduce value added tax to the reader. Starting with presenting the logic behind calculating and collecting the tax, the author shortly presents the history of VAT as well as current European VAT system, with a special emphasis on VAT legislation in United Kingdom. Later on the focus is shifted to the concrete issue of indirect taxation on digital services - the regulations before January 1, 2015, and after.

### **2.1 VAT**

As already mentioned before, VAT is the most common ad valorem indirect tax. It is levied on consumption of goods and services traded in European Union but also in other parts of the world. Some countries may refer to Goods and Services Tax (GST) instead of Value Added Tax (VAT), nevertheless, the mechanism behind these two is identical. Throughout the previous century VAT had been adopted by over 140 countries and accounts for about 20% of the global tax revenue (James 2011, 15).

Big exception to the list is United States of America that does not impose VAT on a national scale. However, currently 45 states do impose some form of sale or/and complementary use tax. As these taxes are levied on transactions made between retailers and buyers, and are determined as the percentage of the end receipt amount, they might be considered a substitute for valued added tax as we know it. (EY 2015, 1017-1018.)

The table listing all the countries imposing VAT, GST or Sales Tax together with currently effective rates is attached to the report as the Appendix 2.

When it comes to sources of revenue, it is commonly known that most governments rely heavily on consumption taxes. Direct taxes, such as corporate tax, individual income tax, property tax or social insurance taxes are playing secondary role in most OECD Member Countries' revenue sources. OECD stands for Organisation for Economic Co-operation and Development and currently includes 25 European countries, as well as Australia, Canada, Chile, Israel, Japan, Korea, Mexico, New Zealand and United States (OECD 2015a). The latter country is the only one that draws nearly 60% of its income from individual taxation and social insurance taxes and only 18% from consumption taxes (Pomerleau 2014, 3). The situation is a bit different in the rest of the countries. As can be seen from Figure 1, individual taxes and social insurance taxes are important sources of revenue, but these are consumption taxes that bring most money (32.9%) into the national budgets.

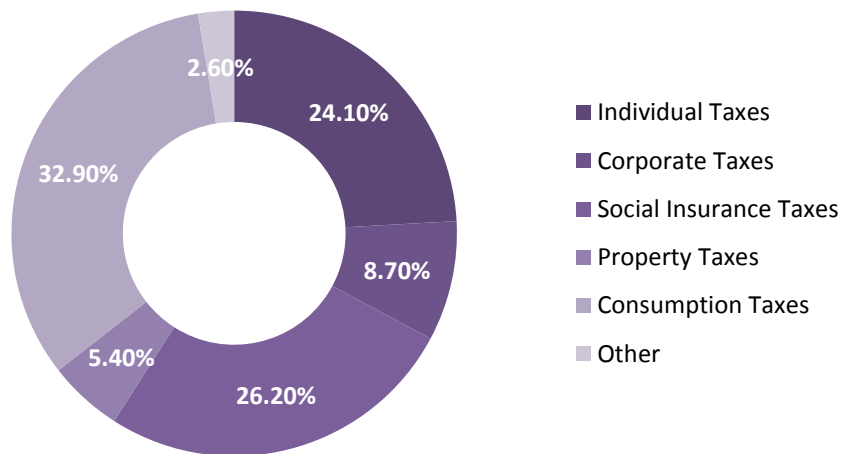


Figure 1. OECD Average Sources of Tax Revenue in 2011 (Pomerleau 2014, 2).

The statistics presented above prove how important role plays VAT in economy of each country and in the world all together. However, one must remember that apart of VAT the category of consumption taxes includes also other taxes on goods and services, such as excise taxes and custom duties. Nevertheless, during last six decades the importance of value added tax increased significantly, and at the moment it constitutes for over half of the category (Figure 2). (Pomerleau 2014, 5.)

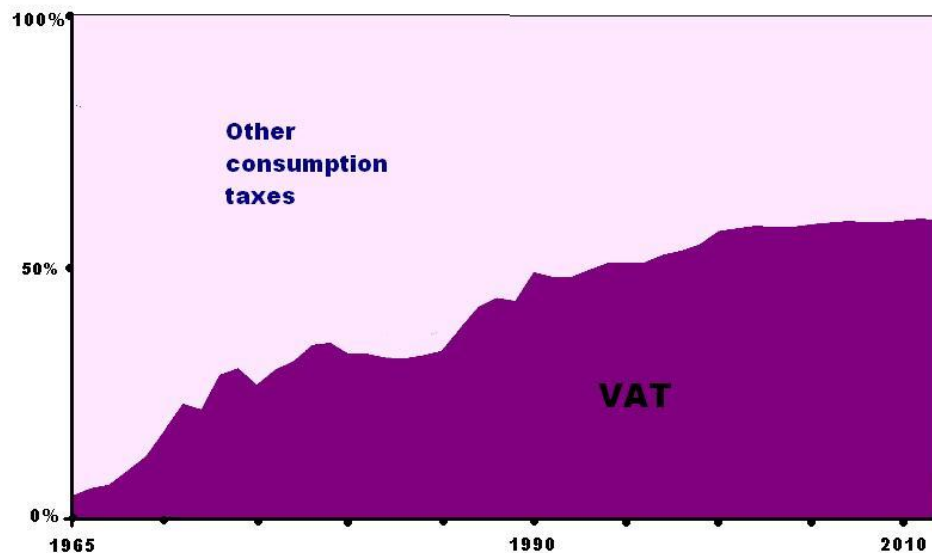


Figure 2. The change in structure of Consumption Taxes within OECD countries (Pomerleau 2014, 5).

### 2.1.1 Mechanism of VAT

Before short introduction into VAT systems can be presented, it is crucial to fully understand the mechanism of value added tax. In author's experience, many people have a problem with comprehending the logic behind it and often mistakenly assume that the tax is paid several times, by several parties involved in one particular transaction. The picture below (Figure 3) denies this common belief and truly shows how the money is collected and circulated between buyers and sellers taking part in a trade process.

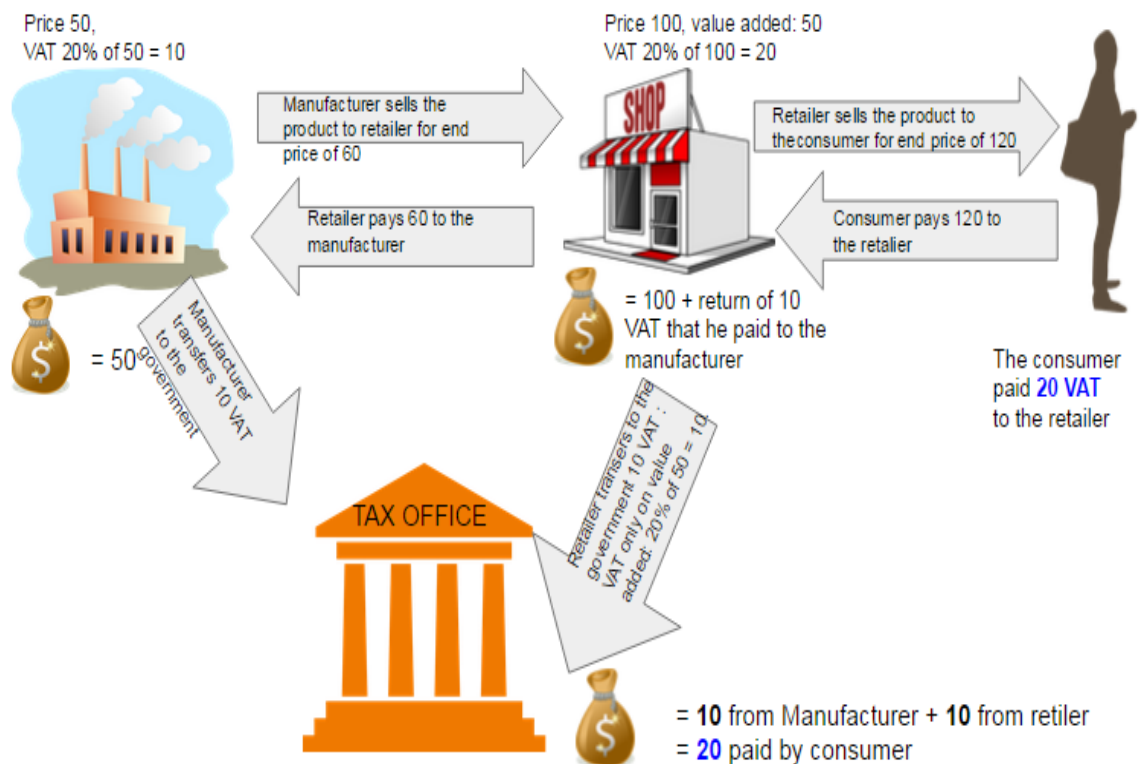


Figure 3. Collection and payment of VAT in the manufacturer-retailer-consumer transaction.

As may be observed from Figure 3, the only actual tax payer is the end consumer. He is the one that pays the amount of 20 VAT (used in the example above) to the shop and never gets it back, which follows the philosophy of consumption tax. No other party taking part in this transactions chain should be a payer of this tax. Nevertheless, the consumer is not the one who directly transfers money to the tax office. Hence VAT is classified as an indirect tax. The manufacturer and the retailers collect the VAT from their buyers on behalf of the government and actually transfer the cash to the proper authorities.

One must also put attention to another detail that often confuses many. As shown in the example the VAT collection has been as follows: 10 (paid by retailer to the manufacturer) + 20 (paid by consumer to the retailer) = 30. Nevertheless, it is only 20 that eventually are collected by the tax office. This brings us to the main point of the VAT. Even though it is calculated as a fixed percentage of the value and added to the end price in every step of the transaction, it is collected exclusively only on the value added in each step. This is best visible during the second transaction: between the retailer and consumer. The retailer sets the price of the product at 100 and adds established by government 20% of VAT on top of it. He later receives the payment for the product (100) and collects 20 VAT from the consumer, but transfers only 10 VAT to the tax office. This arises from the fact that the retailer collected more than he is supposed to. As the name of the tax states, it should be calculated exclusively from the value added: not the price set by retailer but on the value he added to the product he bought from the manufacturer. The buying price was 50, but the selling price is 100 and therefore, the value added is 50 and 10 VAT should be collected. Nevertheless, the retailer had already paid 10 VAT to the manufacturer who turns the money over to the authorities on his behalf and therefore had to retrieve it from his buyer, as he is not the end consumer of the product. In practice, the retailer is allowed to sum up all VAT he received (20 from consumer), subtract all the VAT he paid (10 from the manufacturer), and transfer only the difference (20-10=10) to the authorities. The same logic applies to the manufacturer, but in this particular example he did not pay any VAT, and thus is obliged to transfer all he got from the retailer to the tax office (10-0=10).

### **2.1.2 European VAT System**

VAT is a truly European discovery. It was invented in Europe in 1954 by a joint director of the French tax authority Maurice Lauré. Nevertheless, it was much earlier in Germany when the idea of a tax implied on every stage of selling process was first theorised. It was Dr. Wilhelm von Siemens who, as the first one in the world, presented the value added tax. However, his proposition was not accepted back then, in 1918. Only after nearly 50 years later the tax was introduced by the above mentioned French economist on the national level. Firstly to large, and later on to all the other business sectors. (Victor 2010; Maček April 2011, 5.)

After introduction of VAT in France, the tax spread to the rest of the world during next three decades. At first, it rose in the other parts of Western Europe during 1960s and 70s. This was mainly due to the establishing of Common Market (today's European Union) - adapting harmonized VAT had been a condition for membership. Also countries in Latin America replaced their sales tax with VAT during this period of time. (James 2011, 16; Maček April 2011, 5.)

The second phase of VAT spreading happened in late 1980s, when countries from outside the European Union acquired it into their national tax systems. These included Canada, Japan, Australia, but also many developing economies in Asia and Africa (James 2011, 17).

The current European Union VAT regime had been developed within years through series of directives. The system as we know it today emerged from the initial EC Sixth VAT Directive (77/388/EC) and the amendments thereto. The current regulations in force concerning the common market of European Union are gathered in Council Directive 2006/112/EC of November 28, 2006. Among others, the act in particular regulates issues concerning:

- taxable persons
- taxable transactions
- place of transaction (place of supply)
- minimal standards and reduced VAT rates
- exemptions from VAT
- VAT deductibility.

(EUR-Lex 2015.)

### **2.1.3 VAT rates and exemptions**

Despite general aspiration to unify VAT regulations among Member States even more, European Commission had not managed to introduce one single standard value added tax rate that would apply in all the EU countries. Instead, each EU nation has its own VAT system which determines standard and reduced tax rates adequate within its borders. Moreover, each country separately decides about the range of goods and services to which reduced rates should be applied. The full list of VAT rates and their main applications can be found in Appendix 3. Nevertheless, as mentioned before, the Directive 2006/112/EC established the minimum of standard VAT rate (15%), as well as up to two reduced rates - both not less than 5% ( EUR-Lex 2015). These guidelines have to be respected by all Member States of European Union.

The standard VAT rates vary among the EU Member States. Nevertheless they all oscillate around 20%. The highest standard rate is currently applied in Hungary (27%) but also Croatia, Denmark, Sweden, Finland and Romania charge as much as 24 or 25% on most taxable goods and services. The lowest standard rate levied in EU equals to 17% and is charged by Luxembourg. Cyprus, Germany and Malta determined their standard rates below 20% as well. (Avalara 2015a.)



Apart from tax rates, rules concerning tax exemptions are also established within European Union. The exemptions may be applied either on particular goods and services or specific businesses. The latter includes micro businesses which are not obliged to register to VAT system, nor to collect or charge VAT as long as they are under the threshold specified separately by each Member State's authorities. (OECD 2008, 65.)

Threshold is understood as the maximum turnover the business can make within financial year, and differs depending on the country. The thresholds currently valid in European Union are presented in Table 3. It is worth to acknowledge that Malta, Spain and Sweden do not apply VAT exemption thresholds.

Table 3. VAT thresholds for EU Member States (Avalara 2015b).

Country	VAT registration threshold	Country	VAT registration threshold
Austria	30,000 EUR	Belgium	15,000 EUR (25,000 EUR starting 1 Jan 2016)
Bulgaria	50,000 BGL	Croatia	230,000 HRK
Cyprus	15,600 EUR	Czech Republic	1,000,000 CZK
Denmark	50,000 DKK	Estonia	16,000 EUR
Finland	10,000 EUR	France	32,600 EUR
Germany	17,500 EUR	Greece	10,000 EUR
Hungary	6,000,000 HUF	Ireland	75,000 EUR on Goods 37,500 EUR on Services
Italy	60,000 EUR	Latvia	50,000 EUR
Lithuania	45,000 EUR	Luxembourg	25,000 EUR
Malta	NIL	The Netherlands	1,345 EUR
Poland	150,000 PLN	Portugal	12,500 EUR
Romania	220,000 ROL	Slovakia	49,790 EUR
Slovenia	50,000 EUR	Spain	NIL
Sweden	NIL	United Kingdom	81,000 GBP

#### 2.1.4 Place of supply

Place of supply (or place of transaction) is especially important issue of EU VAT system as it determines which tax rate should be used in the transaction. As place of supply differs depending on what sort of transaction is in question, what kind of goods are traded and how they are delivered to the buyer, using an adequate rate may appear challenging (EUR-Lex 2015).

European Commission (EUR-Lex 2015) distinguishes four types of transactions concerning VAT legislation:

- supply of goods
- intra-community inquisition of goods (trade between EU Member States)
- imports of goods (trade between EU Member State and non-EU country)
- supply of services.

As mentioned before, the rules of which tax rate to apply in particular transaction depends on many different factors, thus traders should always check which regulations are valid in their particular case. Nevertheless, Table 4 attempts to present general guidelines for each type of action.

Table 4. Place of taxation (EUR-Lex 2015; European Commission 2015c).

Type of transaction	Between two VAT registered businesses	Between VAT registered business and private individuals
Supply of goods	where the goods are supplied	seller's (if turnover within threshold) buyer's (when threshold exceeded)
Intra-community inquisition of goods	final location of goods	not applicable
Import of goods	EU country to which goods were supplied	not applicable
Supply of services	where the service is supplied	seller's location

As can be observed from the Table 4, the legislation tends to use VAT rate valid in the country of destination of goods or services. The exceptions are business to consumer transaction where tax rate appropriate for the seller's country of residence might be applied. Nevertheless, one must remember that there are many exceptions to the rules illus-

trated in the table. One of them is the subject of this thesis, and thus is further discussed in Chapter 2.3.

## **2.2 VAT System in UK**

United Kingdom is one of these countries which introduced VAT system in order to be able to join European Economic Community (known today as European Union). The new tax system was adapted in 1973 and HM Revenue & Customs (HMRC) is a body responsible for revenue collection associated with VAT.

### **2.2.1 Standard and reduced VAT rates**

10% was the standard rate just after the VAT regulations had been implemented. It dropped to 8% during next year but has been only gradually growing ever since, with the little exception in 2009 when it dropped again from 17.5% to 15%. This was government's purposeful decision in order to increase demand for goods and services, and consumption within the nation. It was brought back to the previous level a year later and in 2011 it decreased further to 20% which has been the standard rate in force until this year. (Crossley, Phillips & Wakefield 2009, 195; OECD 2015b.)

Apart from the standard rate, two reduced VAT rates (0% and 5%) are applied in United Kingdom for certain goods and services, for example some energy saving materials, mobility aids for older people, electricity and gas, etc. Other can be tax exempt and among these charitable events, burial or cremation of deceased, health services provided by registered professionals and education can be distinguished. (HMRC 2015a.)

More detailed lists of 0%, 5% or tax exempt goods and services can be found in Appendices 4, 5 and 6. On top of these, HM Revenue and Customs (2015a) mentions goods and services, which are completely outside of the VAT scope:

- Voluntary donations to charity.
- Welfare services provided by charities at significantly below cost.
- Tolls for bridges, tunnels and roads operated by public authorities.
- Direct-mail postal services meeting all the conditions of VAT Notice 700/24 3.2 and 3.3.

### **2.2.2 VAT Registration**

All the businesses that make an annual turnover of more than 81,000 GBP should be registered to UK VAT system, unless they provide goods and/or services exclusively VAT exempt. For firms that make sales under the mentioned threshold, VAT registration is vol-

untary. HMRC also gives an opportunity to apply for so called “registration exception”; this is possible if the annual turnover threshold is exceeded temporarily. The UK VAT number include nine digits with a national code (GB) stated before them. (HMRC 2015b.)

Registration to VAT system in United Kingdom automatically brings some obligations onto companies. These include charging the proper VAT rates on goods and/or services sold, keeping the records and accounts of Input and Output VAT amounts, pay VAT to HMRC or submit VAT returns, most likely one calendar month and seven days after the end of an accounting period. Quarterly or annual VAT accounting schemes are also possible in certain circumstances. Penalties are imposed on companies, if settled deadlines are missed. (HMRC 2015b.)

Annual Accounting Scheme is typical only for United Kingdom. It permits small businesses to pay their VAT duties only once a year - in advance - in the amount based on the previous periods or estimations. At the end of the year, the difference between VAT paid and the proper amount at the yearly VAT return declaration is either compensated by the company or reclaimed from HMRC. (OECD 2015c, 126.)

### **2.2.3 VAT reclaim**

Apart from obligations, companies in UK have a right to claim back VAT paid on the services and goods bought for supporting their business activities (HMRC 2015c). These usually happens by subtracting the amount you can reclaim, from the amount of VAT you owe to authorities. However, it can happen that VAT payables are constantly lower than receivables, and the business would like to receive its money back from HRMC. In such case, additional claim through the VAT return declaration should be made, and the funds will be returned during 10 working days (HMRC 2015c).

### **2.2.4 VAT revenue**

Value added tax is an important part of United Kingdom’s tax revenue structure. In 2014 HMRC collected nearly £114 billions GBP of VAT, which contributed for 63% of all acquired taxes on goods and services and 21% of overall tax revenue. Only taxes on personal income exceeded the sum attributed to VAT (for more details see Table 5).

Table 5. UK tax revenue structure in 2014 (OECD Revenue Statistics 2014).

	Millions GBP	%
Taxes on personal income, profits and gains	150,453	28
Taxes on corporate income and gains	44,423	8
Social security contributions	104,319	19
Payroll taxes	-	0
Taxes on property	64,879	12
Taxes on goods and services	180,105	33
<b><i>Of which VAT is</i></b>	<b>113,895</b>	<b>21</b>
Other	2,885	1
<b>Total</b>	<b>547,064</b>	<b>100</b>

### 2.3 VAT on digital services

Digital services are described in the Chapter 1.4.7 and include broadcasting, telecommunication and electronically supplied services. Even though for the purpose of this thesis, the first two categories have been excluded from the definition, one must remember that all the legislation about digital services concerns these as well.

Amendments to regulations of EU VAT and place of supply in terms of digital services began already in 2008 and concern exclusively sales to the end consumers and non-taxable persons (B2C activities). The package of changes which was approved back then by all the Member States had its last part implemented at the beginning of 2015, when the place of supply of services in question was officially shifted (HMRC 2013a).

One of the reasons for implying these changes was to remove an incentive for businesses, which encouraged them to be located offshore (HMRC 2013a). Another one had been to improve compliance with EU VAT rules. European Commission discovered that nearly two hundred billions of euros were lost yearly due to, among the others, ignorance of VAT rules. The research showed that clever manipulation of law causes huge VAT leakage, which mostly had occurred in the sector of digital market. New rules aimed to prevent such bad practices. (Taxamo 2014.)

Old and new regulations are discussed in the following subchapters.

### **2.3.1 Before January 1, 2015**

Until the end of 2014, place of supply for digital services supplied to end consumers (B2C) was established at the location of the supplier (HMRC 2013a). Under these regulations, companies providing such services were allowed to charge VAT rate relevant at their own country of origin, no matter where their end customer had been located. In case of any business to business (B2B) transaction, the place of supply was always belonging to the location of the client, but in the case of B2C transactions, companies were not obliged to register to VAT system in any other country than their own.

Due to possibility mentioned above, businesses were able to take advantage of the legislation: register to the system at the Member State with the lowest VAT rate (for example Luxembourg), and draw benefits from lower prices, when compared to their local competitors charging local VAT rates. This seemed to be commonly practised by many digital giants such as Google or Apple and in the same time, was harmful for the tax revenues of the countries, where the services had been actually consumed, and therefore where VAT had been eligible according to the consumption tax logic.

### **2.3.2 After January 1, 2015**

Starting from 2015, the place of supply for digital services supplied to the end consumers had been shifted, and currently VAT obligations fall into the buyer's place of residence (HMRC 2013a). Due to this change, companies providing electronically supplied services to end customers from other Member States should be registered to VAT systems in each of these states, and pay their VAT duties accordingly to occurring sales.

In order to make the process easy, European Commission introduced a Mini One-Stop Shop (MOSS). This scheme enables registration to only one Member's VAT system (most likely domestic), and account for their VAT obligations on digital services in all the EU countries through a single VAT MOSS Return. Nevertheless, this scheme requires VAT registration even of these businesses that had been VAT exempt due to the threshold. (HMRC 2013a.) This obligation enforced many new registrations of micro businesses, especially in the Member States where the threshold has been set high. Hence many entrepreneurs in United Kingdom, which has the highest threshold in EU, have been expressing their dissatisfaction ever since the new regulations had come into force.

New regulations aimed to minimise distortions to the location of digital activities, as well as to increase competitiveness of smaller suppliers within the sector, and therefore positively impact the economy (HMRC 2013a). Unfortunately, time has shown that the regulations

occurred to be problematic for small and medium-size enterprises (SMEs), especially for micro businesses, and the economic impact may be not as optimistic, as European Commission had expected. Issues and concerns connected to EU VAT changes are further discussed in the following chapters.

### 3 Micro businesses and their meaning for the economy

Micro business are an integral part of SMEs (Small and medium-sized enterprises) in every economy. Which companies fall under the category of SME is determined on the basis of the number of employees and their annual turnover, relatively their balance sheet total (European Commission 2015d). Table 6 shows the numerical limits, which help to properly define whether a firm in question is a micro business, small company or medium-sized enterprise.

Table 6. Factors determining whether the company is micro, small or medium-sized enterprise (European Commission 2015d).

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-size	<250	≤ € 50 m		≤ € 43 m
Small	<50	≤ € 10 m		≤ € 10 m
Micro	<10	≤ € 2		≤ € 2 m

The focus of this thesis was set on the last group mentioned in the Table 6, and therefore the report comments mainly on the data concerning enterprises employing less than ten people and with annual revenue not bigger than 2 million EUR.

According to the report prepared by the OECD (2015c, 39), SMEs account for approximately 95% of all companies in most of the countries and are crucial for the growth of national and global economy. They play significant role in employment, innovation and creating diversity without which competition would be highly limited, and any truly free market endangered. SMEs also hugely contribute to every nation's export activities, as well as value-added defined as difference between production and intermediate consumption (OECD 2015c, 46).

As already mentioned, employment rate depends strongly on SMEs, which in average account for over a half of total personnel hired within the country. It can be observed from Figure 4 how big role in SMEs employment structure is played by micro businesses. In most of the countries they constitute for around one third of all employers.



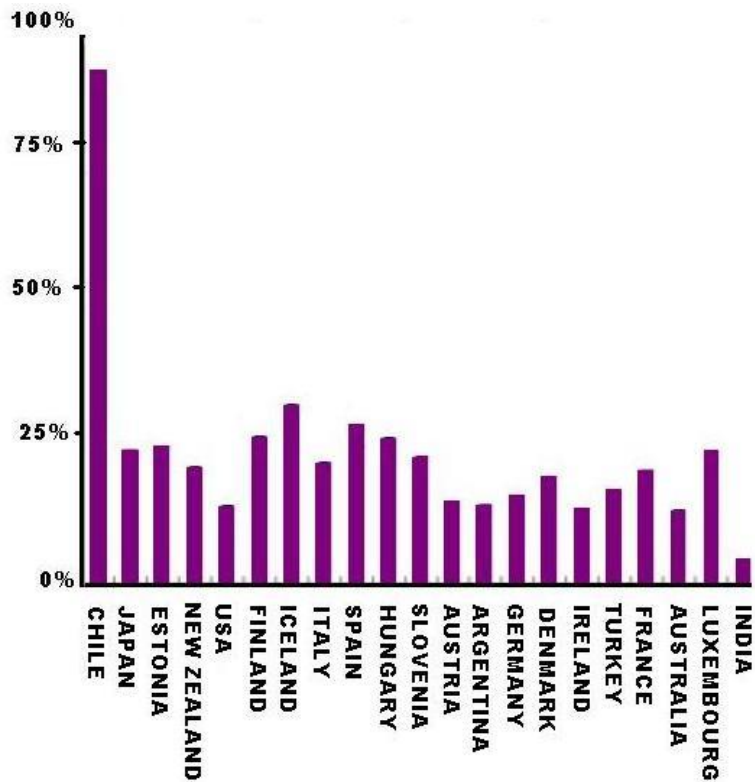


Figure 4. Percentage of micro businesses' employment within total employment of SMEs (OECD 2015c, 44).

Micro businesses are also important players in creating value-added, but not so significant anymore when export is concerned. Figure 5 illustrates that even though in some countries SMEs all together may account up to nearly 60% of total export, micro business do not contribute much in this category (Ireland is an exception).

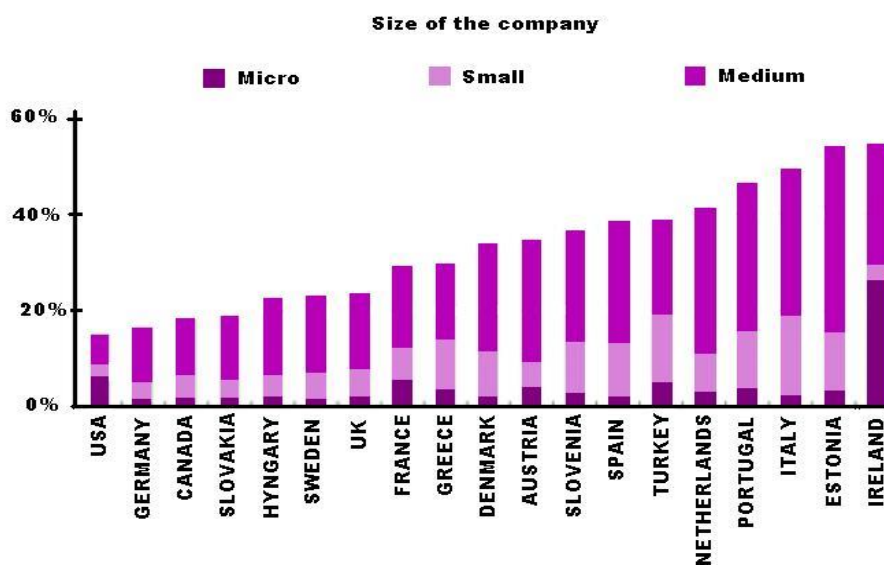


Figure 5. Percentage of export provided by SMEs (OECD 2015c, 47).

As far as United Kingdom is concerned, Rhodes (2015, 5) reports in Business Statistics that there are currently 5.1 million of micro businesses registered, and they account for 95% of all companies. However, even though they are the huge part of the country's private business sector, they constitute for only 18% of the turnover and one third of the total employment (Table 7).

Table 7. Private sector businesses in the UK (Rhodes 2015, 5).

	Business		Employment		Turnover	
	1000s	%	1000s	%	£ billions	%
<b>No employees</b>	4,078	76	4,451	17	237	6
<b>SMEs (0-250 employees)</b>	5,382	99.9	15,611	60	1,754	47
<i>Of which:</i>						
<i>Micro (0-9 employees)</i>	5,146	95	8,461	33	673	18
<i>Small (10-49 employees)</i>	204	4	3,967	15	543	15
<i>Medium (50-249 employees)</i>	33	1	3,183	12	538	15
<b>Large (250+ employees)</b>	7	0.1	10,260	40	1,956	53
<b>Total, all businesses</b>	5,389	100	25,871	100	3,719	100

In average, about 250,000 new businesses are opened every year in UK, however, nearly as much is ceased of trading due to various reasons. Nevertheless, during last decade, the rate of companies entering the market still mostly outnumbered the rate of firms closing their operations. In 2013 the ratio between these two variables was accordingly 14% to 10%. (Rhodes 2015, 9.)

## 4 E-commerce in Europe

Together with the quick development of technology, new possibilities for the businesses appeared and the e-commerce market had been born as an entirely new sector of global economy. As defined by Ecommerce Europe (2015b), “E-commerce (or electronic commerce), a subset of e-business: any B2C contract on the sale of products or services fully or partly concluded by a technique for distance communication”. As digital services in this thesis are understood as electronically supplied services rather than broadcasting and telecommunication, they are part of the e-commerce. Thus in this chapter, the author provided some basics information on e-commerce in Europe.

One of the most growing trends of recent years is online shopping. More and more consumers decide to buy products or services through websites or applications provided by the sellers. With an easy access to computers, tablets and smartphones, and with 564 million of people using internet in Europe, getting supplies of any kind via the web quickly becomes the simplest solution for consumers and businesses. It is also a valid source of revenue for many, as becoming an online seller nowadays does not even require going out from home. There are over 715,000 of online businesses active in Europe and the number of jobs directly or indirectly connected to e-commerce reached 2.4 million. (Ecommerce Europe 2015a.)

There are about 818 million of people living currently in Europe. Around 70% of them is using internet on a daily basis and further 40% (331 million) have already become online shoppers. Between 1,000 and 2,000 EUR is spent yearly by an average e-shopper, which in 2014 added up to 424 billion EUR of turnover of e-commerce goods (~51%) and services (~49%). This accounted to 7.2% share of online goods in total retail of goods and 2.45% of total European GDP. The latter is expected to double by 2016 and triple by 2020. (Ecommerce Europe 2015a.)

Together with the usage of the internet, the borders between countries vanish and it became crucial for the European Commission to create a Digital Single Market within Member States, in order to make cross-border trade even easier and more convenient for both, consumers and suppliers, and increase its share in overall purchases. In 2014 15% of all consumers in European Union bought e-goods or e-services from sellers from another Member State, and as can be observed from Figure 6, businesses from UK, Germany and France were the most favoured ones. (Ecommerce Europe 2015a.)

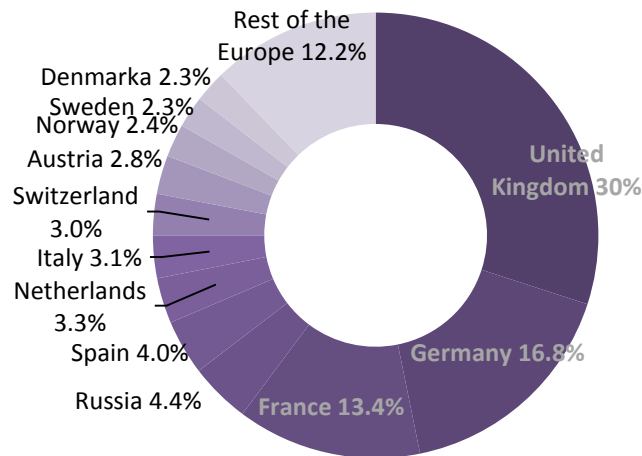


Figure 6. Countries' share of European e-commerce market (Ecommerce Europe 2015a).

In United Kingdom e-commerce market seems to play more and more important part in overall economy. In 2014 it accounted for 5.74% of total GDP. In 2015 the turnover on e-commerce is forecasted to grow further (compared to 127 billion EUR in the previous year), and reach 144 billion EUR from which about 45% will be accounted to electronically supplied services. (Ecommerce Europe 2015b.)

While drawing conclusions from this chapter, one must notice there is no clear distinction between data on electronically supplied services and goods bought online. The Ecommerce Europe reports do not list what sales exactly are included into which category, and therefore providing data concerning exclusively electronically supplied services influenced by the recent changes in EU VAT regulations is impossible. Nevertheless, acknowledging the existence and constantly growing importance of e-commerce market in Europe seems relevant to the overall purpose of this thesis.

## 5 Research methodology

In order to be able to formulate answer for the main research question and investigative questions of the thesis (stated in Chapter 1.1), both primary and secondary data had been gathered and analysed. The figure below illustrates the five phases of the research process (Figure 7).

Research Phase	1	2	3	4	5
Source / respondent	VAT specific literature	Websites gathering micro-business owners	Economic literature and statistical reports	Micro-businesses owners	British micro-businesses owners
Data collection method	Desktop research	Desktop research	Desktop research	Webropol questionnaire + interviews	Webropol questionnaire + desktop research
Data analysis method	Qualitative thematic analysis	Qualitative thematic analysis	Qualitative thematic analysis	Qualitative analysis of interviews	Statistical analysis + qualitative thematic analysis
Outcome	IQ1 and Questionnaire draft		IQs 2 & 3		Tested questionnaire
	Comparative analysis				
	↓ ↓ ↓ ↓ ↓				
	Discussion Chapter				

Figure 7. Research process design.

The first two phases were based on desktop research of VAT specific literature, articles about new EU VAT regulations and websites gathering business owners, who had been affected by them. The main purpose of this part of the research process was to gather information essential for designing the questionnaire - main tool for the primary research. After another phase had been completed, not only the researcher was ready to create a proper survey but also gathered enough qualitative data in order to write theoretical framework for the thesis, and therefore answer to IQs 1, 2 and 3. The last two phases served the purpose of testing and improving the questionnaire, as well as analysing it when the responses had been collected. Due to low response rate, survey results were supported by secondary research data.

## **5.1 Secondary research**

Secondary data was used throughout the research process (Figure 7). Economic and VAT specific literature, articles as well as various websites, blogs and discussion forums were analysed in order to properly tailor theoretical framework chapters and primary research tool. In addition industry statistics reports, government publications, published surveys and other official publications were examined to support the thesis research. Low number of responses to the primary research strengthened the importance of secondary data sources in drawing conclusions and discussing main research question in Chapter 7.

## **5.2 Primary research method**

According to Saunders, Lewis and Thornhill (2016, 166), quantitative research is a preferred method when a researcher wants to use data collected to test the already existing theory. As the author had been following the news concerning new digital EU VAT regulations and investigated forums gathering the owners of businesses affected by them, the working theory existed prior to the research: financial situation of micro businesses had been endangered by new legislation. However, the researcher was aware that dissatisfied voices are usually the loudest ones. Additionally, the forums investigated were created especially for businesses that do not understand the change or anyhow struggle with the new law. Bearing this in mind, the questionnaire had been built in order to confirm that most of the micro businesses have been negatively affected, and in such case, which factors were the most destructive for their overall profitability.

The aim of the questionnaire was to collect many standardized responses in relatively short time, which would be easy to compare, to explain and to understand. In such case a survey is a recommended strategy, as it is often used for descriptive and explanatory studies. (Saunders & al. 2016, 175-181.)

### **5.2.1 Type of the questionnaire**

The questionnaire was designed as a self-completed survey with the use of Webropol software (Appendix 7). It was internet based and accessed by respondents through the web browser, with the use of a hyperlink provided by Webropol. Saunders & al. (2016, 441) suggest that such a survey should not be longer than 8 A4 pages and filling it in must not take more than half an hour. However, the authors also noticed that business surveys, even though created in the most professional manner are characterized with a low response rate, at most between 10 to 20%. The reasons for this were not given. This view had been supported by findings of another author. According to Jean Spencer (2014), in

case of research conducted on businesses, low response rate is to be expected, and thus response rate between 1.1 % and 2.6% can be treated as good.

Being aware of the huge risk of low response rate for the external quantitative research, the author of the thesis made every effort to design a survey easy and quick to answer but in the same time fully informative for the ongoing research. The research matrix is presented in the Table 8 below.

Table 8. Survey overlay matrix.

<b>RESEARCH QUESTION:</b>	
How have the recent changes in EU VAT regulations influenced financial situation of British micro businesses providing digital services?	
<b>INVESTIGATIVE QUESTIONS:</b>	<b>LINKED QUESTIONS:</b>
Background questions	1-8
What are micro businesses' in UK current VAT obligations?	9-11
How have 2015 changes in EU VAT legislation influenced micro businesses' in UK cross-border B2C sales of digital services?	12-16
How high are compliance costs for micro businesses in UK?	17-21
How have 2015 changes in EU VAT legislation influenced micro businesses' in UK profits?	22-26
How have 2015 changes in EU VAT legislation influenced micro businesses' in UK overall financial situation?	27-28

Not compromising meticulousness of the survey for the sake of the questionnaire length occurred to be challenging for the researcher. The survey included 28 closed questions of different kind. Saunders & al. (2016, 452) distinguish six types of closed questions: lists, category, rating - Likert scale questions, quantity, matrix (grid of questions) and ranking. Except for the last one, all of them were used in the survey.

In addition, some questions had an open answer possibility - respondents could add their own item to the list or leave a comment to the existing ones. Blending in the features of qualitative method is rather typical in questionnaires and was also adopted in this case. The place for own answer was provided for respondents in order to eliminate a mistake of not raising a crucial issue, which might have been unintentionally skipped by the researcher.

As mentioned above, the survey contained 28 questions; however, one must notice not all of them were necessary to be answered by every respondent. In addition to the queries that were not obligatory to fill in, the questionnaire had a complex structure - depending on the answers provided, research participants were automatically directed to corresponding inquiries. Some of the questions might be skipped as a result, hence lack of question numbering in the survey. For the same reasons the number of respondents differ depending on the enquiry, and thus both - the percentage and n - had been quoted throughout Result Chapter 6.

### **5.2.2 Target group**

The target group of the research was specified clearly and significantly narrowed. Even though the new EU VAT regulations influenced businesses offering their digital services to EU consumers from all Member States, and also from other countries worldwide, the researcher decided to target only entrepreneurs from United Kingdom, who owned micro companies described by the European Commission's definition given in chapter 1.4.6. Any other respondents were eliminated from the research at the very early stages of the survey.

### **5.2.3 Testing the questionnaire**

Before the link to the survey was published, it had been tested on a few test respondents. Three of them included students of different study fields in order to check if the language is understandable, and any additional information should be provided in case members of the target group are not financial/business specialists. The feedback of this testing group resulted in adding definitions to the questions' descriptions and eliminating incomprehensible or vague answers options.

Another trial round was aimed directly at the potential respondents from the specified target group. The link to the preliminary survey was sent via e-mail to 7 business owners from UK. E-mail addresses were acquired from the businesses' official websites or open public social media profiles and therefore no ethical rules had been violated. Test respondents targeted were chosen based on their activity in the EU digital VAT discussion groups: they had proven good knowledge of the issue. After the insight of people from outside the area of professional finance, the survey needed to be checked by specialists, who could contribute with their expertise on the matter. In addition, a grammar check by a native speaker was provided.



Only three out of seven test respondents replied, but a lot of nuances were improved thanks to the feedback provided by these experts. It was also during this phase that broadcasting and telecommunication services were eliminated from the research focus. One of the experts suggested that mentioning those in the survey would be confusing owners of micro businesses, as this is rarely their domain, and they could be quick to decide the problem is not concerning them when broadcasting and telecommunication services had been mentioned.

None of the test respondents mentioned the survey is too lengthy, which appeared to be problematic for many respondents in the further phases of the research.

#### **5.2.4 Collection of the responses**

Data collecting process took place between 2 and 23 November, 2015, and was carried out in two ways: a hyperlink posted online and provided by e-mail.

Firstly a hyperlink to the survey was posted in social media such as Facebook and online discussion forums. Websites addressed by the researcher gathered either micro business owners or entrepreneurs interested in digital VAT regulations. Among others, the hyperlink was provided to groups such as EU VAT Action Campaign Group, Digital VAT 2015, UK Self-employed Small Business Networking, UK Business Networking Group, UK Mums Business Networking, Digital Business Academy UK, Networking Businesses UK, UK Handmade, Female Entrepreneurs Association, Institute For Small Business and Entrepreneurship, Federation of Small Businesses, I Run A Small Business Community and similar. The hyperlink was reposted on all the websites after a couple of days.

As the first couple of days of data collection did not bring expected results, email addresses of possible respondents were gathered using multiple UK companies online search engines. Nearly 90 emails with a cover letter and the hyperlink to the survey were sent to firms which advertised supply of digital services such as software, applications, e-books, music, images, and mp3 downloads, website server hosting and software updating. The reminder was sent to the same recipients after five days.

Despite potentially big number of recipients, the desired, primary goal of 100 responses was not achieved. The response rate was significantly low: only 35 respondents submitted the survey. Such small number of responses negatively influenced reliability and validity of the research (discussed in more details in Chapter 7.2).

### **5.2.5 Data analysis method**

Data presented in this report were collected with the use of Webropol software and analysed with Excel. Frequency tables, charts and bar pies were used in the analysis to visually picture the results of the survey. Descriptive statistics, such as median, minimum and maximum values were used to interpret results from Likert scale question.

## 6 Research results

Determining the sample size and the response rate for the survey was challenging for the researcher. It appeared to be difficult to directly reach the desired target group, as British micro businesses owners providing digital services for consumers in majority is a sub-group that belongs to many others groups such as entrepreneurs, digital service providers or UK based entities. In addition, digital services are often not the only offer they have for their customers. Therefore, the researcher focused the efforts on reaching as many representatives of the mentioned groups as possible and eliminating respondents out of the research scope at the further stage - using specific questions within the survey. Nevertheless, such approach resulted in difficulty of establishing the exact size of the sample population, and thus response rate.

The reach of the websites provided with the survey hyperlink had been potentially big. Facebook groups and forums at which the researcher advertised the questionnaire have from tens to thousands of members. However, it was challenging to determine how many had actually seen the author's posts. In addition it is very possible that some of the potential respondents are members in several of those collectives.

Nonetheless, it leaves no doubt that low number of responses collected ( $n = 35$ ) resulted in a low response rate. On the other hand, the reader should bear in mind that this was a B2B research, which in principle brings much lower responses rates than those directed at end consumers. As mentioned in the previous chapter, Jean Spencer (2014) established that in case of research conducted on businesses, response rate between 1.1 % and 2.6% can be treated as good. Considering  $n=35$ , in order to achieve response rate from this interval, the survey hyperlink should have reached between 1300 and 3200 potential respondents, which is a highly probable result.

Taking under consideration exclusively responses that came after the email round had been launched, the response rate oscillated around 10.7%. However, there cannot be certainty that some surveys submitted after sending the emails were filled in by respondents reached through the websites, and thus email response rate might have been inflated.

It was, however, possible to determine the exact number of survey visitors. Webropol report showed that the questionnaire had been open 101 times. If one assumed this number as a size of the research sample, than the response rate would have reached over 34.5%, which is considered acceptable for the purpose of the bachelor's thesis.

## 6.1 Introduction of respondents

In order to ensure that the survey was filled in exclusively by the representatives of the target group, 8 background questions were included as the opening to the questionnaire. Nearly half of the respondent was disqualified already after the first question, as they determined their place of business outside the United Kingdom. All of the remaining 51% (n=18) were digital services providers. However, 16.7% (n=3) offered their services exclusively to other businesses and therefore were further eliminated from the study.

Over 40% (n=6) of the respondents supplied different kinds of downloadable hand craft patterns and ebooks. 20% (n=3) offered automated distance teaching and 13.3% (n=2) music downloads, software and/or software updates, and others, among which listings on own online marketplace and PDF guides were listed. 6.67%(n=1) of the participants mentioned other apps and images downloads. (Figure 8.)

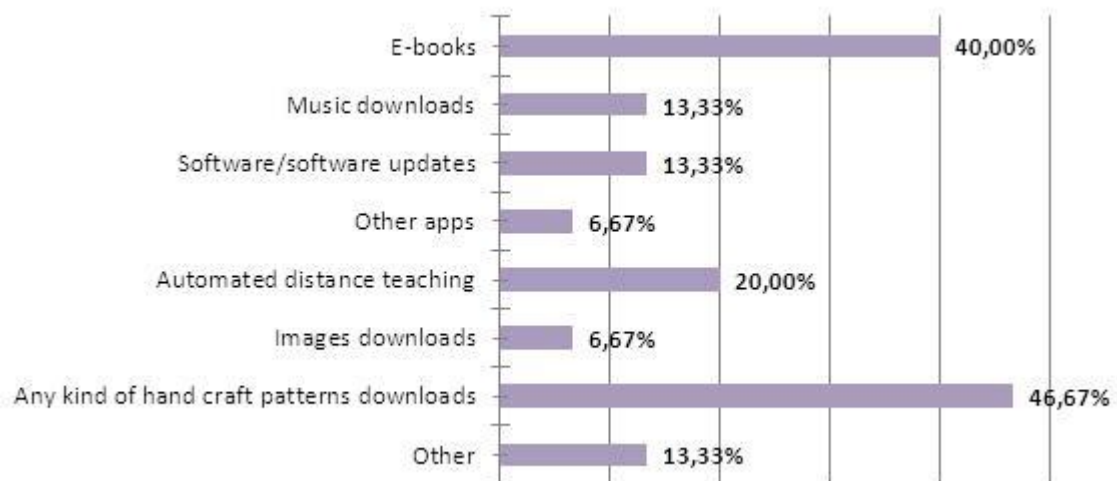


Figure 8. Digital services provided by the respondents

Vast majority of the respondents (80%, n=12) were one-man companies and 13.3% (n=2) of entrepreneurs had been hiring up to 2 additional employees. The rest of the recipients (n=1) had more than 10 workers, and therefore had been eliminated from the research accordingly to the micro business definition given in chapter 1.4.6.

Most of companies (42.9%, n=6) were established between year 2000 and 2010, one of them emerged already in 1980s and two in the 90s (total of 21.4%, n=3), while newer en-

terprises (opened after 2010) accounted for 35.7% (n=5). 71.4% (n=10) were registered as sole trader, the rest (n=4) were private limited liability companies.

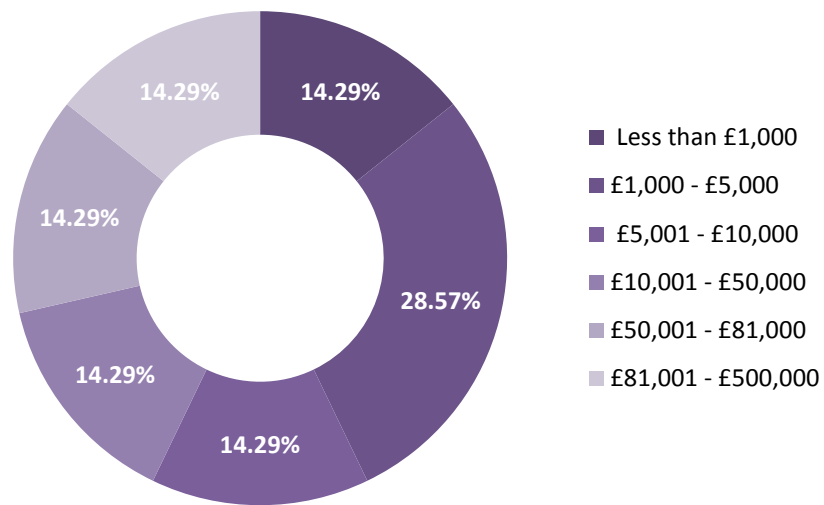


Figure 9. Annual turnover

When it comes to annual turnover, 28.6% (n=4) of the entrepreneurs declared between £1,000 and £5,000. None of the studied firms had turnover bigger than £500,000, and thus all the remaining respondents fulfilled the condition determined by the micro business definition presented in chapter 1.4.6. Only 14.3% (n=2) of the researched companies recorded turnover bigger than £81,000, which at the time of designing the survey regulated the threshold for VAT registration in United Kingdom. (Figure 9.) Therefore nearly 86% (n=12) of the responding companies would not have to be concerned about VAT issues, if not new EU regulations.

## 6.2 VAT obligations

Even though according to the new EU regulations all of the respondents should register to UK and EU VAT starting January 1, 2015, only a few actually did. 92.8% (n=13) of the companies declared that they do not collect any VAT on behalf of other Member States. Almost 71.5% (n=10) managed to change the nature of their activities in order to take their businesses out of new regulations. Nearly 22% (n=3) had no data available, which most likely mean that they did not adjust their systems to new legislation, and had been not settling their value added tax on cross- border sales accordingly to the new law. Only one entrepreneur (7.1%) declared actually paying VAT on foreign sales and the quarterly amount oscillated between £10 and £20.

Most of the respondents considered themselves well informed about the new legislation. When asked to estimate on scale from 1 to 10 (1 = I am completely lost; 10 = I am an expert on the matter) how familiar they are with the recent changes in digital VAT regulations, 78.6% (n= 11) chose the number 6 or bigger (median = 8; minimum value = 2; maximum value = 10). However, over 20% (n=3) of participants marked values 3 and less revealing concerning degree of confusion when it comes to 2015 adjustments in VAT act.

### 6.3 Cross-border sales

When it comes to cross-border sales an interesting shift can be noticed. 57.1% (n= 8) of British micro businesses was selling their digital services abroad before 2015, while 21.4% (n= 3) registered no such activity. This trend was expected to reverse during 2015. (Figure 10.)

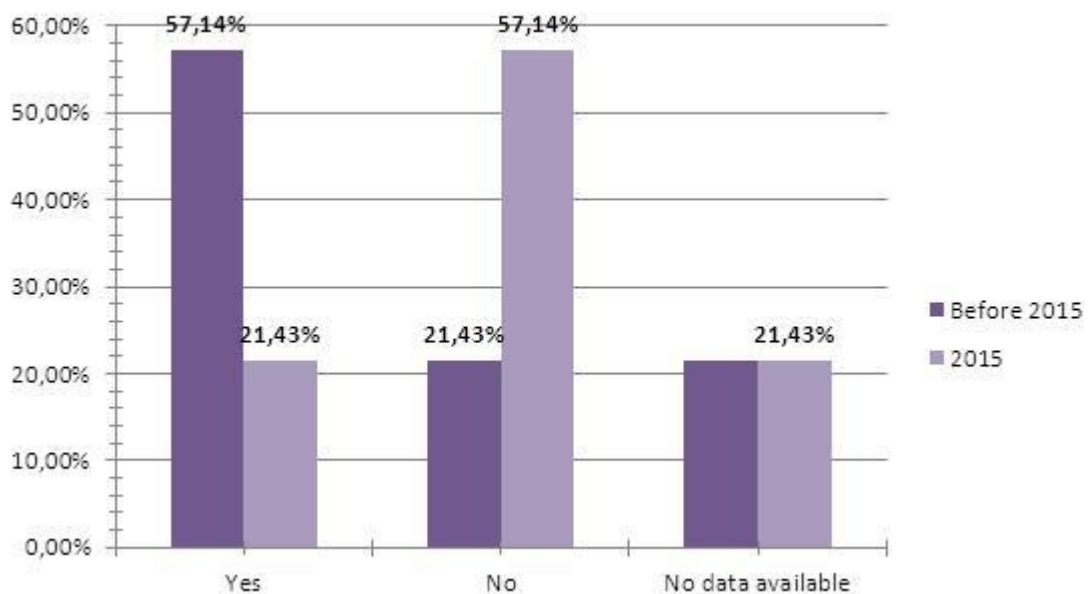


Figure 10. Cross-border sales before 2015 vs. estimations for 2015.

Half of the respondents who used to offer their digital services to customers from other EU countries forecasted no cross-border sales after the new EU VAT regulations came into force. Not being able to afford complying with new EU VAT regulations was the main reason given for no sales to clients from other Member States in 2015. 37.5% (n=3) of the respondents chose this option. For 25% (n=2) of the participants reasons were impossibility of collecting necessary data on their customer and/or no means to store customer data in full compliance with the Data Protection Act. The same number of businesses managed to add “human intervention” to their services, and therefore had no actual digital services in their portfolio anymore. Only 12.5% (n=1) of the respondents resigned from cross-

border sales due to reasons not connected directly with the new 2015 EU VAT regulations, however, as many stopped selling abroad due to lack of understanding the new legislation or simply in order not to be bothered with the VAT MOSS. Other reasons stated by entrepreneurs included: “no cross border sales made via digital marketplace I am using”, “no one in EU has purchased a download” and “I actively work to attract only UK sellers or businesses in other EU countries to my site” (total of 37.5%, n=3).

The research revealed that before 2015, cross-border sales of digital services amounted for less than 5% of overall turnover for 37.5% (n=3) of micro businesses. Nevertheless, equally many companies stated that their foreign income from digital services contributed to at least half of the annual sales. None from among the entrepreneurs that continued selling to customers from other EU countries forecasted such high share after the new VAT regulations had come to force. The majority (67%, n=2) expected cross-border sales to be less than 5% of annual turnover. The rest (n=1) estimated it to reach between 36% and 50%.

#### **6.4 Compliance costs**

In the next part of the questionnaire the respondents were asked how much money they had invested into adjusting their business operations to the new digital VAT regulations. Over 80% (n=5) of entrepreneurs declared spending less than £1,000, while the rest of them (16.7%, n=1) not more than £5,000. The biggest chunk of these costs was assigned to redesigning the website, communicating changes to customers and including a third party platform to selling process. 66.6% (n=4) of the participants reported to spend either significant or acceptable amounts on adjusting their internet homepages, one third on communicating changes to customers, while half of them expensed as much on the last mentioned processes. The cost of purchasing/adjusting customer data collection system, accounting software or other software and hardware, as well as hiring professional accountant was equally high for 16.7% (n=1) of the entrepreneurs. The same percentage of researched businesses declared spending insignificant amount on purchasing/adjusting customer data collection system, accounting software or other software and hardware. No expenditures occurred on adjusting ERP software, VAT registration process(es) or personnel training. (Table 9.)

Table 9. Costs of compliance with new digital VAT regulations.

	Significant or acceptable amount	Insignificant	None
Purchasing/adjusting customer data collection system	16,67 %	16,67 %	66,67 %
Purchasing/adjusting storing customer data system	-	16,67 %	83,33 %
Purchasing/adjusting invoicing system	-	16,67 %	83,33 %
Adjusting ERP software	-	-	<b>100,00 %</b>
Purchasing/adjusting accounting software	16,67 %	-	83,33 %
Purchasing/adjusting other software and hardware	16,67 %	-	83,33 %
Hiring professional accountant	16,67 %	-	83,33 %
Redesigning the website	<b>66,67 %</b>	-	33,33 %
VAT registration process(es)	-	-	<b>100,00 %</b>
Personnel training	-	-	<b>100,00 %</b>
Communicating changes to customers	<b>33,33 %</b>	-	66,67 %
Including a third party platform to selling process	<b>50,00 %</b>	-	50,00 %
<b>Total number of respondents</b>			<b>6</b>

The research revealed that most of the respondents used multiple methods of selling their services to end consumers (Figure 11). Website online shops appeared to be the favoured solution by the entire poll of respondents. Nevertheless, half of businesses decided to use third party platforms such as Pay Hip, Etsy, Gumroad, Sendowl or FastSpring. The entrepreneurs stated that they would not use third party platforms if it was not for VAT regulations. This solution enabled micro companies to sell their products and services without registering to VAT system, as the tax is collected and handled on their behalf by the partner. Nevertheless, only one out of three enterprises would continue outsourcing sales activities if it hadn't been for new costly EU legislation. Third party platforms were said to take up to 30% of company's sales income and thus appeared to be less attractive solution.



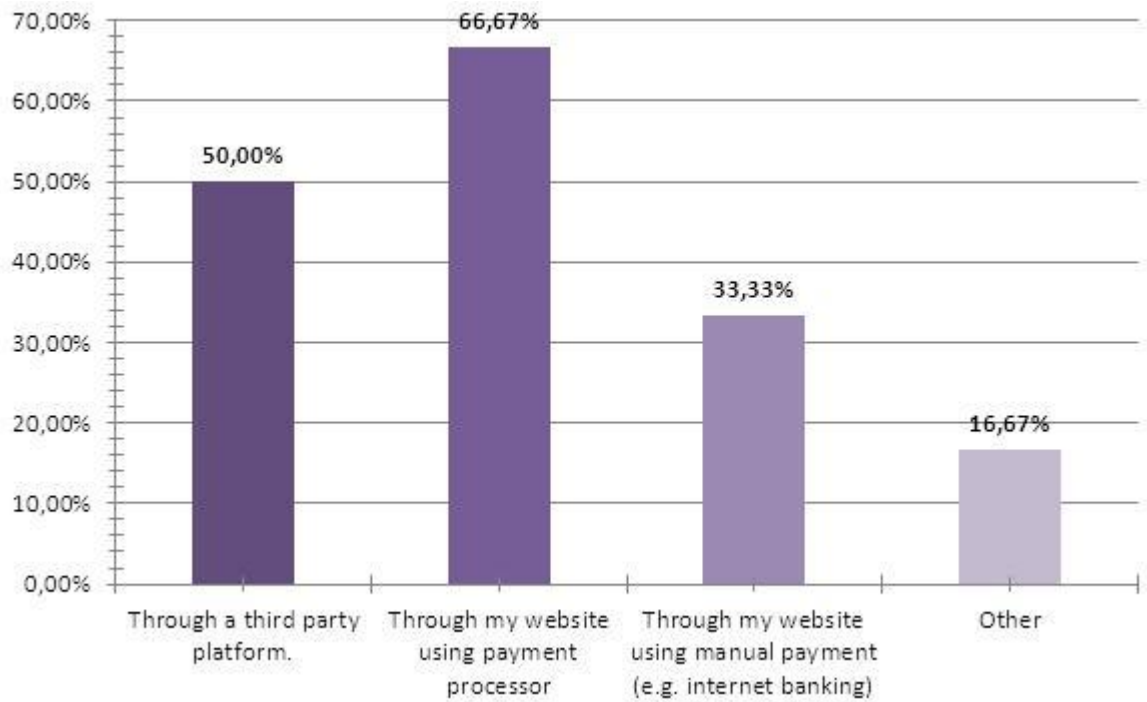


Figure 11. Methods of sales (n=6).

## 6.5 Profitability and overall financial situation

The question about the pricing strategy did not reveal any particular preferences among the entrepreneurs. Both methods were equally used: the differences between VAT rates within EU were either subtracted from margins or VAT was calculated separately for customers from each Member State resulting in different end prices. A third of the respondents declared using other methods however, they had not specified what they were.

Survey results showed that bureaucracy connected to EU VAT and necessary changes in sales process aggravated micro businesses' profitability. All the respondents (n=6) indicated these issues had negative impact on their income. They also noticed that using a third party site, which takes a percentage of sales, unfavourably influenced their profits. New pricing strategy and customer data collection obligations were also seen as negative by 66.6% (n=4) of the research participants. The rest of the respondents believed that these issues had neither positive nor negative impact on their finances. (Figure 12.)

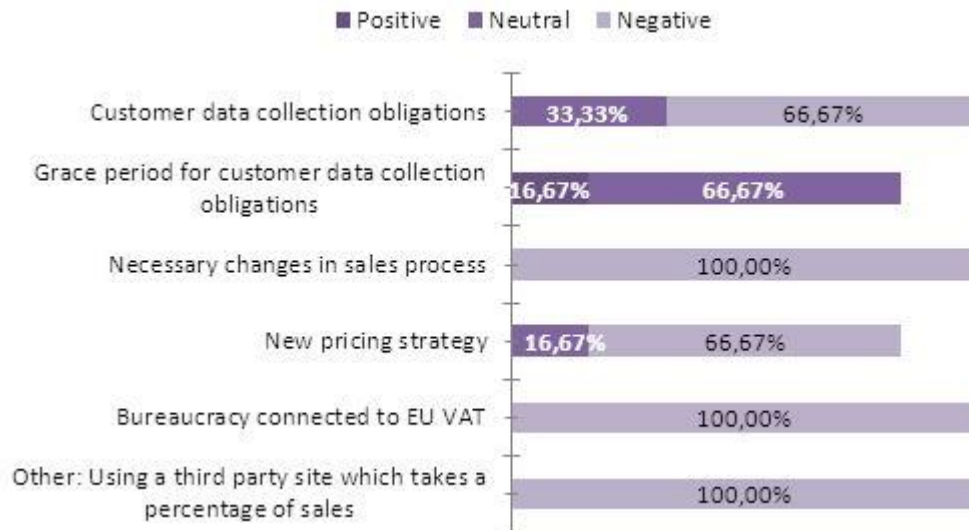


Figure 12. Issues influencing profitability.

Figure 12 also shows that the grace period for customer data collection obligation that had been granted by the European Commission exclusively for micro businesses did not helped much. Only 16.7% (n=1) of the respondents thought this decision had positive impact on their profits. The rest of the entrepreneurs (n=5) were of an opinion that the grace period had no real influence on the overall profitability of their companies.

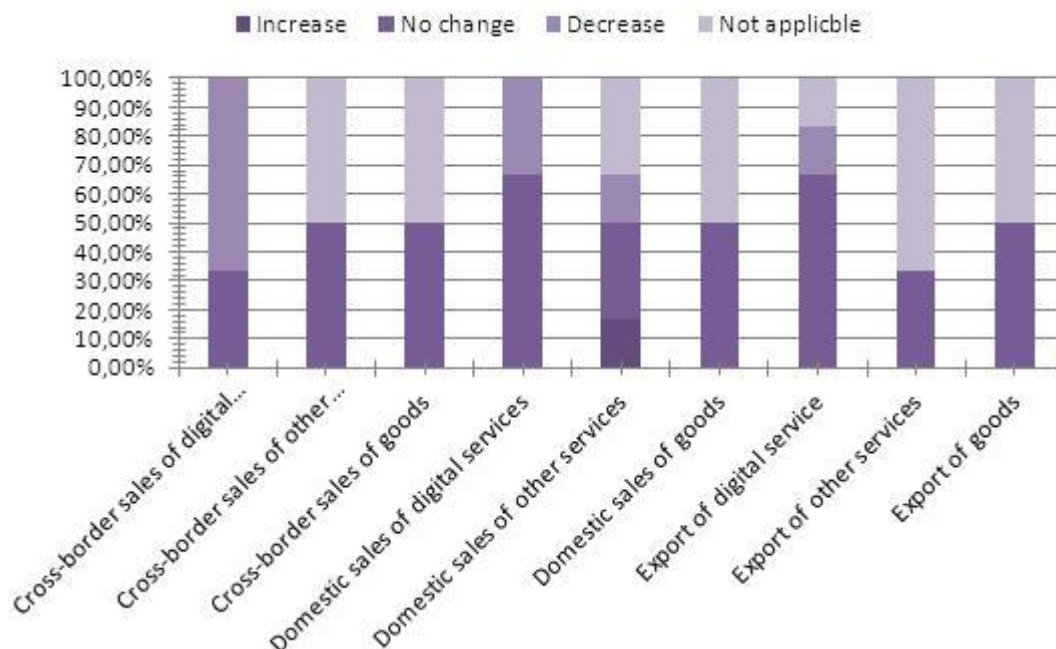


Figure 13a. Changes in particular aspects of business.

In order to further investigate what other aspects of daily activities that might have had an impact on profitability changed during 2015, the respondents were asked to evaluate some of the issues more or less directly connected to the profit and loss statement. 66.7% (n=4) noticed worrisome decline in cross-border sales of digital services. However, a decrease occurred also in export (16.7%, n=1) and domestic sales of such (33.3%, n=2) as well as other services (16.7%, n=1) and therefore, it might be more reasonable to interpret it as the result of overall unfavourable market economy rather than changes in EU VAT legislation. (Figure 13a.) In the same time, half of the respondents (n=3) reported an increase in operating costs in general, particularly in working hours. All of these occurrences would have a negative impact on business profits, which indeed was noticed by two third of entrepreneurs. 66.7%(n=4) reported decrease or drastic decrease in business turnover and overall profitability. (Figure 13b.)

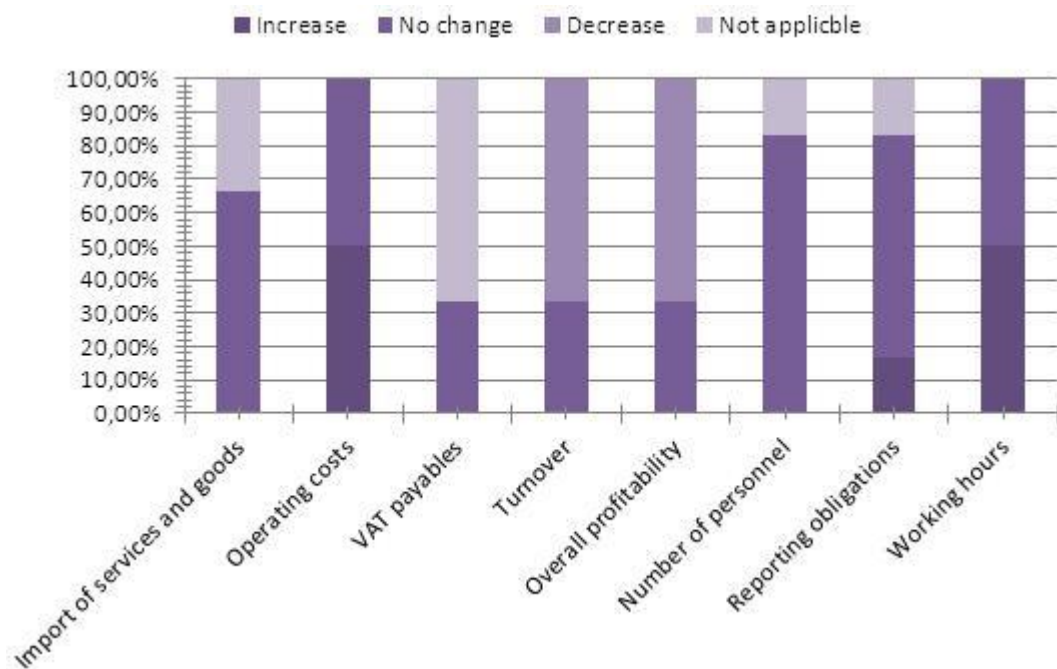


Figure 13b. Changes in particular aspects of business.

Cross-border sales of goods and other services, domestic sales of goods and export of goods and other services did not change when compared to the previous year (Figure 13a). The same applied to import of services and goods, VAT payables, and number of personnel (Figure 13b).

Taking it all under consideration, only 14.3% (n=2) of the entrepreneurs was expecting the annual profit to be higher than in the previous years. Nearly half (42.9%, n=6) believed the financial result will not differ much from the previous years. Equally many were forecasting

a decline in the annual profitability. Nearly 30% (n=4) were convinced the decrease would be significant. (Figure 14.)

■ Significantly higher ■ Higher ■ More or less the same ■ Lower ■ Significantly lower

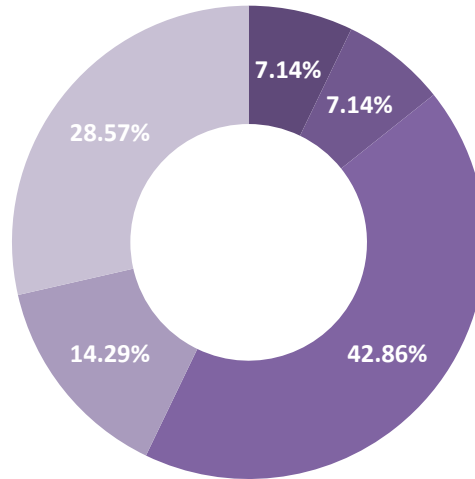


Figure 14. 2015 annual profit forecast in comparison to the previous years.

Exactly the same results were collected when overall financial situation was in question. Over 40% (n=6) did not feel the business changed anyhow, however nearly the same number of respondents noticed a shift for worse. (Figure 15.)

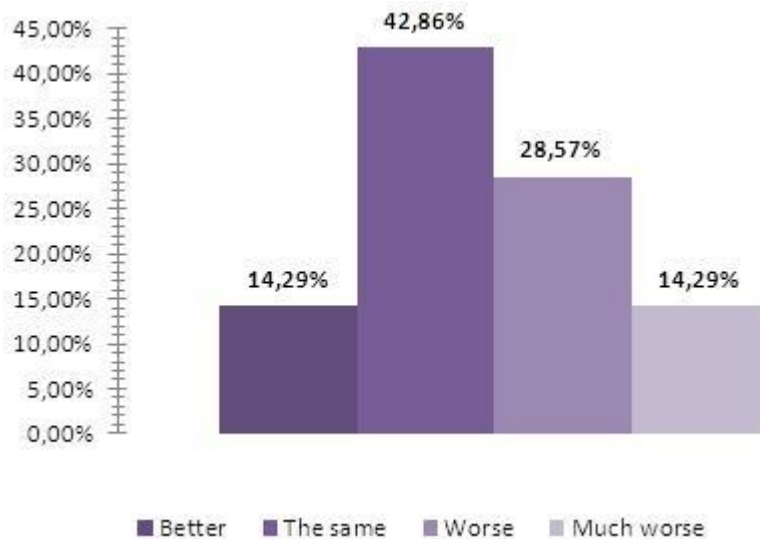


Figure 15. Current overall financial situation when compared to a couple previous years.

When asked about possible top five reasons for lower profits in 2015, the respondents blamed decrease of cross-border sales (83.3%, n=5), decrease of domestic sales, and intentionally taking a step back from the business in order to avoid any incompliance with the new EU VAT regulations (50%, n=3). One third of entrepreneurs (n=2) thought that the most probable reasons might be decrease of export sales, costs linked directly to 2015 changes in EU VAT regulations, increase of other operating costs, loss of revenue from paying third party platform fees, and/or resigning from B2C sales of digital services. Changes in pricing, as well as suspending business operations until fully complied with the new EU VAT regulations were chosen by 16.7% (n=1). No one felt that decrease of domestic sales could be responsible for declining profitability.

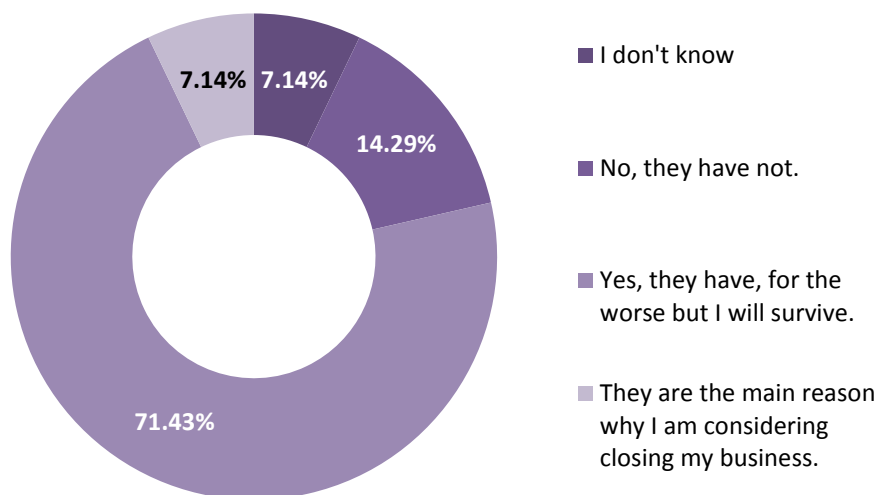


Figure 16. Influence of 2015 changes in EU VAT regulations on overall financial situation of the businesses.

The vast majority of the respondents (88.6%, n=11) had no doubts that 2015 changes in EU VAT regulations were directly responsible for worsening the financial shape of their companies. Nevertheless, only one entrepreneur (7.1%) was considering closing their business while the other ten (71.4%) were convinced they can sustain despite of challenging value added tax legislation. 14.3% (n=2) believed new law had no influence on the financial wellbeing of their firms. (Figure 16.)

## 7 Discussion

The aim of this thesis was to investigate how the changes in EU VAT regulations on digitally supplied services had influenced overall financial situation of British micro businesses offering such services for consumers. The research performed was of quantitative nature and used 28-questions survey as its main tool. Due to very low number of respondents the author made every effort to support the results with secondary research in order to improve credibility of the study. Nevertheless, the key findings presented in this part ought to be regarded with possible margin of error, due to reliability and validity issues discussed later on in this chapter.

### 7.1 Key findings

Target group of the research was specified as owners of micro business based in United Kingdom and supplying digital services to end consumers. A vast majority of the respondents were sole proprietors (71%) and limited liability companies (29%) that did not hire any additional employees (80%). This sample is consistent with the general structure of SMEs in UK. According to Department for Business, Innovation & Skills (2015, 2) 76% of companies did not employ any additional personnel to the owner; sole proprietorships accounted for 62% of all businesses, while 30% were registered as private limited liability companies. Therefore in this respect, the respondents were a good sample of researched population.

The primary research revealed that most of the digital services sellers in UK (over 90%) did not register to VAT MOSS and do not pay any value added tax on their sales. Low registration rate was confirmed by Avalara (2015c): barely 1.2% (2,400 out of expected 200,000) businesses in UK registered to the system. In addition, the study showed that VAT amounts collected by those registered had been very small (less than £20). This is consistent with official data: during first quarter of 2015, 78% of all registered small companies in UK paid the amount of VAT that accumulated to barely 1% of whole VAT revenue (Bounds 2015).

An interesting result brought the question about expertise on new digital EU VAT legislation. Most of the respondents to the survey believed that they are well versed in the matter, and assessed their knowledge as high as 8 in average (on scale from 1 to 10). This contradicts a common belief that changes in the EU VAT rules had been confusing and many small companies had to seek help from professional accountants in order to continue their operations accordingly to the law. It was enough to browse through comments under relevant articles in the internet or business forums to notice how confused entre-

preneurs were when it came to interpretation and practical application of the new rules. This deviation however, should not be surprising when channels of reaching the target group are taken under consideration. Many of the websites on which hyperlink to the survey was posted, included discussion groups of business owners directly affected by the change and actively looking for help and support with the issue. These entrepreneurs were the ones aware of the problem and constantly following any developments or news connected to the subject. There is also a big chance that only well oriented traders were interested in participating in the research. For those less educated on the matter, filling in the survey might have appeared too challenging or needless; this may explain why so many respondents visited the survey but did not submit their answers.

One of the most significant findings of the research was the change in cross-border sales of digital services. One third of micro businesses that offered these to consumers before 2015, stopped supplying them to customers from other Member States after January 1, mainly due to not being able to comply with new regulation. This result was consistent with Enterprise Nation's EU VAT Taxation Report (2015a,12) stating that 28% of micro businesses in United Kingdom had been considering limiting their sales of digital services to other Member States.

The reasons for decrease in cross-border sales were complex. Collecting and storing data on the customers was mentioned as particularly challenging for micro businesses. According to new legislation, businesses are obliged to collect a minimum of two pieces of non-conflicting information on the customer's location in order to prove the place of supply and apply correct country's VAT rate (HMRC 2016a). The burden of this obligation for small businesses however, was recognised already before the EU VAT changes came to force, and so called "grace period" was introduced. This simplification (originally valid until June 30, 2015, later on prolonged until further notice) allowed businesses, which had been registered to VAT MOSS but had not exceeded the current UK VAT threshold, to determine their customers location based exclusively on information given to them by payment service providers. As this still occurred as major problem to micro companies, HM Revenue & Customs agreed to accept only one piece of information as a valid base for judging the customer location. (HMRC 2016b.)

Despite the convenience of so called "grace period" both, primary and secondary research revealed, that it was not as helpful for micro businesses as expected. Many entrepreneurs were still worried that such barrier could cripple existing firms and possibly completely block new start-ups (Cole 2015).

Another reason for a drop in cross-border sales of digital services was changing the character of the transaction. As new regulations defined the “minimal human intervention” (Chapter 1.4.9) that determined whether a service is covered by new legislation or not, many small traders found the way to change their selling process, and thus be excluded from the scope of digital services. The most popular form of circumvention of new EU VAT rules seemed to be adding the “human touch” and de-automating the service, e.g.: instead of offering an automatic download of a file from the website, business owners were sending the file via e mail after receiving a request from the customer. Such solution however, was blamed for complicating the selling process, prolonging time of the transaction and eventually causing dissatisfaction of many customers. (Digital VAT 2015 2015; EU VAT Action Campaign Group 2015.)

Significant decrease in cross-border sales of digital services could possibly make a big impact on micro businesses’ profits. The primary research showed, that before 2015 sales to customers from another Member States contributed to over 50% of all sales for about 40% of the respondents. However, the reader must bear in mind this number can be underestimated as many businesses did not collect appropriate data, and were not able to determine the ratio between foreign and domestic sales. Nevertheless, the study showed that those companies who continued supply of digital services to other EU countries in 2015, noticed that sales outside their country of origin were not going to accumulate to more than half of all the sales, where nearly 70% of respondents estimated the share as less than 5%. The research conducted by Enterprise Nation revealed that the percentage had been even lower - not more than 20% - while 42% of the recipients believed it is below 5% (Enterprise Nation 2015a, 21).

Apart from diminishing cross-border sales, growing costs occurred to be a major negative factor for profitability of digital services providers in UK. However, the research showed discrepancy when it came to compliance costs. The respondents did not report high compliance expenses, despite the general opinion that the barriers caused by the new EU VAT regulations were so costly, that many of the micro business could be out of business before European Commission would propose much wanted VAT MOSS threshold (Bounds 2015). HMRC assessed that the average additional cost for micro businesses that had not been registered to VAT prior to the changes in regulation, would be around £220 (HMRC 2013b). Majority of the respondents indicated that indeed, they spent less than £1,000 (the lowest possible option) on adjusting their businesses to the new legislation. Nevertheless, for many this was still a significant amount of money expensed. Considering that most of the companies affected by the changes were little enterprises operated from a kitchen or a living room, and offering downloadable products in the price



range of £1 to £10, it is not surprising that even couple hundreds of pounds was considered significant within the budget.

As the most expensive, the respondents mentioned redesigning their websites, communicating changes to customers, and changes in selling process. Especially the last item was considered to bring a negative effect on the profitability of the businesses. As mentioned before, adding “human intervention” could result in slowing down or otherwise complicating the transactions and easily discourage potential buyers. However, it was including third party platform that seemed to lower profits the most.

Most of the micro businesses (~70%) favoured sales via own website using payment processor and avoiding third party platforms. Two other secondary sources confirmed this result. According to EU VAT Action (2015) over 60% of affected entrepreneurs sell directly to their customers, while Enterprise Nation (2015a, 15) estimated it to be 65%. Unfortunately for those owners who could not afford compliance costs, moving sales to a marketplace was the only solution, if they wanted to continue operations. This, consequently, significantly lower their profits as third party platform tend to take away even as much as 30% of sales income in fees (according to primary research). Following an example given by EU VAT Action (Figure 17), the seller’s income may drop from £9.64 to £5.83 (when the price is £9.99), or even to £2.92 (when the price is £10) indicating that the loss can be much bigger than that.

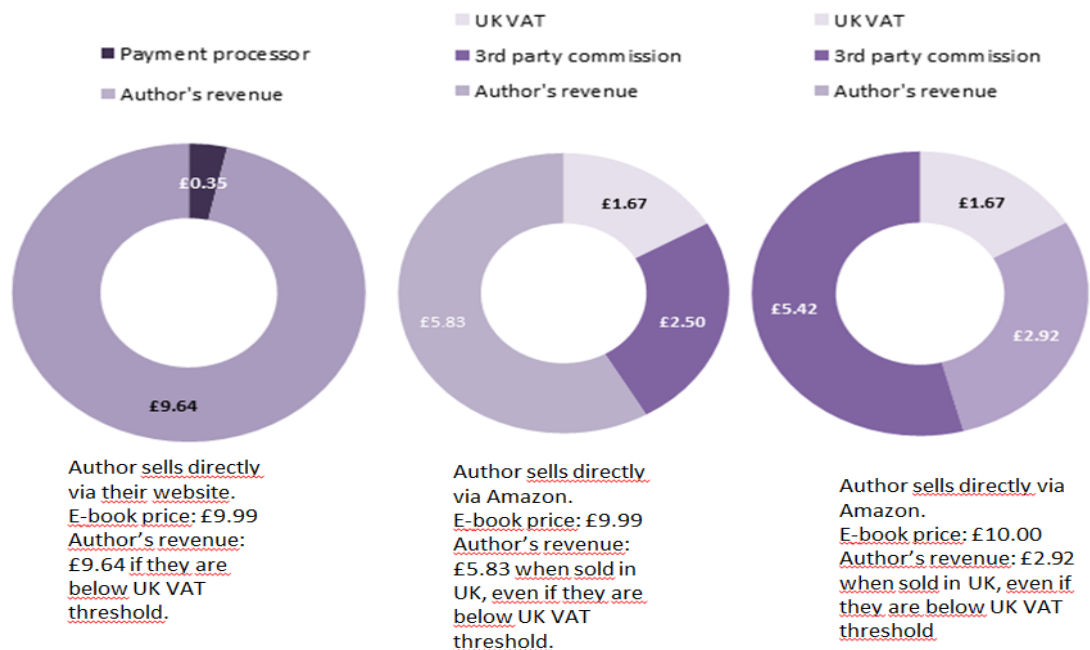


Figure 17. Implications on authors’ revenues because of moving sales to a marketplace (EU VAT Action 2015).

The example above illustrates how new regulations, aimed at the big companies benefiting largely from the advantage of using the lowest VAT rates, actually added to their profits, and significantly weakened finances of small businesses. In addition, increasing the prices made micro firms less competitive than big companies. Even though the primary research did not give conclusive results on which pricing strategy was preferred by respondents, it can be expected that the burden of differences in VAT rates and compliance costs will be eventually shifted onto the customer (Enterprise Nation 2015a, 20). EU VAT Action (2015) revealed that 20% of respondents to their survey had been planning to rise prices in 2015 in order to limit compromising their profits, especially that they had already been negatively influenced by higher operating costs. Two third of the thesis survey participants were sure their turnover and overall profitability in 2015 would be lower comparing to the previous year.

It is worth to notice that the primary research respondents indicated no change in VAT payables comparing to the previous years. This result was supported by estimation of as little as £4.2 annually paid to authorities by VAT MOSS registered taxpayer (EU VAT Taxation Report 2015, 21). Considering this data, the solution of threshold for VAT MOSS registration that has been now negotiated for a while seems reasonable (Bounds 2015). Tax contributions paid by micro business are of such insignificant value, that excluding them from the new regulations would not noticeably affect VAT revenues in total. On the contrary: it has been debated, whether the cost of auditing compliance would outweigh its potential benefits. (Enterprise Nation 2015a, 21.).

Concluding all the findings, it leaves no doubt that new EU VAT regulations concerning digital services suppliers negatively affected financial situation of micro businesses in United Kingdom. Nearly all of the thesis survey recipients were convinced they will survive despite the obstacles, and continue their activities, however, particularly these results should be interpreted with caution. Obviously the chance of the survey reaching entrepreneurs that have been already out of business was much less likely, if possible at all. Therefore simple logic would indicate, that those who took part in the study were, at least in majority, business owners who managed to overcome the obstacles.

In secondary sources many were reported to have to end their operations. Already before January 2015, 10% of EU VAT Action survey respondents planned to close their businesses completely (EU VAT Action 2015). As many as 200 companies were terminated during first two weeks of 2015 (Hyslop 2015). Nevertheless, the author did not manage to find any source that would state exact number of how many micro businesses providing

digital services in UK finished their activities after the new VAT regulations had been introduced. Perhaps such statistics will be available later this year.

## **7.2 Reliability and validity**

The author of the thesis can guarantee internal validity of the research. The study is considered to be conducted with rigor and detailed plan. All steps of research process (problem formulation, research plan preparation and implementation, analysis and interpretation of the results) were designed and executed with effort and commitment of the researcher. Detailed and complex survey design effectively reduced the risk of responses from participants other than target group and thus, the data collected is considered credible.

Nevertheless, external validity of the research can be questioned. The study results may not be applicable to all British micro businesses providing digital services to consumers from Member States due to already mentioned low response rate. Enterprise Nation (2015a, 3) estimated that 250,000 of micro businesses in UK would be affected by new VAT regulations. Therefore a sample of  $n=35$ , from which half had been eliminated at the early stages of the questionnaire, should be hardly considered as credible. Moreover, even though the population sample is representative according to micro businesses structure in UK, it may be biased when knowledge about VAT MOSS is concerned. Nevertheless, the results were supported by other sources, which made the research more reliable.

Low response rate is rather common for business environment and has been reported by many researchers. Moreover, surveys about VAT MOSS seem to encounter many obstacles in particular. The reason for this may be big number of small scale, as well as official European Commission and other authorities' researches that were launched simultaneously, during the short period of time. Popularity of the subject and limited communication channels might have resulted in numerous response requests reaching the same entrepreneur, and thus reluctance in taking part in the study. During the thesis writing process the author met numerous students from all over Europe, who had been conducting studies on the matter, and every single one of them complained about the resistance of micro businesses owners in filling in questionnaires. However, the problem is not limited to students. Low response rate was also reported by Enterprise Nation - one of the major organizations that gather, help and consult with small businesses, and has a leading campaigning voice with UK government (Enterprise Nation 2015b). Their survey was launched in February 2015 and had been open for a month while promoted through social media and organization's official website. Still, it resulted barely in less than 150 responses, which may raise questions about actual size of the problem (Enterprise Nation 2015a, 11).

Needless to say, student research in general is the least respected and often ignored by business respondents or organizations. The author encountered general aversion when administrators of discussion groups and forums had been approached for help in promoting the thesis survey. Few declined cooperation while many others did not address requests sent by the researcher at all. However, it must be noted, that some entrepreneurs directly affected by the problem were eager to help and appreciated students' involvement in publicizing the problem through theses and dissertations.

Another reason for the thesis survey response rate could be its length. Even though the number of questions included in the questionnaire did not alarm testing respondents, it had been a concern for thesis advisors. The author however, chose to keep big number of enquiries in order to collect as much detailed information as possible, other than gathered in previous research. Only feedback from some of the respondents/potential respondents received after launching the survey, as well as thesis research process in general made the author realised that keeping the questionnaire short and more general could outcome in bigger number of responses, and thus more valid results.

When it comes to reliability of the project, the results of the study are believed not to be caused by a chance, and thus replicable. Similar samples, and research performed in similar conditions would definitely bring similar results. Moreover, the results were confirmed by alike research performed by other authors, which increases probability of recurrence. Therefore, this thesis research may be considered reliable and easily replicable in most of the Member States, where new EU digital VAT regulations are also applicable.

### **7.3 Conclusions**

The thesis research confirmed that financial and overall situation of British micro businesses providing digital services to consumers from other Member States is alarming. After only one year of new legislation being in force it is hard to predict long-term consequences of imposed changes. The author has no doubt VAT MOSS had been a good solutions for huge organizations such as Amazon, Apple, Google and similar. It is nothing but fair that value added tax - a consumption tax - should be paid to the country where a good or service is actually consumed. New regulations effectively eliminated possibility for companies to use single VAT rate, often the lowest possible in order to keep end prices competitive, and as consequence, support tax revenue exclusively of such countries as Luxembourg or Ireland. Nevertheless, during last year it became clear that a distinction between big and micro businesses should have been drawn before the new EU digital

VAT regulations were introduced. Smallest enterprises ought not to be put into 'the same pot' with those dominating the market, when such significant challenges are in question. Their incomparable resources should be taken under consideration by the legislator.

Lack of initial threshold for VAT MOSS exemption had already resulted in closing companies, decreasing profitability of businesses, slowing down (if not preventing) their development and expansion. Even though at this point of time no significant imbalance of economy or precisely e-commerce market were detected, the author of the thesis would highly recommend further research and close monitoring of the situation. UK and other Member States governments, as well as European Commission should as soon as possible revise some of their decisions in order to protect micro businesses that had long ago proven their significance for healthy and balanced economy. Assessment of the VAT MOSS would be highly recommended, especially that this new legislations is planned to be extended onto physical goods (EU VAT Action 2015; Avalara 2015d).

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## Appendices

### Appendix 1. Overlay matrix

IQ	Theoretical framework	Method	Result
IQ1: What are current VAT regulations for digital service providers in United Kingdom?	indirect taxation, VAT, VAT EU regulations, VAT reporting rules	Desktop research, thematic analysis of website contents	Chapter 2: Theoretical framework Information for building the questionnaire
IQ2: What are micro businesses and what is their meaning for the economy?	micro businesses in Europe	Desktop research, thematic analysis of website contents	Chapter 3: Theoretical framework
IQ3: What is e-commerce?	e-commerce market, online shopping	Desktop research, thematic analysis of website contents	Chapter 4: Theoretical framework
IQ4: How have the recent changes in VAT regulations influenced micro businesses' international operations?	digital services, place of supply, EU VAT legislation	Questionnaire, thematic analysis of website contents	Chapter 5: Data collection
IQ5: How have the recent changes in VAT regulations influenced overall profitability of the British micro businesses providing digital services in EU?	compliance costs, pricing strategy, profit margins, profitability	Questionnaire, statistical analysis; desktop research	Chapters 6 & 7: Results and Discussion

Appendix 2. 2015 Worldwide VAT, GST and Sales Tax Rates (EY 2015, 1059-1061)

Jurisdiction	Most common standard rate	Other rates
Albania	20%	0%
Argentina	21%	10.5%; 0%
Armenia	20%	0%
Aruba	1.5%	Not applicable
Australia	10%	0%
Austria	20%	12%; 10%
Azerbaijan	18%	0%
Bahamas	7.5%	0%
Barbados	17.5%	7.5%; 0%
Belarus	20%	10%; 0%
Belgium	21%	12%; 6%; 0%
Bolivia	Nominal: 13% Effective: 14.94%	0%
Bonaire, Sint Eustatius and Saba	Goods: 8% Services: 6%	30%; 25%; 22%; 18%; 10%; 7%; 5%, 0%
Botswana	12%	0%
Brazil	IPI: 0%-36.5% ICMS: 0%-35% ISS: 0%-5% PIS-PASEP: 0.65%; 1.65% COFINS: 3%; 7.65%	Not applicable
Bulgaria	20%	9%; 0%
Canada	GST: 5% HST: 9.975%-15%	0%
Chile	19%	15%-50%
China	17%	13%; 11%; 6%; 3%
Colombia	16%	5%; 0%
Costa Rica	13%	19%; 5%; 0%
Croatia	25%	13%; 5%
Curacao	6%	9%; 7%
Cyprus	19%	9%; 5%; 0%
Czech Republic	21%	15%; 10%; 0%
Denmark	25%	0%
Dominican Republic	18%	13%; 0%
Ecuador	12%	0%

Egypt	10%	1.2%-45%
El Salvador	13%	0%
Estonia	20%	9%; 0%
Finland	24%	14%; 10%; 0%
France	20%	10%; 5.5%; 2.1%
Georgia	18%	0.54%
Germany	19%	7%
Ghana	15%	17.5%; 0%
Greece	23%	13%; 6.5%
Guatemala	12%	0%
Honduras	15%	18%
Hungary	27%	18%; 5%
Iceland	24%	11%; 0%
India	12.5%-15%	20%; 5%-5.5%; 1%; 0%
Indonesia	10%	0%
Ireland	23%	13.5%; 9%
Isle of Man	20%	5%; 0%
Israel	18%	0%
Italy	22%	10%; 4%
Japan	8%	Not applicable
Jersey	5%	0%
Jordan	16%	4%; 0%
Kazakhstan	12%	0%
Kenya	16%	0%
Korea	10%	0%
Kosovo	16%	Not applicable
Latvia	21%	12%; 0%
Lebanon	10%	0%
Lithuania	21%	9%; 5%; 0%
Luxembourg	17%	14%; 8%; 3%
Macedonia	18%	5%; 0%
Madagascar	20%	0%
Malaysia	6%	0%
Malta	18%	7%; 5%
Mauritius	15%	0%

Mexico	16%	0%
Moldova	20%	8%; 0%
Mongolia	10%	0%
Morocco	20%	14%; 10%; 7%
Myanmar	Goods: 5% Services: 5%-100%	Not applicable
Namibia	15%	0%
Netherlands	21%	6%; 0%
New Zealand	15%	0%
Nicaragua	15%	0%
Nigeria	5%	0%
Norway	25%	15%; 8%; 0%
Pakistan	Goods: 17% Services: 16%	27%; 19.5%; 18.5%; 10%; 8%; 5%; 4%; 2%; 1%; 0%
Panama	7%	15%; 10%
Papua New Guinea	10%	0%
Paraguay	10%	5%
Peru	18%	0%
Philippines	12%	0%
Poland	23%	8%; 5%; 0%
Portugal	23%	13%; 6%
Puerto Rico	7%	0%
Romania	24%	9%; 5%
Russian Federation	18%	10%; 0%
Rwanda	18%	0%
Saint Lucia	15%	9.5%; 0%
Serbia	20%	10%; 0%
Seychelles	15%	0%
Singapore	7%	0%
Sint Maarten	5%	Not applicable
Slovak Republic	20%	10%; 0%
Slovenia	22%	9.5%; 0%
South Africa	14%	0%
Spain	21%	10%; 4%
Suriname	Goods: 10% Services: 8%	25%; 0%

Sweden	25%	12%; 6%
Switzerland	8%	3.5%; 2.8%; 0%
Taiwan	VAT: 5% GBRT: 0.1%-25%	Not applicable
Tanzania	18%	10%; 0%
Thailand	7%	0%
Trinidad and Tobago	15%	0%
Tunisia	18%	12%; 6%
Turkey	18%	8%; 1%
Uganda	18%	0%
Ukraine	20%	7%; 0%
United Kingdom	20%	5%; 0%
United States	0%-7%	Not applicable
Uruguay	22%	10%; 0%
Venezuela	12%	8%-16.5%
Vietnam	10%	5%; 0%
Zambia	16%	0%
Zimbabwe	15%	0%



Appendix 3. Standard and reduced VAT rates applied in EU Member States (Avalara 2015a).

EU country	Standard rate	Reduced rates	
Austria	20%	12.0%	Wine production.
		10.0%	Basic foodstuffs; water supplies; pharmaceutical products; public transport; newspapers and periodicals; printed books; entrance to cultural events and amusement parks; pay and cable TV; tv licence; agricultural supplies; social services; cleaning in private households; hotel accommodation; public refuse collection; restaurants.
Belgium	21%	12.0%	Some foodstuffs; certain agricultural supplies; some social housing; restaurants (all beverages excluded); certain energy products e.g. coal, lignite, coke; certain tyres and inner tubes for agricultural use.
		6.0%	Some foodstuffs (including takeaway food); water supplies; some pharmaceutical products; some medical equipment for disabled persons; transport of passengers; some books; newspapers and periodicals (with certain exceptions); entrance to cultural events and amusement parks; social housing; certain repair and renovation of private dwellings; some agricultural supplies; hotel accommodation; admission to sporting events; use of sports facilities; some social services; certain undertaker and cremation services; minor repairs (including bicycles, shoes and leather goods, clothing and household linen).
Bulgaria	20%	9.0%	Hotel accommodation.
Croatia	25%	5.0%	Some foodstuffs (including bread, milk and infant formula); pharmaceutical products (only approved medicines prescribed by a doctor); some medical equipment; educational books; daily newspapers (with less than 50% advertising content); science periodicals; admission to cinema.
		13.0%	Some foodstuffs; water supplies (excluding bottled water); newspapers (other than daily published newspapers with less than 50% advertising content); periodicals (magazines other than science periodicals with less than 50% advertising content); tickets for concerts; hotel accommodation; restaurants.
Cyprus	19%	5.0%	Basic foodstuffs; water supplies; pharmaceutical products; medical equipment for disabled persons; childrens car seats; some public transport; books; newspapers and periodicals; admission to cultural events and amusement parks; writers and composers; renovation and repair of private dwellings; some agricultural supplies; admission to sports events; domestic waste collection; hair-dressing.
		9.0%	Some passenger transport; hotel accommodation; restaurants.
Czech Republic	21%	10.0%	Foodstuffs classed as essential child nutrition; pharmaceutical products; books.
		15.0%	Foodstuffs (excluding essential child nutrition); water supplies; medical equipment for disabled persons; children's car seats; public transport; newspapers and periodicals; admission to cultural events, shows and amusement parks; writers and composers; social housing; renovation and repair of private dwellings; cleaning of private households; some agricultural supplies; hotel accommodation; admission to sporting events; use of sporting facilities; social services; supplies to undertaker and cremation ser-

			vices; medical and dental care; domestic care services.
Denmark	25%	-	
Estonia	20%	9.0%	Pharmaceutical products; medical equipment for disabled persons; books; newspapers and periodicals; hotel accommodation.
Finland	24%	10.0%	Pharmaceutical products; public transport; books; newspapers and periodicals (sold on subscription); admission to cultural events and amusement parks; TV licence; writers and composers; hotel accommodation; admission to sports events.
		14.0%	Foodstuffs; some agricultural supplies; restaurants.
France	20%	2.1%	Some pharmaceutical products; newspapers and periodicals; TV licence.
		5.5%	Some foodstuffs; water supplies, medical equipment for disabled persons; books (excluding those with pornographic or violent content); admission to certain cultural events; writers and composers; some social housing; admission to sports events; some domestic care services.
		10%	Some foodstuffs; some pharmaceutical products; public transport; admission to amusement park (with cultural aspect); pay/cable TV; some renovation and repairs of private dwellings; some cleaning in private households; some agricultural supplies; hotel accommodation; restaurants (excluding alcoholic beverages); some domestic waste collection; certain domestic care services.
Germany	19%	7.0%	Some foodstuffs; water supplies; medical equipment for disabled persons; some public transport; books; newspapers and periodicals; admission to cultural events; writers and composers; agricultural supplies; hotel accommodation; admission to sports events; social services; medical and dental care.
Greece	23%	6%	Some pharmaceutical products; books; newspapers and periodicals; theatre admission; hotel accommodation.
		13.0%	Basic foodstuffs; water supplies; some pharmaceutical products; medical equipment for disabled persons; some agricultural supplies; undertaker and cremation services; domestic care services.
Hungary	27%	5.0%	Certain foodstuffs (including bulk supply of live pigs, cattle, sheep, lamb, goat and their meat); pharmaceutical products (intended for human use); medical equipment for disabled persons; books; newspapers and periodicals.
		18.0%	Certain foodstuffs; admission to certain open air concerts; hotel accommodation.
Ireland	23%	4.8%	Livestock intended for use in the preparation of foodstuffs; agricultural supplies.
		9.0%	Certain foodstuffs; newspapers and periodicals; admission to cultural events and amusement parks; hotel accommodation; restaurants (excluding all beverages); use of sports facilities; hair-dressing.
		13.5%	Certain foodstuffs; children's car seats; social housing; renovation and repair of private dwellings; cleaning in private households; some agricultural supplies; medical and dental care; collection of domestic waste; minor repairs of bicycles, shoes and leather goods and household linen; energy for heating and light; moveable property used in the construction and maintenance of immovable property; supply of immovable property; routine cleaning of immovable property; services relating to the care of the human body; certain tourist services; photography services; services supplied by jockeys; works of art and antiques; short term hire of

			certain passenger vehicles; driving schools; services supplied by veterinary surgeons.
Italy	22%	4.0%	Some food products; certain medical equipment for disabled persons; certain books; newspapers and some periodicals; TV licence; some social housing; some agricultural supplies; certain social services.
		10.0%	Some foodstuffs; water supplies; some pharmaceutical products; public transport; admission to cultural events; some social housing; renovation and repair of private dwellings; some agricultural supplies; hotel accommodation; restaurants; admission to certain sports events; certain social services; collection of domestic waste.
Latvia	21%	12.0%	Food products for infants; pharmaceutical products; medical products for disabled persons; public transport; books; newspaper and periodicals; hotel accommodation.
Lithuania	21%	9.0%	Public transport (on regular routes); books; newspapers and periodicals; hotel accommodation.
		5.0%	Pharmaceutical products; medical equipment for disabled persons.
Luxembourg	17%	3.0%	Foodstuffs; water supplies; certain pharmaceutical products; certain medical equipment for disabled persons; public transport; books; newspapers and periodicals; admission to cultural events and amusement parks; pay TV/cable TV; writers and composers; some social housing; some agricultural supplies; hotel accommodation; restaurants (excluding alcoholic beverages); admission to sports events; use of sports facilities; some social services; undertaker and cremation services; medical and dental care; collection of domestic waste.
		8.0%	Cleaning in private households; minor repairs of bicycles, shoes and leather goods, clothing and household linen; hairdressing.
		14.0%	Certain wines; certain fuels; washing and cleaning products; printed advertising matter; heating and air conditioning; safe custody and administration of securities; administration of credit and credit guarantees.
Malta	18%	5.0%	Some confectionary; medical equipment for disabled persons; books; newspapers and periodicals; cultural events; minor repairs of shoes and leather goods, bicycles, clothing and household linens.
		7.0%	Hotel accommodation.
Netherlands	21%	6.0%	Foodstuffs; water supplies; certain pharmaceutical products; certain medical equipment for disabled persons; some public transport; books; newspapers and periodicals; admission to cultural events and amusement parks; writers and composers; certain renovation and repair of private dwellings; certain cleaning of private households; agricultural supplies; hotel accommodation; restaurants (excluding alcoholic beverages); admission to sports events; use of sports facilities; minor repairs of bicycles; shoes and leather goods; clothing and household linen; hairdressing.
Poland	23%	5.0%	Some foodstuffs; certain books and periodicals; some agricultural supplies.
		8.0%	Certain foodstuffs; water supplies; pharmaceutical products; medical equipment for disabled persons; children's car seats; public transports; some newspapers and periodicals; admission to cultural events and amusement parks; some pay TV/cable TV; writers and composers; social housing; certain renovation and repair of private dwellings; certain agricultural supplies; hotel accommo-

			dation; restaurants (excluding alcoholic and certain other beverages); admission to sports events; use of sports facilities; undertaker and cremation services; collection of domestic waste; minor repairs of bicycles, shoes and leather goods, clothing and household linen; hairdressing.
Portugal	23%	6.0%	Some foodstuffs; water supplies; certain pharmaceutical products; medical equipment for disabled persons; childrens car seats; public transport; some books; certain newspapers and periodicals; TV licence; social housing; renovation and repair of private dwellings; certain agricultural supplies; hotel accommodation; some social services; medical and dental care; collection of domestic waste, minor repairs of bicycles; domestic care services.
		13.0%	Some foodstuffs; admission to certain cultural events; some agricultural supplies; wine; diesel for agriculture.
Romania	24%	5.0%	Social housing.
		9.0%	Some foodstuffs; certain pharmaceutical products; medical equipment for disabled persons; books; newspapers and periodicals; admission to cultural events and amusement parks; hotel accommodation.
Slovakia	20%	10.0%	Pharmaceutical products; medical equipment for disabled persons; books.
Slovenia	22%	9.5%	Foodstuffs; water supplies; pharmaceutical products; medical equipment for disabled persons; public transport; books; newspapers and periodicals; cultural events and theme parks; writers and composers; social housing; renovation and repairs of private dwellings; cleaning of private dwellings; agricultural supplies; restaurants (preparation of meals only); hotel accommodation; admission to sports events; use of sports facilities; undertaker and cremation services; domestic waste collection; minor repairs of bicycles, clothes and household linen, shoes and leather goods; domestic care services; hairdressing.
Spain	21%	4.0%	Some foodstuffs; some pharmaceutical products; some medical equipment for the disabled; some books; certain newspapers and periodicals; some social housing; some social services.
		10.0%	Some foodstuffs; water supplies; certain pharmaceutical products; some medical equipment for disabled persons; public transport; some social housing; renovation and repair of private dwellings; agricultural supplies; hotel accommodation; restaurants, admission to certain sports events; some social services; domestic waste collection.
Sweden	25%	6.0%	Public transport; books; newspapers and periodicals; admission to cultural events; writers and composers; admission to sports events; use of sports facilities.
		12.0%	Some foodstuffs; hotel accommodation; restaurants.
United Kingdom	20%	5.0%	Children's car seats, social housing, domestic electricity, gas and other domestic energy supplies, energy-saving domestic installations and goods.
		0.0%	Social housing, printed books, journals and other printed materials, renovations to private housing, collections of domestic refuse, household water supplies, basic foods, pharmaceutical products, certain medical supplies, passenger transport and children's clothing.

#### Appendix 4. Goods and services with 0% VAT rate in UK (HMRC 2015a).

1. Goods exported outside the EU or sent to someone registered in another EU country.
2. Food and drink for human consumption, excluding: alcoholic drinks, confectionery, crisps and savoury snacks, hot food, sports drinks, hot takeaways, ice cream, soft drinks and mineral water.
3. Certain animals and animal feeds.
4. Certain plants and seeds.
5. Advertising services for charities.
6. Certain goods sold at charitable fundraising events.
7. Charity shops - selling donated goods.
8. Construction and sale of new buildings for a relevant charitable purpose.
9. Building services for disabled people.
10. Equipment for blind or partially sighted people.
11. Equipment for disabled people.
12. Magnetic tape adapted for recording speech for blind people together with apparatus for making and playing the adapted tape and certain low vision aids.
13. Dispensing of prescriptions by a registered pharmacist.
14. Incontinence products.
15. Low vision aids.
16. Cesspools, septic tanks or similar (domestic) - emptying.
17. Sewerage services supplied to domestic or industrial customers.
18. Water supplied to households.
19. Substantial reconstructions to protected buildings that are buildings used as a dwelling, for a relevant residential purpose or for a relevant charitable purpose.
20. The installation of a bathroom or lavatory, constructing ramps and widening doorways or passageways for disabled people in their own home.
21. Construction and first freehold or long leasehold sale of a new building for a relevant charitable purpose.
22. Construction and first freehold or long leasehold sale of a new building for relevant residential purposes.
23. Construction and first freehold or long leasehold sale of new domestic buildings.
24. First freehold or long leasehold sale of a commercial building converted into a dwelling or dwellings.
25. First freehold or long leasehold sale of buildings converted for relevant residential purposes.
26. First freehold or long leasehold sale of buildings converted for relevant charitable purposes.
27. Sale or long lease of a new dwelling with garage or parking space.
28. Aircraft repair and maintenance.
29. Domestic leg of freight transport to or from a place outside the EU.

30. Freight containers - sale, lease or hire to a place outside the EC.
31. Freight containers - sale, lease or hire to another EC Member State.
32. International freight transport that takes place in the UK and its territorial waters.
33. Passenger transport in a vehicle, boat or aircraft that carries not less than ten passengers.
34. Airships - sale or charter.
35. Caravans (more than 7m long or more than 2.55m wide).
36. Civil aeroplanes - sale or charter.
37. Helicopters - sale or charter.
38. Houseboats - sale or let out on hire.
39. Military aeroplanes - sale or charter.
40. Ship repairs and maintenance.
41. Shipbuilding - 15 tons or over gross tonnage.
42. Brochures, leaflets or pamphlets.
43. Books, including children's painting and picture books.
44. Maps and charts.
45. Magazines and newspapers.
46. Printed or copied music.
47. Publications, excluding exercise books, letterheads, and posters.
48. Babywear and children's clothes & footwear.
49. Cycle helmets (CE marked), motorcycle helmets (that meet safety standards).
50. Protective boots and helmets for industrial use.

## Appendix 5. Goods and services with 5% VAT rate in UK (HMRC 2015a)

1. Energy saving materials permanently installed in dwellings and buildings used for a relevant residential purpose.
2. Mobility aids for the elderly.
3. Smoking cessation products - nicotine patches and gum.
4. Maternity pads.
5. Sanitary protection products.
6. Electricity, gas, heating oil and solid fuel for domestic and residential use or for non-business use by a charity.
7. Air source heat pumps.
8. Boilers - wood fuelled.
9. Central heating and hot water controls.
10. Draught stripping.
11. Ground source heat pumps.
12. Insulation.
13. Micro combined heat and power units.
14. Solar panels.
15. Water and wind turbines.
16. Closed solid fuel fire cassettes.
17. Electric dual immersion water heaters with factory-insulated hot water tanks.
18. Electric storage heaters.
19. Gas-fired boilers.
20. Gas room heaters with thermostatic controls.
21. Oil-fired boilers.
22. Radiators.
23. The installation, repair and maintenance of a boiler, radiators, pipework and controls forming a central heating system (including micro combined heat and power systems).
24. The installation, repair and maintenance of renewable source heating systems. This means space or water heating systems which use energy from: renewable sources, including solar, wind and hydroelectric power; or near renewable sources, including ground and air heat.
25. Connection or reconnection to the mains gas supply.
26. Converting existing premises by increasing the number of dwellings within the building.
27. Renovating a dwelling that has been empty for at least two years.
28. Some caravans (more than 7m long or more than 2.55m wide).
29. Carrycots with restraint straps.
30. Children's car seats, booster seats and booster cushions.
31. Children's safety seats with bare wheeled framework.

## Appendix 6. VAT exempt goods and services in UK (HMRC 2015a)

1. Physical education and sports activities.
2. Betting and gaming - including pool betting and games of chance.
3. Bingo - including remote games played on the internet, telephone, television or radio.
4. Lottery ticket sales.
5. Online lottery games.
6. Retailer commission on lottery ticket sales.
7. Admission charges by public authorities or eligible cultural bodies to certain cultural events such as visits to museums, art exhibitions, zoos and performances.
8. Antiques, works of art or similar (as assets of historic houses) sold by private treaty to public collections or used to settle a tax or estate duty debt with HM Revenue & Customs.
9. Admission charges by charities.
10. Charitable fundraising events.
11. Sponsored charitable events.
12. Burial or cremation of dead people, or burial at sea.
13. Funeral plans written under contracts of insurance.
14. Care or medical treatment provided by a qualifying institution like a hospital, hospice or nursing home.
15. Health services provided by registered doctors, dentists, opticians, pharmacists and other health professionals.
16. Education, vocational training and other connected services provided by an eligible body like a school, college or university.
17. Garages or parking spaces let together with dwellings (under short hold tenancy agreements) for permanent residential use, excluding garages or facilities specially designed for parking.
18. Parking - grant, or licence, to occupy land on which incidental parking takes place.
19. Property, land and buildings - grant, or licence, to occupy land or buildings.
20. Houseboat moorings.
21. Parking spaces or garages supplied with houseboat moorings.
22. Public postal services provided by the Royal Mail under a universal service obligation.
23. Financial services including the issue, transfer or receipt of, or dealing with money, securities for money or orders for the payment of money.
24. The granting of credit such as loans.
25. The management of credit by the person who has granted it.
26. The provision of the facility of instalment credit finance for example hire-purchase.
27. The provision of qualifying financial intermediary services.
28. The issue, transfer or dealing with a security, including shares and bonds.
29. The operation of a current, deposit or savings account.
30. The management of a qualifying special investment fund.
31. Financial service supplied as a separate element but with other goods or services.



32. Financial service supplied as part of a single supply with other goods or services but only on a condition that financial service is the principal element of the supply.
33. Gold investment coins.
34. Friendly Society subscriptions for the provision of insurance.
35. Insurance and reinsurance transactions.
36. Insurance brokers and agents acting in an intermediary capacity.
37. Insurance supplied as a separate element but with other goods or services.
38. Insurance supplied as part of a single supply with other goods or services but only if insurance is the principal element of the supply.

## Appendix 7. Research survey

### *EU VAT 2015 Survey* *for a Bachelor's Thesis*

*Welcome to the survey and thank you for agreeing to take part in my study!*

*I am a student of Haaga-Helia University of Applied Sciences in Helsinki, Finland and I am currently writing my Bachelor's Thesis about the influence of 2015 changes in EU VAT on financial situation of UK micro businesses providing digital services for end consumers. So called "VAT MESS" has been a hot topic for a while now, as it affects many entrepreneurs and businesses. I hope that with your help, my study will contribute to raising awareness about the problem and possible solutions. This survey is a crucial part of data collection for my research and therefore, I will be extremely grateful for your response. It should not take more than 15 min of your time.*

*Your participation in this study is voluntary and you are free to withdraw your participation at any time. Please note, that the survey collects no identifying information of any respondent, and therefore all the responses will be kept anonymous and confidential. If you have any questions regarding the survey or you are interested in the results, feel free to contact me via e-mail: jolanta.nalewajk@myy.haaga-helia.fi.*

*Please notice that the survey will be no longer available to fill in after 18th Nov 2015.*

*Kind regards,  
Jolanta Nalewajk*

Where is your business based? \*

- United Kingdom
- Other

## Background questions

Does your business supply or had supplied digital services to customers? \*

*For the purpose of this survey, digital services are understood mainly as electronically supplied services which are delivered over the Internet or an electronic network, which supply is essentially automated and would not be possible without information technology.*

- Yes, among other services /and products.
- Yes, exclusively.
- No, my business does not and had never supplied any digital services.

Who are your customers? \*

- Consumers only (B2C)
- Other businesses only (B2B)
- Both, consumers and other businesses (B2C and B2B)

Which types of digital services does your business supply to consumers (B2C)?

*(multiple choice allowed)*

- E-books
- Music downloads
- Software/software updates
- Website server hosting

Subscription to online newspapers, journals, etc.

Game apps

Other apps

Automated distance teaching

Images downloads

Any kind of hand craft patterns downloads

Other

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How many people, including yourself, does your business currently employ? \*

Only myself

2 - 3

4 - 5

6 - 10

More than 10.

When was your business established? \*

Please specify the year.

---

What is the legal structure of your business? \*

- Sole trader
- Private Limited Liability
- Business partnership

Other. Please specify:

---

What is your business' average annual turnover? \*

- Less than £1,000
- £1,000 - £5,000
- £5,001 - £10,000
- £10,001 - £50,000
- £50,001 - £81,000
- £81,001 - £500,000
- £500,001 - £2,000,000
- More than £2,000,000

VAT Obligations

Has your business been registered:

(multiple choice allowed) *Please skip the question if you are not registered to any VAT system at all.*

- to UK VAT before 2015?
- to UK VAT in 2015?
- to VAT MOSS (EU VAT Mini One Stop Shop scheme)?
- separately to VAT systems of other States Members you trade with

On scale 1 to 10, how familiar are you with 2015 changes in EU VAT? \*

1 2 3 4 5 6 7 8 9 10

I am completely lost ○○○○○○○○○○ I am an expert on the matter

In average, how much VAT per quarter are you collecting on behalf of other State Members? \*

*State Members are understood as countries belonging to the European Union: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.*

- None - I've taken my business out of these regulations
- Less than £10
- £10 - £20
- £21 - £50
- £51 - £100
- £101 - £500
- More than £500

No data available

#### Cross-border sales

Had you been selling B2C digital services to customers from other State Members before 2015? \*

Yes

No

No data available

Before 2015, on average how big % of your annual sales came from providing B2C digital services to customers from other State Members? \*

Less than 5%

5% - 20%

21% - 35%

36% - 50%

51% - 75%

76% - 90%

More than 90%

To customers from how many State Members are you currently selling B2C digital services? \*

- None
- All
- A couple of
- A few
- Many
- No data available

Could you please specify the reasons for no cross-boarder sales of B2C digital services in 2015? \*

(multiple choice allowed)

- I resigned from cross-border sales due to reasons NOT connected directly with new 2015 EU VAT regulations
- I managed to add "human intervention" to my services and therefore they no longer qualify as B2C digital services.
- I cannot afford complying with new 2015 EU VAT regulations
- I am not able to collect necessary data on my customers
- I have no means to store customer data in full compliance with the Data Protection Act
- I do not know/understand my new obligations according to 2015 EU VAT regulations, and therefore I resigned from this part of business to avoid non-compliance fees
- I do not want to be bothered with the 2015 changes in EU VAT regulations, so I simply limited supplying B2C digital services exclusively to domestic and/or non-EU customers
- Other, please specify:  
\_\_\_\_\_



Based on your estimations, how big % of your annual sales will come from providing B2C digital services to customers from other State Members at the end of the current year?

- Less than 5%
- 5% - 20%
- 21% - 35%
- 36% - 50%
- 51% - 75%
- 76% - 90%
- More than 90%

Compliance costs

Could you please estimate how much money so far have you spent on adjusting your business to new EU VAT legislation? \*

- Less than £1,000
- £1,000 - £4,999
- £5,000 - £9,999
- £10,000 - £14,999
- £15,000 - £20,000
- More than £20,000

Please evaluate each of the following matters in terms of amount of money your business has spent so far strictly due to 2015 changes

in EU VAT.

	Significant amount	Acceptable amount	Insignificant amount	None
Purchasing/adjusting customer data collection system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Purchasing/adjusting storing customer data system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Purchasing/adjusting invoicing system	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Adjusting ERP software	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Purchasing/adjusting accounting software	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Purchasing/adjusting other software and hardware	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hiring professional accountant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Redesigning the website	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
VAT registration process(es)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Personnel training	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Communicating changes to customers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Including a third party platform to selling process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

How do you sell your digital services to consumers? \*

(multiple choice available)

Through a third party platform. Please specify which one(s):

\_\_\_\_\_

- Through my website using payment processor
- Through my website using manual payment (e.g. internet banking)

Other, please specify:

\_\_\_\_\_

How much of your sales income (%) is taken by the third party platform? \*

- Less than 10%
- 10% - 15%
- 16% - 20%
- 21% - 25%
- 26% - 30%
- More than 30%

Would you be using third party platform if not 2015 changes in EU VAT? \*

- Yes. I used it before and am happy with their service.
- Yes. I started using third party platform because of so called "VAT MESS", but actually it made my life less complicated so I would stick with it anyways.
- No. I use it only so someone else has to deal with so called "VAT MESS" for me.

Profitability

What is your pricing strategy when it comes to dealing with different VAT rates? \*

- Net prices are the same for all customers; end prices differ according to VAT rates
- End prices are the same for all customers; VAT rates are subtracted from my margins
- I use third party platform, so whatever strategy they are using.
- Other

What kind of impact the following issues have had on your business' profitability?

	Positive	Neutral	Negative
Customer data collection obligations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Grace period for customer data collection obligations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Necessary changes in sales process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
New pricing strategy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bureaucracy connected to EU VAT	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other, please specify: _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comparing to the previous year, how have the 2015 changes in EU VAT influenced the following aspects of your business?

*For the purpose of this survey, "Cross-border sales" are understood as all the sales made to the customers from other State Members of European Union (currently 28 countries). "Export sales" include all the sales made to customers from non-EU countries. "Import of services and goods" includes any purchases you made for your business from suppliers based outside the European Union.*

	Increased drastically	Increased	Remained more or less the same	Decreased	Decreased drastically	Not applicable
Cross-border sales of digital services *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cross-border sales of other services *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Cross-border sales of goods *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic sales of digital services *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic sales of other services *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Domestic sales of goods *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export of digital services *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export of other services *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Export of goods *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Import of services and goods *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operating costs *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
VAT payables *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Turnover *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Overall profitability *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number of personnel *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reporting obligations *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Working hours *	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other, please specify: _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Profitability

How are you projecting your business' annual profit at the end of 2015 will be comparing to the previous year? \*

- Significantly higher
- Higher
- More or less the same
- Lower
- Significantly lower

What would be the reasons for this? Please choose up to 5 most adequate answers. \*

- Decrease of domestic sales
- Decrease of cross-border sales
- Decrease of export sales
- Costs linked directly to 2015 changes in EU VAT regulations
- Increase of other operating costs
- Increase of financial costs
- Changes in pricing
- Loss of revenue from paying third party platform fees
- Suspending business operations until fully complied with new EU VAT regulations
- Intentionally taking a step back from my business in order to avoid any non compliance with new EU VAT regulations
- Resigning from B2C sales of digital services.

Other, please specify:

\_\_\_\_\_

## Overall financial situation

How would you describe your business' overall financial situation at the moment? \*

- Much better than the couple of previous years
- Better than the couple of previous years
- The same as the couple of previous years
- Worse than the couple of previous years
- Much worse than the couple of previous years

Have 2015 changes in EU VAT legislation directly influenced the overall financial situation of your business? \*

- I don't know
- No, they have not.
- Yes, they have, for the better.
- Yes, they have, for the worse but I will survive.
- They are the main reason why I am considering closing my business.
- I already have announced / I am close to bankruptcy.