Whitepaper Ecommerce: Retail

The rise of marketplaces in Europe

A 2019 analysis from iBe, the pan-European financial services advisory firm, has found that online marketplaces could be worth as much as $7 trillion in sales by 2024 in Europe.

Currently, marketplaces contribute $1.7 trillion to the economy each year and in retail ecommerce accounts for as much as half (50%) of sales annually. However, iBe predicts that sales driven from **marketplaces are likely to exceed $7 trillion in the next five years, hailing a new era in ecommerce.**

This rise is driven by more and more companies embracing marketplaces as the best platform to facilitate online sales, expedite cross border expansion, increase product range and improve logistics, costs and operations.

In 2019, over half (56%) of European marketplaces are global companies such as eBay, Amazon and Alibaba, but there is also significant local marketplace choice in Europe, and the local platforms' market share is continuing to grow as they get established and build loyal following amongst domestic and international consumers.

We can take Amazon as an example to illustrate our analysis because we are all familiar with the biggest marketplace in the world. However, smaller domestic marketplaces such as C-discount in France or Real in Germany are quite comparable.

Amazon launched its website in the US in 1995 and after three years it opened its digital doors in the United Kingdom and Germany. France followed in 2000. Ten years later, in November 2010, Amazon launched in Italy, while in 2011, Spain became the latest country in Europe where Amazon hosts a dedicated ecommerce website. The retailer also launched Amazon.nl in the Netherlands in 2014, but that website was different from the rest: the retailer only sold e-books and its Kindle e-reader through this website. Since 2020, things have changed as Amazon.nl officially launched with a complete assortment.

The strategic role of Third-Party Logistics (3PL)

Related to the take off of marketplaces in Europe the past ten years, the third-party logistics (3PL) market is growing as well as it is driven by the complexity of supply chain networks. Increasing complexities associated with the management of supply chain networks have compelled companies to look for 3PL services. Outsourcing transportation, warehousing, customs brokerage, packaging, and other processes to 3PL vendors allows companies to **focus on their core competencies**.

Top 100 3PLs

The Netherlands, the place to be

The Netherlands is known as the **Gateway to Europe** based on the large concentration of logistic activities it hosts in the form of distribution centers, warehouse and storage facilities, and transfer and transportation operations. Driven by world-class seaports, centrally-located airports, and a modern network of roads and highways, the country's logistics infrastructure and the presence of top-notch distribution and logistics service providers are major assets to companies operating in Europe.

- Over 160 million consumers can be reached within 24 hours of Amsterdam or Rotterdam.
- Dutch inland shipping accounts for 54% of all trade shipping in Western Europe.
- The Netherlands was ranked 6th in the 2018 World Bank global Logistics Performance Index, based on the efficiency and effectiveness of its customs, quality of transport, IT infrastructure, and ease and affordability of shipping).

As a matter of fact, over the last decades the Netherlands has been able to attract a large number of international companies setting up warehousing and distribution activities in the Netherlands. Besides the more obvious reasons like geographic location close to the main European markets (as explained above), there is one important factor which also played a significant role that might be a bit less known. This is the fact that the **Dutch customs authorities are considered to be the most efficient and pro-business in the world**.

This makes it possible for companies to **set up a tax efficient supply chain**. Specifically the legislation regarding VAT deferment and fiscal representation are considered to be highly attractive in the Netherlands.

The Benefit of the VAT Deferment & the Fiscal Representation in the Netherlands.

In most countries, the fiscal representative is required by the local tax code to ensure that:

- The foreign trader is properly registered with the local tax office.
- The trader is fully compliant with rules on invoicing, VAT treatment, exchange rates etc.
- Accounting records are maintained to exacting local standards, and that they are readily available for inspection by the tax authorities.
- All VAT and associated filings are correctly prepared and submitted.
- Enquiries and tax inspections from the VAT office are professionally handled.

To sum up, when a company imports products into the EU two different kind of taxes will be due. Import duties and Value Added Tax. Import duties are harmonised for the EU what basically means that the import duty (as a percentage of the value of the product) is the same for all countries. Moreover, also the way duties are charged are the same throughout the EU.

For VAT the situation is different, VAT is a EU directive which is interpreted different between the different member states.

Benefits of VAT deferment and fiscal representation for foreign companies in the Netherlands:

• No actual VAT payments: no negative impact on cash flow due to deferral system.
• No need to set up a legal entity. Only register for VAT and statistics.

Two kinds of fiscal representation in the Netherlands:

In order to benefit from the advantages VAT deferment has to offer, a foreign business must appoint a Dutch entity to act on their behalf for fiscal for VAT purposes. There are two kinds of fiscal representation in the Netherlands ;

1/ Limited fiscal representation (LFR): A foreign company can appoint a limited fiscal representative that will take care of VAT formalities connected with importing and distribution in Europe. In practice, the VAT subnumber of the limited fiscal representative is used for the imports, so a foreign company does not have to register for VAT purposes in the Netherlands themselves. Multiple foreign companies can be handled under this VAT subnumber by the limited fiscal representative. Also, a foreign company may have more than one limited fiscal representative in the Netherlands.

In general LFR is used by companies with a relatively straightforward supply chain, meaning that goods are imported into the Netherlands for the European market. The goods need to be shipped directly to
clients within the period the VAT entry needs to be done.

Application process: the foreign entity uses the VAT registration number of the fiscal representative. Off course there is some paperwork involved, but theoretically **setting up LFR can be done within a day**. Some companies offering LFR ask for a bank guaranty but this is not mandatory for Dutch authorities.

2/ General fiscal representation (GFR): If a foreign company also acquires goods from suppliers who
are based in the EU or intends to store products in a warehouse for a longer period of time the GFR scheme would be the preferred solution. In contrast to limited fiscal representation, the foreign company needs to register themselves for VAT purposes and apply for its own VAT identification number in the Netherlands (in most cases the GFR assists the foreign company with the application process). A company is allowed to have one VAT registration number and appoints a general fiscal representative in the Netherlands.

The foreign company only registers for VAT purposes in the Netherlands, this does not mean that the company establishes a business entity in the Netherlands. The company is still a foreign entity without staff or (direct) tax obligations.

Application process: The foreign company needs to apply for a VAT registration number at the Dutch
authorities, if all paperwork is filled out correctlyby the foreign company the application takesapproximately 6 weeks. Dutch authorities requireforeign companies to deposit a bank guarantee incase they register for GFR.

3 scenarios for e-commerce

Scenario 1: Non-EU business sells to marketplace customers via a 3PL warehouse

When a non-EU business sells to marketplace customers via a 3PL warehouse, they need a **general fiscal representation**, where the 3PL can handle all the VAT matters (B2B & B2C) for the non-EU company. For general fiscal representation the application process with the authorities takes about **6 weeks or more** and the non-EU business has to wire **a deposit of EUR 5,000.00** to the authorities.

Scenario 2: Non-EU business sells B2C from a 3PL warehouse and exceeds a certain threshold

When the non-EU business sells B2C from a 3PL warehouse and exceeds a certain threshold, then they also have to **register for VAT in the EU country of delivery**. In the quick fixes after **1 July 2021 this is no longer applicable**, with the Dutch VAT number we are able to do the VAT filing throughout Europe. To sum up, today if a foreign company is selling below the country-specific thresholds, it does not need to VAT register.

Here is the **2020 Distance selling EU VAT thresholds**

Main countries thresholds (2020):

€100,000 per annum | Germany, Luxembourg and Netherlands
€35,000 per annum | Italy, Spain, Belgium, Poland, Ireland and France
GBP 70,000 per annum | UK

Scenario 3: Non-EU business ships to Amazon and chooses FBA

When a non-EU business ships to Amazon and chooses **FBA (Fulfilment by Amazon),** they have to register for VAT in that specific country of the Amazon warehouse. Most of the time, 3PLs have people which can help getting that registration. Advantage is that 3PL can do the customs clearance and VAT deferment with a **limited fiscal representation**, because they arrange transportation to the warehouse and have a foreign VAT number to which we can defer the VAT. So the application process can go pretty fast and non-EU business doesn't have to wire a deposit. Amazon has a knowledge section about VAT:
https://services.amazon.co.uk/services/vat-resources.html

2020 Distance Selling - EU VAT rules

As matter fact, until July 1st, 2021, non-EU businesses selling goods to consumers in other countries most likely will face an obligation to charge and collect local consumption taxes. The EU has created a special regime, known as **Distance Selling**, to simplify the administration and burden as far as possible to encourage free trade in the zone.

The basic rules are as follows:

- For example, a US business which has a fiscal representative and a 3PL (can be the same people) in the **Netherlands** sells products online **on Amazon Italy** at the Dutch VAT rate of 21% to Italian customers instead of normal Italian VAT rate of 22%.
- Once they pass the respective country's distance selling annual threshold, **EUR 35,000.00 for Italy**, they must register as a non-resident VAT trader in the country.
- Starting from that date, the company (via his fiscal representative) has **30 days to register for VAT purposes in Italy**, and then to tax the sale transactions with Italian VAT and submit a tax declaration in Italy.

Interested?

Are you interested in the added value of EuroDev for your business?

Contact our VP of Retail at
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Why choose EuroDev?

EuroDev, established in 1996 with offices in The Netherlands and France, has a single, defined purpose to help mid-sized North American companies expand their business in Europe. We have created a proven, successful business development model and since our founding, we have partnered with over 300 companies to help them define and meet their European busine

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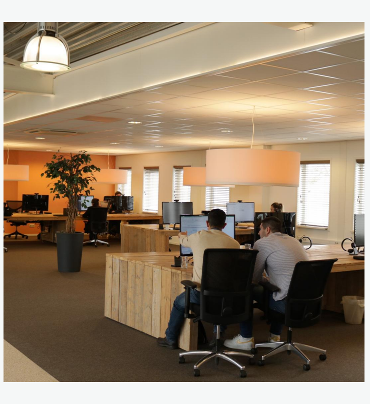

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