

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

2022/0407(CNS) - 05/11/2024 - Amended legislative proposal for reconsultation

The Council adopted a **general approach** on the draft Council directive amending Directive 2006/112/EC as regards VAT rules as regards VAT rules for the digital age. Parliament is again consulted on the amended legislative proposal. The proposed directive is part of a package of new measures that will adapt EU value added tax (VAT) rules to the digital age.

It introduces new measures that will bring the EU's value added tax (VAT) rules into the digital age. With new rules on electronic invoices and real-time data reporting, as well as business carried out through digital platforms, this package of legislation will fight tax fraud, support businesses and promote digitalisation.

Digital VAT reporting

The new rules will enable the full digitalisation of VAT reporting obligations for cross-border transactions by 2030. A digital and real-time VAT reporting system will be set up using electronic invoices. Electronic invoicing will become the default system for issuing invoices, although Member States may allow other formats for domestic supplies.

Businesses will issue e-invoices for cross-border business-to-business transactions and automatically report the data to their tax administration. This system will be based on the existing European standard for e-invoicing in the area of public procurement. National tax administrations will then share the data through a new IT system that will be capable of providing analyses of suspicious activities.

This will provide Member States with quick and complete information on cross-border transactions that they can use to fight VAT fraud.

The EU system should be in place in 2030 and that all existing national systems should become interoperable with the EU system by 2035.

Platform economy

The platform economy has led to an unjustified distortion of competition between services provided through online platforms that are exempt from VAT and services provided in the traditional economy that are subject to VAT. This distortion has been most pronounced in the short-term accommodation rental sector and the road passenger transport sector.

Under the new rules, platform economy operators will be responsible for collecting and remitting VAT, in cases where their service providers do not pay VAT themselves (under the so-called 'deemed supplier' model). The platform will collect the VAT directly from the customer and remit it to the tax authorities.

The Council's draft expands the definition of short-term accommodation rental for tax purposes and giving Member States the possibility to exempt small and medium-sized enterprises (SMEs) from the deemed supplier rules.

One-stop shop for VAT registration

The Council's plan improves and extends VAT one-stop shops so that businesses do not have to carry out costly VAT registrations in each of the Member States where they operate.

The new rules will now extend the scope of the existing 'one stop shops' to business-to-consumer sales of certain items, like electricity or gas, which are conducted within a member state other than their own - not just cross-border supplies. This will include situations where companies simply want to move stock to another Member State in order to sell it there directly to consumers at a later stage.

This way, the expanded one-stop shop will allow even more businesses to fulfil their VAT obligations via a single online portal and in one language.

The Council agreed to shift the liability for the payment of VAT in business-to-business transactions from the supplier of a good or service to the buyer if that supplier is not established in the member state where the VAT is due (under the so-called 'reverse charge mechanism').