EU's VAT system further equipped to tackle fraud in e-commerce and to help small businesses grow

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The EU’s VAT system will be further equipped to tackle fraud in the e-commerce sector following new rules agreed by Member States today. Today’s agreement will for the first time make relevant data on online purchases available to anti-fraud authorities in their fight against VAT fraud in the sector, estimated at around €5 billion a year in the EU.

Further decisions taken by EU Finance Ministers in the field of VAT today will help to cut red tape for SMEs and will simplify VAT and excise duty rules for EU Member State armed forces.

"With a stream of proposals over the last five years, this Commission has been quietly building up a formidable track record in helping to simplify the EU's VAT system, reducing opportunities for fraud and making life easier for legitimate businesses. It’s clear that Member States are of the same mind when it comes to these aims, and I hope that this momentum can translate into large-scale reform of the entire legislation underpinning the system” said Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs.

VAT payment data to fight fraud in the e-commerce sector

The new rules agreed today will reinforce Member States capacity to fight against e-commerce VAT fraud, by ensuring that anti-fraud experts in EU Member States have access to VAT-relevant data held by payment intermediaries such as credit card and direct debit providers that facilitate over 90% of online purchases in the EU. Practically, payment service providers will be obliged to provide Member State authorities with certain payment data from cross-border sales, which anti-fraud specialists (the ‘Eurofisc’ network) can then access and analyse.

In turn, both EU and non-EU online sellers will be identifiable when they do not comply with VAT obligations.

Similar provisions in place in some Member States and other countries have already shown how such cooperation can have a tangible effect in tackling fraud in the e-commerce sector. The new rules will now need to be confirmed by the European Parliament before entering into force in January 2024.

Simpler VAT rules for SMEs

EU finance ministers also reached a political agreement on an update to already-existing special VAT rules for EU SMEs, giving more opportunity for cross-border activities. The new regime should reduce red tape and administrative burdens for small companies and create a level playing field for businesses regardless of where they are established in the EU, since a patchwork of approaches across the EU means that thresholds to qualify from VAT exemption vary.

The new rules will ensure a uniform domestic turnover threshold of €85,000 for companies doing business only in their own Member State and an EU-wide €100,000 threshold in turnover for SMEs doing business cross-border to be eligible for exemption in another Member State. Qualifying SMEs will be able to take advantage of further simplifications in dealing with VAT obligations such as registration and reporting. The new and improved VAT scheme for SMEs should enter into force in January 2025*.

VAT simplifications for Member State armed forces

The European Commission has also welcomed today's agreement on tax exemption measures to facilitate common defence efforts in the context of the EU's Common Security and Defence Policy (CSDP). The new rules will exempt supplies to armed forces from Value Added Tax (VAT) and excise duties when these forces are deployed outside their own Member State and take part in a European defence effort.

*Updated on 8/11 to reflect the correct date entry into force of the new VAT rules for SMEs

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