

Common system of value added tax (VAT): rules for the digital age

2022/0407(CNS) - 08/12/2022 - Legislative proposal

PURPOSE: to update VAT rules in the digital age.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: Member States lost EUR 93 billion in VAT revenues in 2020 according to the latest VAT Gap figures also published today. Conservative estimates suggest that one quarter of the missing revenues can be attributed directly to VAT fraud linked to intra-EU trade. In particular, **the 30-year-old VAT rules for cross-border trade are not adapted to doing business in the digital age**, thus calling for reflection on how technology can be used to reduce administrative burdens and related costs for businesses and at the same time fight tax fraud.

Therefore, in its 2020 Action Plan for fair and simple taxation supporting the recovery, the Commission announced the legislative package ‘VAT rules for the digital age’. This proposal to amend Directive 2006/112/EC (VAT Directive) is part of that package.

This package has three main objectives:

- **modernising VAT reporting obligations**, by introducing Digital Reporting Requirements, which will standardise the information that needs to be submitted by taxable persons on each transaction to the tax authorities in an electronic format. At the same time it will impose the use of e-invoicing for cross-border transactions;
- **addressing the challenges of the platform economy**, by updating the VAT rules applicable to the platform economy in order to address the issue of equal treatment, clarifying the place of supply rules applicable to these transactions and enhancing the role of the platforms in the collection of VAT when they facilitate the supply of short-term accommodation rental or passenger transport services; and
- **avoiding the need for multiple VAT registrations in the EU** and improving the functioning of the tool implemented to declare and pay the VAT due on distance sales of goods, by introducing Single VAT Registration (SVR). That is, improving and expanding the existing systems of One-Stop Shop (OSS) /Import One-Stop Shop (IOSS) and reverse charge in order to minimise the instances for which a taxable person is required to register in another Member State.

CONTENT: the proposal aims to amend the current VAT rules in order to take full advantage of technological and digital advances to create an updated VAT system that is more resilient to criminal VAT fraud.

The main provisions of the proposal are as follows:

- **the introduction of a presumption of supplier regime in the short-term accommodation rental and passenger transport sectors of the platform economy:** under the new rules, platform economy operators in these sectors will be responsible for collecting and remitting VAT to the tax authorities where service providers do not do so, for example because they are a small business or an individual provider;

- **updated VAT rules for passenger transport and short-term accommodation platforms:** the new system introduces real-time digital reporting for VAT purposes based on e-invoicing that will give Member States valuable information they need to step up the fight against VAT fraud, especially carousel fraud. The proposal provides for the abolition of the possibility of issuing recapitulative statements.

- **the introduction of a single VAT registration across the EU:** building on the already existing 'VAT One Stop Shop' model for online shopping companies, the proposal will reduce the circumstances in which businesses wishing to sell to consumers in more than one Member State must register in other Member States. The proposal also obliges online platforms to register with the one-stop shop for imports, which will further improve compliance with VAT rules.

The Commission estimates that between 2023 and 2032, this approach should generate between EUR 172 and EUR 214 billion in net benefits, of which **EUR 51 billion in savings**. These savings include:

- EUR 41.4 billion from VAT reporting (EUR 11 billion from the removal of old reporting obligations, EUR 24.2 billion reduction of fragmentation costs;

- EUR 4.3 billion savings pre-filled VAT returns, and EUR 1.9 billion e-invoicing benefits);

- EUR 0.5 billion from streamlining and clarifications in platform economy area; and

- EUR 8.7 billion from removing VAT registration obligations. Environmental, social and business automation benefits, as well as benefits related to the functioning of the Internal Market (more level-playing field) and tax control efficiency are also expected.