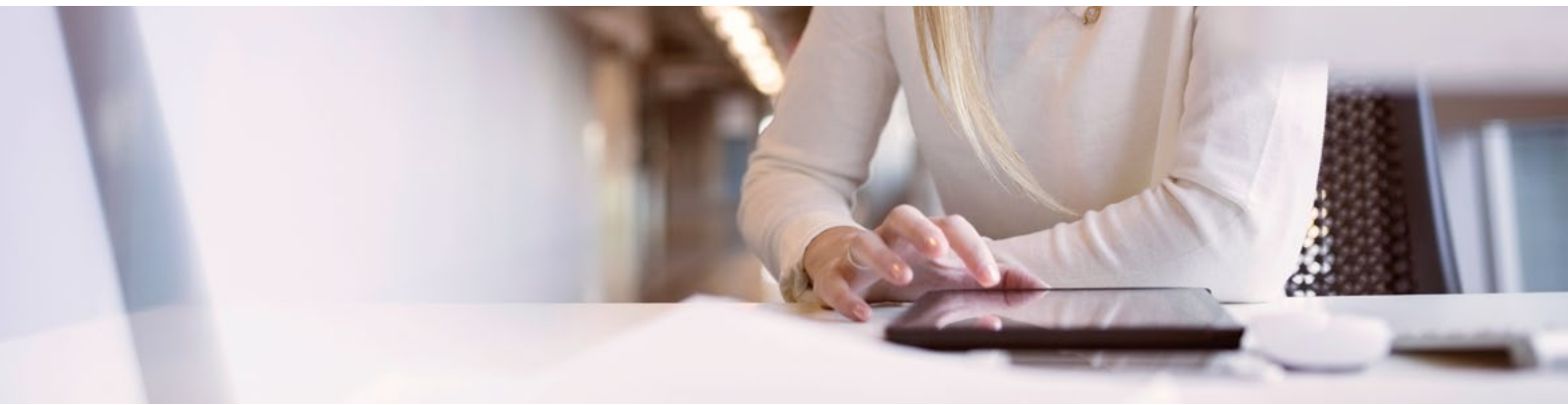


# Cross-border E-Commerce

## Tax-optimized Delivery Process for Satisfied Customers



### Starting position

The Swiss market is attractive for foreign e-commerce retailers, as it attracts high turnover. Products typically offered online to consumers (B2C) are textiles, shoes, cosmetics and beauty, food and household appliances, home electronics, furniture, books and much more. Online trading also plays a certain role in B2B transactions. The products traded depend on the respective industry.

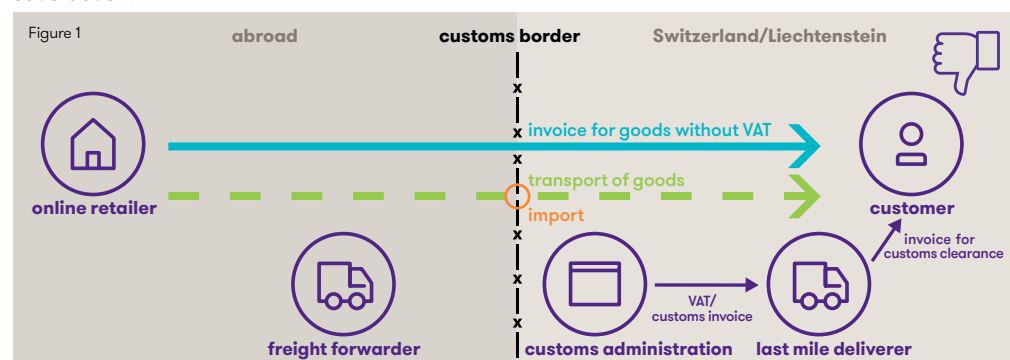
Studies show that Swiss B2C online retailing has been growing steadily for several years at a rate of around 10 % per year and currently has an approximate market volume of around CHF 9 billion (year 2017). The 5-year review shows that foreign online retailers are growing disproportionately faster than Swiss online retailers. In the meantime, the market share of foreign retailers in online retailing with Swiss customers is about 20 % or CHF 2 billion.<sup>1</sup>

The Swiss market is particularly attractive for foreign online retailers. According to industry estimates, the per capita volume of cross-border online trade with Swiss consumers is five to nine times higher than in Western European countries, which is why the Swiss e-commerce market is much larger than the comparatively low number of inhabitants would suggest.<sup>2</sup> Not only the high purchasing power of Swiss consumers, but also the limited domestic supply due to the small size of the country opens up significant sales opportunities for foreign online retailers.<sup>3</sup> For example, a clothing company based in Germany has become the Swiss market leader in clothing retailing within five years, without employing a single employee in Switzerland.<sup>4</sup> Companies such as this have shown that it is possible to push boundaries in online retailing with a service that optimises customer satisfaction.

### Challenges

A special role for customer satisfaction in online retailing is played by an optimised delivery and, if necessary, return process. Only if delivery to the end customer is quick and convenient there can be any prospect of repeat orders and recommendations, and thus sustained sales growth. Logistics is even more important for foreign online retailers than for Swiss ones, as they have to cross a customs border in addition.

In the absence of special tax precautions, the first consignee of the goods is considered the importer when goods are dispatched from abroad to Switzerland, and the first consignee is usually liable for customs duties, import tax and other fees (Figure 1). This can lead to unpleasant surprises for the consumer if he additionally receives an invoice from the last mile deliverer together with the product ordered.



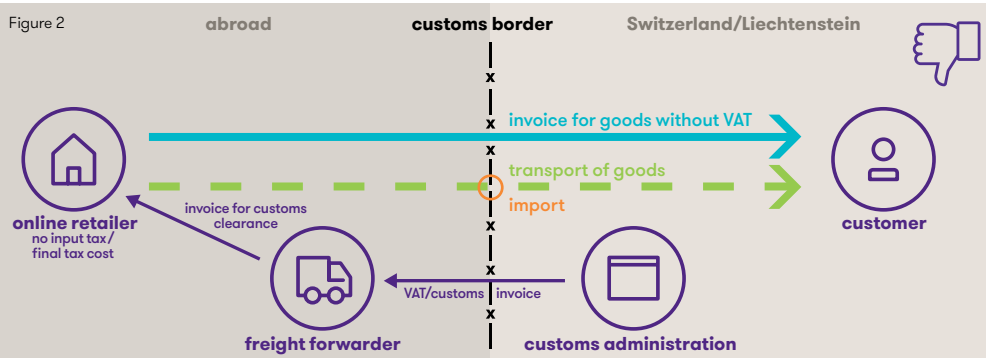
<sup>1</sup> Ralf Wölfle and Uwe Leimstoll, E-Commerce Report Schweiz 2018, issued by Fachhochschule Nordwestschweiz FHNW, Hochschule für Wirtschaft, Institut für Wirtschaftsinformatik, 15 June 2018, available on [www.e-commerce-report.ch](http://www.e-commerce-report.ch)

<sup>2</sup> International Post Corporation, Trade Flows, presentation of 15 March 2019, available on [www.ipc.be](http://www.ipc.be)

<sup>3</sup> McKinsey & Company, press release of 31 May 2017, available on [www.mckinsey.de/medien](http://www.mckinsey.de/medien)

<sup>4</sup> Ralf Wölfle and Uwe Leimstoll, E-Commerce Report Schweiz 2018, issued by Fachhochschule Nordwestschweiz FHNW, Hochschule für Wirtschaft, Institut für Wirtschaftsinformatik, 15 June 2018, available on [www.e-commerce-report.ch](http://www.e-commerce-report.ch)

Figure 2



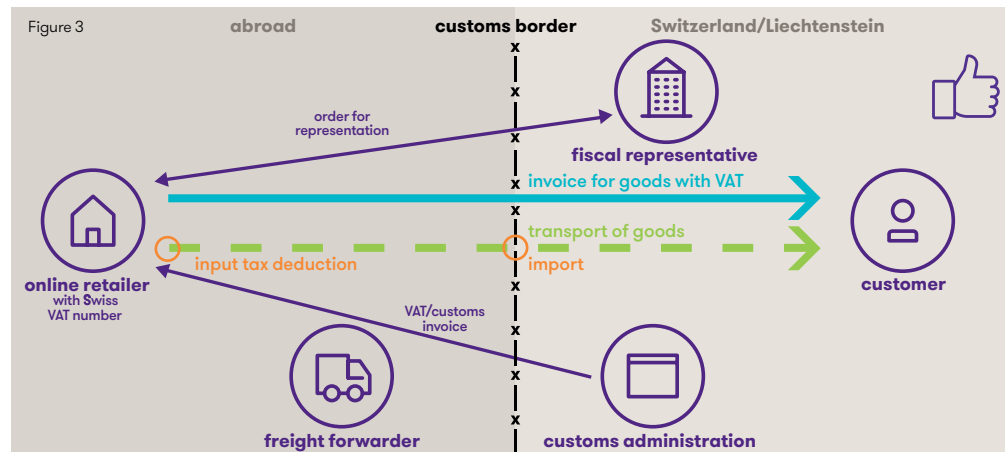
A tax and logistical set-up, in which the forwarding agent pays customs, import tax and other fees on behalf of the foreign online retailer instead of the first consignee of the goods, is not much better. The consumer does not receive an additional invoice from the last mile deliverer but the import tax is usually not refundable, neither for the forwarder nor for the foreign online retailer, which is why it represents a definitive tax burden (Figure 2).

Such set-ups are not only tax inefficient, they can also lead to delays at border crossings and unwanted surprises for customers. Inefficient delivery processes can also often lead to inefficient returns. All in all, these are not good conditions for growth in the Swiss cross-border e-commerce market.

### Solution

Successful foreign online retailers have implemented a tax and logistically efficient delivery process that protects their customers from unpleasant surprises. At the same time, the foreign online retailer can reclaim the import tax and may even receive a refund of customs duties on returns. The foreign online retailer settles the turnover with customers in Switzerland with Swiss value added tax like a domestic online retailer. From the consumer's point of view, delivery and invoicing by the foreign online retailer does not differ from that of a domestic retailer.

From a tax point of view, an optimised delivery process requires registration for Swiss VAT. Foreign companies are obliged to appoint a fiscal representative domiciled in Switzerland. The fiscal representative acts as an intermediary between the foreign online retailer and the Swiss tax administration. The fiscal representative ensures compliance with the foreign online retailer's tax procedural obligations (Figure 3).



A corresponding tax-efficient set-up can also be implemented for dropshipments. In the case of dropshipments, the online retailer is also an intermediary who triggers an order with an upstream supplier when the customer places an order. The goods are then transported directly from the warehouse of the upstream supplier to the customer, whereby the foreign online retailer continues to invoice

the customer with value added tax, and receives an invoice from the upstream supplier for the purchase of goods. Grant Thornton Switzerland/Liechtenstein offers foreign online retailers a tax-efficient set-up in cross-border e-commerce with fiscal representation. However, tax optimisation is only one component of an efficient logistics process. This is why Grant Thornton Switzerland/Liechtenstein cooperates with specialized cross-border end to end e-commerce logistics companies such as Asendia, which offers customized shipping solutions including locally integrated return management and cost saving customs clearance solutions. According to existing online retailers Asendia can help to bring down costs significantly by making of their hybrid product, which combines the mail and parcel channel.

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