

# Proposals for amending VAT directive 2/23/24

On 8 May 2024, the EU Council published updated proposals for amending the VAT directive (known as VAT in the Digital Age – ViDA). The amendments are to be passed at an ECOFIN meeting on 21 June 2024. It's likely that the original deadlines will be postponed and the member states will have to pass some of the amendments into their national laws by 1 July 2027, some by 1 July 2028 and some by 1 July 2030. This article explores key changes and the timeline.

VAT is the most significant source of revenue for the member states. The tax gap<sup>1</sup> shrinks each year, yet it's still considerably large. Last year's studies show the EU tax gap shrank by EUR 38 billion – down to 61 billion in 2021 from 99 billion in 2020. In 2020 the European Commission embarked on its plan to improve and simplify the tax system in three main directions (pillars).

## Modernised VAT reporting – digital reports (first pillar)

EU transactions are to be reported digitally based on e-invoices. From 1 July 2030, e-invoices and digital reporting will be mandatory for intra-Community supplies and acquisitions of goods (except for deemed supplies and acquisitions) and for taxable intra-Community supplies and acquisitions of services where the customer is responsible for accounting for VAT (reverse charge).

Key changes to look out for:

- Structured e-invoices will have to meet the EU standard laid down by EU Directive 2014/55/EU on electronic invoicing in public procurement.
- Invoices will have to be issued within ten days after the transaction, and the customer's consent to e-invoicing is not required. Summary invoices can still be used (to be issued within ten days after the end of the month). An adjusting invoice will have to refer to the original invoice, and e-invoices will have to give bank account details.
- The member states will be permitted to introduce an e-invoice prepared to certain standards as a mandatory condition for deducting input VAT.
- Supplies of goods and services where the supplier issues an invoice will have to be digitally reported to the tax authorities on the invoice date. Where the customer issues an invoice, digital reporting will have to be done within five days after the invoice date. A customer that is responsible for accounting for VAT will have to report within five days after receiving an invoice (the member states will be permitted to introduce conditions for situations where an invoice is not received). Digital reporting will be required for each cross-border transaction, giving details from a tax e-invoice. The member states will be permitted to extend digital reporting to all transactions between taxable persons (B2B) in situations not governed by the new rules, such as local supplies. And the member states will be permitted to require e-invoices for domestic transactions without seeking EU approval.

## Platform transactions in accommodation and transport sectors – platforms as deemed suppliers (second pillar)

To minimise the disparity in VAT treatment between VAT-registered hotel or passenger transport service providers and non-VAT registered traders, the proposals make platforms responsible for accounting for VAT where the service provider does not charge VAT. From 1 July 2027, online platforms using an

electronic interface to facilitate short-term accommodation or passenger transport services will be treated as suppliers of those services. Accommodation and passenger transport services will be treated as supplied where they are actually performed. The member states will be permitted to regularly request supply details from the platforms. The member states will have the option to exclude from this scheme short-term residential lettings and passenger transport services supplied under a special scheme for small enterprises.

## Single VAT registration across the EU (third pillar)

From 1 July 2027, the OSS scheme is to expand so it can be used for deemed intra-Community supplies of goods (in particular applicable to keeping e-commerce inventories in another member state), for cross-border supplies of natural gas, electricity, heating and cooling, and for supplies with installation. The VAT scheme for supplies of goods to a warehouse in another member state will be phased out because these transactions can be reported in the OSS system.

These changes to the directive also provide for some smaller amendments, such as introducing special measures to link the IOSS VAT number with the unique consignment number and to fight tax fraud that involves abusing the IOSS. The proposals now also include clauses explaining how to adjust OSS VAT returns and some other amendments.

As stated above, these proposals have yet to be adopted. On adoption, changes will have to be made to the Latvian VAT Act. We will keep you informed of developments in this field.

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<sup>1</sup> The difference between the total amount of taxes that would be charged and paid if all taxpayers carried out their tax liabilities in full and the actual tax revenues.