European Commission publishes proposals for VAT in digital age 2/4/23


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On 8 December 2022 the European Commission (EC) published proposals for amending the VAT directive (2006/112/EC) and Council Implementing Regulation (EU) No 282/2011. The proposals are designed to modernise the EU VAT system in the digital age, make it work for companies, and render it more resilient against fraud. The proposals also aim to address VAT issues caused by the platform economy.

The EC believes the 30-year-old VAT rules on cross-border trade are not fully adapted to problems of the digital age, and must be amended to ease the administrative burden and related costs in companies via digital technology, while also preventing fraud.

The EC says that according to the recently published VAT gap indicators, the member states lost EUR 93 billion in VAT revenues in 2020. Cautious estimates suggest that a quarter of the missing revenues may be directly attributed to VAT fraud associated with EU internal trade. And the EU VAT regime may still be cumbersome for companies, in particular small and medium ones, as well as other companies engaged in or wishing to expand their cross-border transactions.

According to EC assumptions, the new proposals will help the member states annually collect up to EUR 18 billion more in VAT revenues, while helping companies develop.

Transition to real-time digital reporting based on e-invoices for companies engaged in cross-border transactions

The new system will introduce real-time digital VAT reporting based on e-invoices, which will provide the member states with valuable information they need to intensify the fight against VAT fraud, in particular carousel fraud. The transition to e-invoices is expected to cut VAT fraud by up to EUR 11 billion a year and EU traders' administrative costs by more than EUR 4.1 billion annually over the next ten years. The new system will provide a single approach across the EU, which can be used in creating digital reporting systems for domestic transactions.

In its proposal, the EC announced a two-stage approach to modernising VAT reporting obligations through e-invoicing:

- From 1 January 2024 the VAT directive will permit the member states to lay down obligations for implementing e-invoices based on the EU minimum standard for content and syntax format (the currently known B2G invoicing standard).
- From 1 January 2028 e-invoices will become mandatory, with exclusions adopted by the member states (i.e. allowing the use of paper invoices, except for EU B2B transactions). In EU B2B cross-border transactions, e-invoices will become mandatory and have to be issued within two working days after a supply of goods or services (near real-time reporting).

Also, from 1 January 2028, current summary statements (Annex VAT2 "Report on intra-Community supplies of goods and services") are to be replaced by real-time digital reporting on each transaction, not a summary on the customer. Data will have to be reported within two working days after an invoice was issued or due.

Expanding platform-economy participants' responsibility for charging VAT on passenger transport and short-stay accommodation services

Under the new rules, platform-economy participants in these sectors will be responsible for collecting and remitting VAT to the tax authorities in cases where service providers were released from their obligation to pay VAT (e.g. small companies or individual service providers). This will provide a single approach to accommodation and transport service providers across the EU, without imposing too heavy an administrative burden on them, as required by VAT rules in different member states in which they are established.

A single VAT register across the EU

Based on the existing one-stop shop (OSS) model with VAT reported on the OSS return, e-commerce companies selling goods to consumers in another member state may register for VAT in one member state only and carry out their VAT obligations there. However, the current VAT rules do not release e-commerce companies from their obligation to register for VAT in another member state, e.g. when moving goods to another member state. The new proposals will resolve this. According to EC estimates, this will allow companies, in particular small and medium ones, to save about EUR 8.7 billion in registration and administrative costs over a ten-year period.

The import one-stop shop (IOSS) special scheme will be set up as mandatory for particular platforms that facilitate sales to EU consumers.

The EC proposals are also expected to create single VAT registration for companies that are currently unable to do this, by extending the OSS scheme to the following transactions:

- In B2C supplies of goods when VAT is payable in a country that is not the supplier's registration country (e.g. sales on the domestic market, supplies of goods with assembly and installation, supplies of goods on ships, aircraft or trains, and gas, electricity or heating supplies)
- Supplies of goods under the margin scheme
- Intra-Community transport of own goods (including supplies of goods to a warehouse in another member state)

According to EC estimates, these proposals might be enacted between 2023 and 2028, subject to unanimous approval from all the member states. We will inform our MindLink subscribers once this is received and amendments to the VAT directive (2006/112/EC) and Council Implementing Regulation (EU) No 282/2011 are ready.