

SOME SPECIFIC ASPECTS OF DOCUMENTING, ACCOUNTING AND TAXING THE ACTIVITY OF AN ELECTRONIC SHOP

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Abstract: Rapid advancements in technologies affect all aspects of human activity. Their impact is especially strong on commerce. The popularity of electronic commerce among customers has been growing since mobile devices and the Internet have made the shopping experience easier and faster. On the other hand, e-commerce provides a larger customer base to retailers, since clients are no longer restricted to the location of a physical shop. It also offers better advertising and marketing opportunities. Another advantage is the lack of conventional working hours.

The paper aims at systematizing the major opportunities and regulatory requirements related to starting an online shop. It also answers some of the questions most frequently asked by economic agents and presents the main requirements that they need to meet before starting an online shop. Special attention is paid to some specific moments in terms of documenting, accounting and taxing the activity of an online shop.

Key words: e-commerce; e-shop; accounting and taxation aspects.

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Introduction

E-commerce has been growing rapidly over the past years. Its fast rate of growth has been determined by the widespread use of information

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technologies such as the Internet, communication technologies, etc., in general. That type of commerce has been facilitated and accelerated even more by the opportunity that customers now have to purchase or sell items and services by using their smartphones or tablets. In addition, the set-up costs for and the institutional barriers to starting an online business are considered to be lower, and this is another factor that raises the number of economic agents who are interested in e-commerce.

The aim of the research paper is to present the specific aspects of e-commerce and related regulations and requirements, and to systematically review some issues concerning the accounting and taxation of the business.

To achieve this, we have set the following tasks:

- To analyse available opportunities for and existing requirements to starting an online shop;
- To explore the specific moments in the processes of documenting, accounting and taxing the activity of online shops;
- To arrive at some conclusions about launching an online shop and its performance.

The Electronic Commerce Act (Zakon za elektronnata targoviya, 2018) defines electronic commerce in Art. 1, Para. 2 and Para. 3 as 'providing services for the information society which are usually onerous and are provided from a distance by electronic means upon an explicit declaration of the recipient of the service'. In the latest amendments to the Value Added Tax Act, in particular § 1, p. 87 of the additional provisions, an online shop is defined as an internet site through which goods/services are sold after signing a distance contract in compliance with Art. 45 of the Consumer Protection Act and which has built-in functionality for selecting, adding goods and services to the consumer basket or removing them, entering customer details, a delivery address and choosing a payment method (Zakon za danak dobavena stoynost, 2018). 'E-commerce is the activity of buying or selling products and services via electronic systems such as the Internet and other computer networks'.² Electronic commerce is also known as online commerce, e-commerce, B2B (business to business), B2C

²See: https://bg.wikipedia.org/wiki/%D0%95%D0%BB%D0%B5%D0%BA%D1%82%D1%80%D0%BE%D0%BD%D0%BD%D0%B0_%D1%82%D1%8A%D1%80%D0%B3%D0%BE%D0%B2%D0%B8%D1%8F

SOME SPECIFIC ASPECTS OF DOCUMENTING, ACCOUNTING ...

(business to client), internet commerce, etc. There are three areas of e-commerce: online retailing, online malls and online auctions.

According to data provided by the National Statistical Institute (NSI) about 2018, the percentage of companies that had a web site was 51.10%; the share of persons who used mobile devices was 55.90%; the share of people who ordered or purchased products and services online was 20.80%. In 2013, the values of those indicators were 46.60%, 13.10% and 12.10% respectively.³ 'The volume of online commerce in Bulgaria rose to EUR 664 million in 2018, according to the European E-Commerce Report 2018 prepared by E-Commerce Europe, Euro Commerce and the E-Commerce Foundation in Brussels. A growth of 30% was registered in e-commerce. The volume of online commerce in 2017 amounted to EUR 511 million, which was an increase of 22% compared to its volume in 2016.'⁴

Hence the question – why is online shopping so attractive? The popularity of e-commerce is due to a number of factors:

- Shopping convenience in terms of space and time – online shops are 'open' 24/7;
- Consumers can access any market from any point on the globe;
- The number of customers is unlimited;
- Multiple advertising and marketing opportunities;
- Less time required for doing online shopping;
- The possibility to purchase or sell items without visiting a physical store.

There is no clear-cut distinction between physical and online stores in specialised literature and legislation. Online shops sell products and services just like physical shops do, only their layout is different. Items are not displayed on shelves or racks, but on an electronic storefront. Despite its growing popularity, e-commerce is a subject matter that still poses a number of questions in terms of starting an online shop, relevant accounting procedures and exercised control. An online shop has to meet the same tax

³See: <http://www.nsi.bg/bg/content/2722/%D0%B8%D0%BD%D1%84%D0%BE%D1%80%D0%BC%D0%B0%D1%86%D0%B8%D0%BE%D0%BD%D0%BD%D0%BE%D0%BE%D0%B1%D1%89%D0%B5%D1%81%D1%82%D0%B2%D0%BE>

⁴See: <https://www.investor.bg/web/456/a/onlain-tyrgoviiata-v-bylgariia-e-narasnala-s-30-prez-2018-g-spriamo-2017-g-270887/>

requirements as a physical shop, therefore applicable provisions are those of the Accountancy Act, the National Accounting Standards, the International Financial Reporting Standards, the Value Added Tax Act, the Commercial Act, the Corporate Income Tax Act and the Personal Income Tax Act. There are some further legal requirements to doing business online due to some specific features of the business. E-commerce is also subject to regulation by the Electronic Commerce Act; the Electronic Communications Act; the Consumer Protection Act and the Personal Data Protection Act. Setting up an online business and starting an online shop is considered to be easier than opening a physical shop. Nevertheless, there are a number of legal requirements that must be met, as well as procedures that must be followed.

1. Requirements to starting an online shop

✓ Is it necessary to set up a company?

One of the major questions related to starting an online shop is whether economic agents need to set up a *company* or they could do online business as natural persons. It is advisable that people who want to engage in e-commerce register as sole traders or set up a limited liability company. When an entity is registered as a sole trader, their revenue is subject to taxation under the Personal Income Tax Act, while companies pay taxes in compliance with the Corporate Income Tax Act. The online sale of products and services is treated as door-to-door selling by Ordinance No. H-18 from 13.12. 2006 and is therefore not subject to taxation by the Local Taxes and Fees Act (Zakon za mestnite danatsi i taksi, 1997).

✓ Is a warehouse required for doing business online?

Many of the economic agents who want to start an online shop are already running a physical shop but want to increase their sales volumes, expand their customer base and have access to wider advertising media by starting an online shop. Since they already have a warehouse where they keep their goods in stock, physical shop owners do not need another warehouse to start an online shop.

In cases when the economic agents do not have a physical shop (and, respectively, a warehouse), they may rent or buy premises which they

SOME SPECIFIC ASPECTS OF DOCUMENTING, ACCOUNTING ...

could use to store physical products. Another option is to use dropshipping as a retail fulfilment method and have physical products directly sent from manufacturers to end-users.

✓ *Is it necessary to sign contracts with shipping carriers?*

Since the products to be sold in the online shop will be delivered by shipping carriers, it is advisable to have such agreements. The type of agreement will depend on the methods of payment that will be offered to customers. For purchases made with cash on delivery, the online retailer also needs to determine the commission that will be payable to the carrier, as well as any additional costs for the delivery of products. It is also necessary to decide whether payments will be made in cash or will be transferred into the retailer's bank account.

✓ *How will deliveries be made?*

Several options are possible: online retailers may choose to make their own deliveries or hire someone else to do so; they may choose to use carrier services; or they may decide to use dropshipping and forward customer orders to manufacturers who will send the ordered items to the clients of the online shop. Customers get items that are not tangible goods or services, but are stored in a digital format, by downloading files (Petrov, Ya., n.d).

✓ *How will payments be made?*

A wide range of payment systems may be used in online business. When e-retailers deliver their products themselves, cash on delivery may be used. Other payment methods are also possible: online bank transfers; cable cash transfers; payments made by credit or debit cards; using online payment systems such as Pay Pal, Easy Pay, e Pay, etc. When payments are made via those systems, online retailers need to check whether the companies providing online payment services have been licensed by the Bulgarian National Bank as payment institutions in the public register in compliance with Art. 17 of the Payment Services and Payment Systems Act. As long as those companies are present in the register and payments are made through entities registered as payment institutions in compliance with the Payment Services and Payment Systems Act, a fiscal cash receipt issued from a fiscal device is not required, as provided by Art. 3, Para. 1 of Ordinance No.H-18.

Some online shops also enable their customers to make their payments in cryptocurrencies, such as Bitcoin, Litecoin, Peercoin, etc., yet cryptocurrency has not been accepted as a means of exchange in our country yet.

In terms of accounting, the payments made for different types of sales should be accounted through different analytical accounts. Any documents related to the commissions paid to carriers, delivery costs, etc. also need to be accounted analytically.

✓ Do online retailers need to appoint employees?

Since an online shop is similar to a physical shop, it is subject to the same laws and regulations that govern the taxation of the revenue generated by a brick and mortar shop. The same procedures need to be followed when hiring workers and employees and when making health and social insurance contributions. Workers and employees are appointed in compliance with the provisions of the Labour Code. Online retailers, therefore, need to submit a notification statement to the National Revenue Agency in compliance with Art. 63, Para. 5 of the Labour Code. Health and social insurance contributions are made in compliance with the provisions of the Social Insurance Code and the Health Insurance Code. Minimum insurance thresholds are determined according to the code of the retailer's activity in the Classification of economic activities and the group in which the position of a worker or an employee belongs.

✓ Specific requirement to starting an online shop

Before starting an online business, economic agents need to consider the new amendments to ORDINANCE No.H-18, in particular, Chapter Seven 'D', Art. 52m and Art. 52n: Requirements to the persons performing sales through an electronic shop. According to Art. 52m, a person who sells goods or services through an e-shop shall, before commencing their activity, provide information electronically with a qualified electronic signature to the National Revenue Agency. Such information shall be submitted separately for each e-shop. The information that must be submitted in compliance with Annex No.33 to Art. 52m, Para. 1, must include:

- The name of the e-shop;
- The name of the e-shop domain;

SOME SPECIFIC ASPECTS OF DOCUMENTING, ACCOUNTING ...

- Information about the on-line retailer – whether it is a natural person or a legal entity;
- Unique identification code;
- Residence or headquarters;
- Management and correspondence address;
- The manner in which online sales are made;
- The ownership of the online shop; information about the owner of the domain;
- Where the website of the e-shop is hosted;
- Information about the hosting service provider;
- Information about the maintenance of the website;
- Where software data base is stored;
- The type of products and services sold;
- Date of starting the online shop; date of terminating the activity of the online shop;
- Date of submitting the information to the National Revenue Agency.

In case an online shop terminates its activity or some of the information needs to be updated, e-retailers need to submit relevant information to the NRA within seven days.

Entities engaged by trade in activities related to the mining, processing and dealing in precious metals and precious stones and articles thereof are obliged to register with the Ministry of Finance within 14 days before starting their activity. Their entry in the public register is confirmed with a Certificate issued by the Ministry of Finance. The right to mine, process and deal in precious metals and stones and articles thereof is only granted to persons who have been registered as traders of precious metals and stones and articles thereof, or as companies in compliance with Art. 357 of the Obligations and Contracts Act, when this is their trade and they have been registered in the public register of the persons engaged in such activities. Such persons are registered after submitting an application in compliance with Annex 1 of the Ordinance.⁵

Before starting an e-shop, online retailers are required to publish on their web page information about their company: the name and the address

⁵ See: <http://www.minfin.bg/bg/628>

of the company; where the company is based; mailing address; UIC; telephone number; e-mail address; whether the company has been registered under the Value Added Tax Act.⁶

2. Requirements to the accounting and documentation of an e-shop

√ Is a cash register required?

ORDINANCE No.H-18/13.12.2006 treats e-commerce as door-to-door selling. According to Art. 25, Para. 2: 'In case of door-to-door sales, the fiscal cash receipt shall be issued by the person under Art. 3 and shall be submitted to the deliverer who, in return, shall submit it to the buyer at the time of payment' (Naredba No. H-18/13, 2006). Article 3 of the Ordinance provides that: 'Every person is obliged to register and report on the sales of goods or services carried out thereby in or by a point of sale by issuing a fiscal cash receipt from a fiscal device or a cash receipt from ICBTMS, except for where payments are made by depositing cash to a payment account, by credit transfer, direct debit or cash transfer made by a payment service supplier within the meaning of the Payment Services and Payment Systems Act, or through a cable cash transfer made by a post operator licensed for carrying out cable cash transfers within the meaning of the Postal Service Act.' This means that online retailers are required to have a cash register when they deliver the goods themselves.

√ How to register sales and what documents should be issued to report on sales?

When retailers carry out their activity on their own behalf and not as commissioners, their business is governed by the aforementioned articles of ORDINANCE No. H-18. When products are delivered by online retailers themselves and the services of carriers are not used, a fiscal cash receipt with the value of the delivered product must be issued in addition to all documents accompanying the product. An invoice may also be attached, yet,

⁶See: Бж. <https://advokattrifonov.com/%D0%B5%D0%BB%D0%B5%D0%BA%D1%82%D1%80%D0%BE%D0%BD%D0%BD%D0%B0-%D1%82%D1%8A%D1%80%D0%B3%D0%BE%D0%B2%D0%B8%D1%8F/>

SOME SPECIFIC ASPECTS OF DOCUMENTING, ACCOUNTING ...

if the buyer is a natural person and does not require an invoice, a cash receipt is sufficient for registering the sale. When the method of payment is cash on delivery, online retailers are not required to issue a cash receipt as in this case a supplier of payment services is involved. A payment is made through a payment services supplier within the meaning of the Payment Services and Payment Systems Act or through a cable cash transfer made by a post operator licensed for carrying out cable cash transfers within the meaning of the Postal Service Act. A payment made through cash on delivery is a postal service within the meaning of the Postal Service Act and must not be confused with a payment made through cash transfer that is a service within the meaning of the Payment Services and Payment Systems Act. Payments can also be made through a payment services supplier. In that case, a cash receipt is not issued since these are cash transfers made through an intermediary. The sale is reported by issuing an invoice or making a sales report after the retailer has received the money from the carrier via a bank transfer or in cash. When the receiver of a product is a natural person who has stated explicitly that he/she does not want to have an invoice issued, and at the same time, the retailer is exempt from the obligation to issue a cash receipt (as in the cases described above), the online retailer is still required to issue an invoice for accounting purposes, where the general public is stated as a customer (the so-called 'invoice to the population'), so that the sales which have been made could be registered in the accounting documents. Since the online retailer needs to pay to the carrier a commission or a subscription fee, he/she can receive the sum paid by a customer minus the commission of the carrier and any additional costs for the delivery, yet the whole sum of the sale must be reported as revenue.

Where a retailer acts as an intermediary and the conditions of drop-shipping apply, sales are registered in compliance with Art. 29 (1) of ORDINANCE No.H-18 which provides that: 'where the person under Art. 3 carries out activity as a commissioner on someone else's behalf and at someone else's expense or collects money on behalf of and at the expense of another person, the sales shall be registered as follows:

1. through the fiscal device of the trustor, or
2. through the fiscal device of the person under Art. 3.

(2) In cases under Para. 1, Item 1, sales shall be registered according to the general procedure.

(3) In cases under Para. 1, Item 2, the fiscal device shall be programmed in a way that the sales of the trustor are registered as sales in a separate department for every trustor, where the department indicates the trustor's name.

(5) In cases under Para. 1, Item 2, ' the turnover of every trustor shall be printed in the daily financial report of the person under Art. 3. The person under Art. 3 shall sum and record the accumulated turnover from sales in the month by trustors in the book of daily financial reports on the page of the last day of the month, where the sales under Para. 4 shall be recorded on the same line.'

✓ **How to account revenues?**

If a retailer has a physical shop or is going to sell items that will be stored in a warehouse, the revenue generated must be reported in revenue account 702 – sales income. When an online retailer acts as an intermediary between manufacturers and customers, i.e. in the case of drop shipping, revenue should not be accounted as sales income, but as income from intermediary services. In drop shipping, a contract for intermediary services is signed between a manufacturer or a supplier of goods and a retailer about the sale or distribution of products or services. The manufacturer or the supplier pays the retailer a percentage of the revenue generated from the sales or the difference between the selling price and the price charged by the supplier. The revenue that retailers have to account in this case is the percentage (commission) they are paid for the delivered service or the item sold. Revenue thus generated is accounted (reported) in account 703 – income from sale of services.

✓ **Accounting of the set-up costs for an e-shop**

The setup costs for starting an online shop are substantial. It is therefore necessary to decide whether they shall be treated as an intangible depreciating asset or as setup and advertising costs that will be reported as recurrent costs. Furthermore, it is necessary to consider the cost of the web site, whether a monthly subscription will be paid for its maintenance or ready-to-use software will be purchased in order to decide whether it will be reported as a fixed long-term asset or a recurrent expense.

3. Tax compliance requirements

√ Is VAT registration required?

The Value Added Tax Act does not specify a registration procedure for online retailers. Currently, VAT registration is not mandatory for e-tailers. This applies to deals that are reported in compliance with the general procedure, i.e. sales that do not have any specific features but are instances in which a retailer sells items to persons in the country. VAT registration under Art. 96, Para. 1 of the VATA is required for retailers whose leviable turnover has reached BGN 70,000 or more over the last 12 consecutive months prior to the current month. The deadline for submitting an application for VAT registration is 14 days from the expiry of the tax period during which that turnover has been reached. Any delivery of goods that has been made on the territory of the country before their shipment to the receiver generates leviable turnover for VATA registration of the tax liable person who has made the deliveries, whether the receiver of the delivery is a tax liable or non-liable person. Although an online shop is treated as a physical shop, there are some special moments in determining the turnover of an online shop due to the time lag in the delivery of the products. For goods sold through mail orders or online orders, the date of the tax event is the date on which the supplier has received the payment for those goods (Art. 25, Para. 4 of the VATA). The online retailer can register under VAT when starting business: 'Any tax liable person, with regards to whom the terms for compulsory registration under Art. 96, Para. 1 are not available shall be entitled to register under this Act.'⁷

Starting an online shop is often prompted by the idea to expand the customer base. One of the advantages of online shops is the lack of time and space constraints. Therefore, many of the customers of an online business may as well be foreign citizens. In such cases, the goods will be delivered overseas. Those are the so-called 'distant selling', i.e. sales which are made by Bulgarian citizens, but whose recipients are on the territory of another EU member-state. Art. 14 of the VATA lists the conditions that a delivery must meet to qualify as a remote sale. Art. 20 of the VATA specifies the conditions for determining the place of performance of delivery for distant

⁷ See: <http://www.nap.bg/page?id=416>

selling. The retailer must be registered under the VATA; for customers who are natural persons on the territory of the country or an EU member-state, a 20% VAT is charged till the total value of the deliveries made within a calendar year exceeds the minimum threshold for registration in the country of the buyers. Once that threshold is reached, the place of performance of distant selling is changed. The retailer is then obliged to register under VAT in the specific country. As a taxable person, the retailer must then charge his/her customers the VAT rates that are applicable in the country where the VAT registration has been made. Art. 73, Para. 3 of the Regulations for Application of the Value Added Tax provide that the persons making distant selling of goods are required to determine on a current basis the total amount of the supply of goods under the terms of distant selling for every individual member state separately as well as determine for each of the two calendar years preceding the current year, the taxable amounts of the effected supplies under the terms of distance selling for every individual Member State separately. Retailers will thus track their turnover from distant selling so that they will not fail to meet their obligation to register under the VAT Act of another Member State.⁸ To facilitate the process of accounting and tracking turnover, it is advisable to account analytically turnover from distant selling in different countries in order to comply with the requirements and deadlines for VAT registration in different Member States. Where a retailer sells goods to foreign taxable persons or non-taxable legal entities, the sale qualifies as an inter-community delivery of goods, since the provisions of Art. 7, Para. 1 of the Regulations for the Application of the Value Added Tax (RAVATA) will apply. The place of performance of inter-community deliveries of goods is the territory of the home country and they are charged a zero VAT rate. Nevertheless, retailers need to comply with the provisions of Art. 45 of the RAVATA: when goods are shipped from their country to another Member State by a third party at the expense of the retailer, a written confirmation for verifying an inter-Community delivery shall not be allowed. Such deliveries shall be confirmed by an invoice issued by the supplier stating the VAT registration number of the recipient of the goods. In addition, the seller of the goods will be required to present a shipping document (an

⁸ See: <https://www.megabalans.com/blog/item/61-onlain-targoviya-sas-stoki-i-neinoto-tretirane-spored-zdds>

SOME SPECIFIC ASPECTS OF DOCUMENTING, ACCOUNTING ...

international bill of lading) which has been duly signed and sealed and states the date and the place of the delivery.

The sale of goods to customers in a non-EU country is treated as exports. Such sales qualify as taxable deliveries with zero tax rate, in compliance with the provisions of Art. 28 of the VATA. The documents that a company must present in such cases are listed in Art. 21, Para. 1 of the RAVATA - in addition to an invoice and a bill of lading, a customs declaration is also required to confirm the export of goods.

Conclusion

The paper presents up-to-date information and analyses major issue and regulations in terms of the requirements to starting an online shop. It also focuses on some specific moments related to the documentation, accounting and taxation of the activity of an online shop.

The author acknowledges the fact that there are a number of issues that need to be explored further, due to the dynamic nature of the subject matter and the immense interest of the business in it. Undoubtedly, there will be further changes in processes of exercising tax control and accounting of this type of business so as to reflect the complex nature of e-commerce.

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<http://www.nsi.bg/bg/content/2722/%D0%B8%D0%BD%D1%84%D0%BE%D1%80%D0%BC%D0%B0%D1%86%D0%B8%D0%BE%D0%BD%D0%BD%D0%BE%D0%BE%D0%B1%D1%89%D0%B5%D1%81%D1%82%D0%B2%D0%BE>

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