



# The treatment of cross-border internet purchases in the HICP <sup>(1)</sup>

## I. The recommendations

### **Recommendation 1: Purchase of goods**

The expenditure and the prices for goods purchased through the internet shall be recorded in the HICP of the country where the goods are delivered.

### **Recommendation 2: Purchase of services of a tangible nature**

The expenditure and the prices for services of a tangible nature purchased through the internet shall be recorded in the HICP of the country where the services are provided.

### **Recommendation 3: Purchase of digital services**

The expenditure and the prices for digital services (telecommunication, broadcasting and electronic services) shall be recorded in the HICP of the country where the consumer usually resides.

### **Recommendation 4: Extra costs**

The price to be recorded should be the full price, including any compulsory additional costs, provided that these costs can be attributed solely to the purchase of the product concerned.

### **Recommendation 5: Other distance purchases**

The expenditure and prices for other distance purchases, for example by phone or mail order, shall be treated in the same way as internet purchases with regard to extra costs and for determining the country where expenditure and prices shall be accounted for.

### ***Suggested implementation:***

From January 2018 onwards.

---

<sup>(1)</sup> The content of this document corresponds to the Annex of the document 'Recommendation on the treatment of cross-border internet purchases in the HICP', endorsed by the Directors of Macro-Economic Statistics, in December 2016 (DMES/2016/12-13).

## **II. Explanatory text**

### **1. Introduction**

These recommendations deal with the treatment of internet purchases in the HICP. They address in particular in which country's HICP cross-border purchases via the internet are to be recorded. The recommendations cover both goods and services, while paying special attention to the new and strongly growing category of digital services.

Section 2 defines what falls under digital services as opposed to other services. In section 3, the domestic principle underlying the HICP is spelled out. Section 4 then develops the rules that apply for goods and services bought via the internet. It also covers the treatment of extra costs and the problem of determining appropriate weights.

### **2. Digital services vs other services**

Internet purchases cover both goods and services. For services and their specific modes of delivery, the EU Value Added Tax (VAT) rules in force since January 2015 make a distinction that appears useful for treating internet purchases of services in the HICP. It is the distinction between digital services and what is termed 'services of a tangible nature' (the classical service type). Services of a tangible nature include services connected to immovable property; passenger transport; services in respect of admission to cultural, artistic, sporting, scientific, educational, entertainment and similar events; and restaurant and catering services. In short, services where the consumer has to be physically present at the location of the service provider. In the following, the coverage of digital services as agreed in the VAT context is described in more detail.

Digital services comprise telecommunications, broadcasting and electronic services. Telecommunications and broadcasting services are the same as in ECOICOP.

*Telecommunications services* cover, in particular, the following:

- (a) fixed and mobile telephone services for transmitting and switching voice, data and video, including telephone services with an imaging component (videophone services);
- (b) telephone services provided through the internet, including Voice over Internet Protocol (VoIP);
- (c) voice mail, call waiting, call forwarding, caller identification, three-way calling and other call management services;
- (d) paging services;
- (e) audio text services;
- (f) facsimile, telegraph and telex;
- (g) access to the internet;

- (h) private network connections providing telecommunications links for the exclusive use of the client.

Broadcasting services include services consisting of audio and audio-visual content, such as radio or television programmes provided to the general public via communications networks by and under the editorial responsibility of a media service provider, for simultaneous listening or viewing, on the basis of a programme schedule.

***Broadcasting services*** cover, in particular, the following:

- (a) radio or television programmes transmitted or retransmitted over a radio or television network;
- (b) radio or television programmes distributed via the internet or a similar electronic network (IP streaming) if they are broadcast on this at the same time as being transmitted or retransmitted over a radio or television network.

***Electronic services*** are services provided over the internet (or other electronic networks) and whose nature renders their supply essentially automated, involving minimal human intervention, and impossible to deliver in the absence of information technology. The VAT rules give the following list of electronic services to which examples – in italics – have been added from the explanatory text to the VAT rules:

- (a) Website supply, web-hosting, distance maintenance of programmes and equipment.
- (b) Supply of software and updating thereof.
- (c) Supply of images, text and information and making available of databases (*digitised content of books and other electronic publications*).
- (d) Supply of music, films and games, including games of chance and gambling games and of political, cultural, artistic, sporting, scientific and entertainment broadcasts and events (*accessing or downloading film, receiving television programmes via the internet for viewing at the moment chosen by the user and at the user's individual request on the basis of a catalogue of programmes selected by the media service provider such as TV or video on demand*).
- (e) Supply of distance teaching (*automated distance teaching dependent on the internet ... the supply of which requires limited or no human intervention ...*).

What applies to electronic services – in particular with a view to how they are provided – increasingly applies to broadcasting and telecommunications services as well. Moreover, the boundaries between these three types of services are increasingly blurred. Although service providers are often located in the same country as their customers, this is not necessarily the case, see e.g. Skype, Netflix, satellite television. Therefore it is recommended to treat all three types of digital services in the same manner when deciding in which countries' HICP prices and expenditure should be recorded.

### **3. Geographical coverage: the domestic concept**

The domestic concept determines the geographical coverage of the HICP. It is set out in Articles 2(18), 2(19), 2(20) and 3(3) of Regulation 2016/792. Article 3(3) states that '*the HICP[...] shall be based on the price changes [...] of products included in the household final monetary consumption expenditure*'. Article 2(20) defines '*household final monetary consumption expenditure*' as expenditure incurred by households on the economic territory of the Member State. Article 2(18) stipulates that households should be included irrespective of nationality or residence status.

### **4. Treatment of cross-border internet purchases in the HICP**

In the case of cross-border internet purchases, there is a need to give the domestic concept underlying the HICP an unambiguous and operational interpretation. The aim is to ensure a consistent geographical coverage of the related prices in the HICP across Member States.

The traditional – non-internet – case of households buying goods and services abroad is tourism expenditure. Households are physically outside the economic territory of their country of residence when goods and services are acquired. Both the seller and the place where the good or service is delivered are in the same country abroad, and this is the country which includes both expenditure and prices in its HICP.

Cross-border internet purchases are more complicated. The internet offers virtually unrestricted access to products, and transactions can take place, via connected devices, almost anywhere. A person resident in country X orders/purchases products on a foreign website and the delivery may be to country X or Y.

Clear rules are needed to determine in which country cross-border internet purchases are to be covered. The rules should take account of the conceptual framework of the HICP. They should be practical, and that may mean that some special cases get somewhat simplified treatment.

Using the 'country of delivery' criterion for the geographical allocation of cross-border internet purchases meets these requirements. It reflects the fact that the full price which the consumer has to pay for a product is known only once the country of delivery is known because only then delivery charges and the appropriate VAT rate can be fixed and the full price determined. Furthermore, the country of delivery is where the consumer and the product 'come together', which is in the spirit of the domestic concept.

Hence, the general rule should be:

*For products (goods and services) purchased over the internet, the expenditure and the price should be covered by the HICP of the country where they are delivered.*

In complex cases, appropriate proxies for the delivery criterion are to be used.

Applying the rule to the three categories of products distinguished in Section 2 (goods, services of a tangible nature, digital services) results in the following guidance:

#### **4.1. Goods**

The expenditure and the prices for goods purchased through the internet shall be accounted for on the basis of the country where the product is delivered.

The country of delivery is normally the country in which the purchaser resides.

#### **4.2. Services of a tangible nature**

The expenditure and the prices for services of a tangible nature booked through the internet shall be accounted for in the country where the service is provided. The fact that, for example, a concert ticket can be purchased from abroad does not entail that the service takes place abroad; the service is provided at the premises of the service provider.

For transport services, the country where the service commences determines the allocation.

#### **4.3. Digital services**

The expenditure and the prices for digital services shall be accounted for on the basis of the country where the delivery takes place. For reasons of practicality, the consumer's country of residence is used as a proxy for the country of delivery.

Digital services are delivered over the internet (or another electronic or mobile telephone network). Their nature renders their supply essentially automated and involving minimal human intervention, and impossible to deliver in the absence of information technology. These services are delivered to electronic devices. The VAT rate, and therefore the final consumer price, is determined on the basis of information available to the seller. This information can either be derived from features of the digital connection or from records previously provided by the consumer, often in the form of account details. In cases where the electronic devices are stationary, the geographic allocation is uncontroversial and determined by information contained in the connection e.g. the IP address or telephone number.

However, delivery to mobile devices is growing rapidly and can be expected to be dominant in the future. What should the rule be for locating the mobile device, i.e. the assumed country of delivery? As stated above, to determine the full price which the consumer has to pay, the location has to be determined in order to apply the appropriate

VAT rate. How is this done for digital services over a mobile device? From the perspective of the service provider, the evidence available includes the IP address, the consumer's account details and the country code of the SIM card used by the customer. All this is usually linked to the country of residence of the consumer. Hence, for reasons of practicality, digital services are accounted for in the HICP of the country where the consumer usually resides <sup>(2)</sup>. As a consequence, digital services delivered to consumers' mobile devices while they are abroad are to be allocated to their country of residence.

#### **4.4. VAT rules**

The EU VAT rules were changed in 2015 in order to reinforce the destination principle for cross-border transactions in digital services. Following these changes, VAT rules are now consistent with the rules proposed above for the geographical allocation of internet purchases in the HICP. This should also make it possible in the future to improve the weights for digital services and internet purchases in the HICP.

#### **5. Extra costs**

The purchase of goods and services through the internet may involve unavoidable costs that are charged in addition to the advertised product price. Examples include:

- Delivery charges
- Credit/debit card fees
- Administration/booking fees

The price which should be recorded in the HICP is the full price, including any compulsory additional costs, provided that the additional costs can be attributed solely to the purchase of the product concerned. This is in line with the intentions underpinning the definition of a product-offer given in the Article 2 (2) of Regulation 1749/96.

As far as delivery charges are concerned, they should be included in the same category as the associated product. Thus, the delivery charge for a book ordered on the internet would be included in the cost of the book and classified accordingly. The same applies to deliveries of larger goods such as durables where ECOICOP explicitly includes delivery (and installation) charges.

#### **6. Other distance purchases**

Other distance purchases cover mail order and purchases over the telephone. These types of purchase have been in existence for many years. They share some of the features of internet purchases. Most importantly, the customer does not have face-to-face contact with the seller. Moreover, the form of payment is likely to be similar to that used in internet purchases: credit/debit card or bank transfer. Additionally, such purchases may incur delivery charges which, if unavoidable, should be included in the recorded price.

---

<sup>(2)</sup> The VAT rules also apply this practical approach. See section 4.4.

These types of transactions should therefore be dealt with in the HICP in the same way as internet transactions. Accordingly, the same rules, such as country of allocation of purchase, treatment of services, and additional costs (such as delivery), are to be followed.

## **7. Weights and sampling**

It is difficult to obtain appropriate weights for internet purchases. The principal source at the appropriate ECOICOP level is National Accounts but this will likely need to be supplemented with detailed information from other sources such as the Household Budget Survey, credit card payments etc. VAT records from tax authorities could be useful for estimating weights. They may also be of use in distinguishing household and business expenditures.

For sampling retailers, the usual procedure for non-internet outlets is to construct a target universe of outlets and then use an appropriate sampling method. With internet purchases the target universe of retailers is in many cases unknown and can in theory be large because products can be provided from almost anywhere. Hence, more subjective sampling methods may have to be used, based on any available information. However, a characteristic of the online retail trade is that many important markets (books, clothing, music downloads etc.) are dominated by relatively few large retailers. Hence, a subjective sampling of the major retailers in these market sectors should be good enough in most cases.