Questions and Answers: VAT in the Digital Age

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Why is the Commission putting forward this package?

The current EU VAT system for intra-EU trade is almost 30 years old and, despite some recent improvements, has not kept pace with technological advances, the digital economy, changes in business models, or globalisation.

At the same time, new figures released today show that the 'VAT Gap' (the difference between expected VAT revenues and those actually collected) stood at €93 billion in the EU in 2020. Conservative estimates suggest that one quarter of this figure can be directly attributed to VAT fraud linked to EU-trade, which remains a major problem in the EU. At a time when governments need sustainable revenues to help weather today’s economic uncertainty, we need to urgently accelerate efforts to mitigate these losses.

Businesses who want to take advantage of the Single Market, especially SMEs, currently have to grapple with up to 27 different national VAT systems, each with their own separate reporting obligations. This fragmentation can incur a considerable administrative burden and financial costs for companies trying to grow or dip their toes into other EU markets. At the same time, a lack of clarity on how the online platform economy should be treated for VAT purposes has led to an unfair playing field with the more traditional economy, especially in the accommodation and transport sectors.

To address these issues, the Commission committed in its 2020 Tax Action Plan to bring forward measures to modernise VAT reporting obligations, reinforce Member States’ ability to track cross-border transactions, move towards a single VAT registration in the EU for businesses, and update VAT rules for the platform economy.

What are you proposing?

The VAT in the Digital Age package takes full advantage of technological and digital advances to deliver on an updated VAT system that is more resilient against criminal VAT fraud. It will allow Member States to recoup €11 billion more every year over the next ten years in currently uncollected VAT revenues. At the same time, the proposal will help EU companies, especially SMEs.

In detail, the European Commission has put forward proposals for:

1. **A move to real-time digital reporting based on e-invoicing for businesses that operate cross-border in the EU and a harmonised framework for domestic transactions:** The new system introduces real-time, transaction-based digital reporting for VAT purposes, based on e-invoicing. Once operational, the system will give Member States valuable information they need to control cross-border transactions and step up the fight against cross-border VAT fraud, while reducing administrative and compliance costs for businesses. To make the best use of this data for VAT control and anti-fraud purposes, Member States will also be equipped with the appropriate administrative cooperation tools. The move to e-invoicing will help reduce VAT fraud by up to €11 billion a year.

2. **Updated VAT rules for passenger transport and short-term accommodation platforms:** Under the new rules, platform economy operators themselves will be deemed responsible for collecting VAT when service providers do not (because they are, for example, a small business not usually required to register for VAT) and for remitting this VAT to tax authorities. This, together with other clarifications, will ensure a uniform approach across all Member States and contribute to a more level playing field between online and traditional accommodation and transport services. It also makes life simpler for SMEs using the platforms as they will no longer need to understand and ensure compliance with VAT rules, often in other Member States.

3. **The introduction of a single VAT registration across the EU:** Building on the already existing ‘One Stop Shop’ model for e-commerce traders, today’s proposal will further reduce the circumstances in which businesses that want to sell to consumers in more than one Member State have to register in other Member States. With this reform, traders who operate cross-
border can opt to register in only one Member State for their sales to consumers across the EU and for their transfers of goods for storage in other Member States.

After registration in one Member State, they will then be able to fulfil their VAT obligations via a single online portal and interact solely with the tax administration of that Member State in one language, even though their sales are EU-wide. Smaller businesses, in particular those who want to scale-up, will benefit from the much simpler administration introduced by the new rules.

The proposal also makes it mandatory for online platforms to register for the Import One Stop Shop which will further improve VAT compliance.

Overall, the announced measures should help Member States to collect up to €18 billion more a year in VAT revenues over the next ten years. Businesses should save €5 billion a year in compliance costs overall in the same period.

**DIGITAL REPORTING REQUIREMENTS**

**How do companies in the EU currently account for their VAT?**

Currently, businesses selling across EU Member States need to submit a so-called 'recapitulative statement' to their national tax authority which provides a global overview of the goods and services they have sold to businesses in other EU Member States during that period and which are taxable in that Member State. That information is then shared with other Member States, which helps tax authorities to ensure that VAT is being accounted for and remitted correctly.

However, businesses are currently only obliged to complete recapitulative statements as little as four times a year in some Member States. Since VAT fraud can take place in the blink of an eye, these reporting requirements do not allow authorities to rapidly detect suspicious or fraudulent transactions. The information reaches the other Member States too late - up to four months later in the best-case scenario. Nor is the information detailed enough, seriously undermining Member States’ ability to fight criminal VAT fraud.

At the same time, some Member States have already introduced digital real-time reporting solutions for domestic transactions – with considerable success. But such individual action can in turn lead to fragmentation across the EU, translating into €4 billion a year on average burden for businesses and inefficiency in cross-border controls.

**How will the new system work in practice?**

Once the new rules are in place, EU companies will issue electronic invoices for cross-border business to business transactions, and report automatically to their tax administration on a subset of data from those invoices according to a European standard. They will no longer need to report monthly through 'recapitulative statements' as they do now, as this information will have been made available through their e-invoices.

To make the best use of the reported data, national tax administrations will share them through a new IT system which will also support joint analysis. At a stroke, the new system therefore makes sure that Member State authorities are fully informed of transactions in real time, allowing them to detect and address problems and instances of VAT fraud immediately. The removal of existing cumbersome reporting requirements and the move to e-invoicing will save EU businesses over €4.1 billion per year on average in compliance costs over the next ten years. E-invoicing also offers companies an opportunity to further automate their business and to optimise their supply chains.

Finally, the updated framework will allow all Member States to introduce mandatory e-invoicing for domestic business to business transactions, if they so wish, provided that the same European standard is made available to businesses. Currently, Member States need to seek and be granted a derogation from the current VAT Directive in order to allow this. For Member States that have already implemented a domestic e-invoicing system, the proposal foresees that reporting requirements should converge with the new pan-EU reporting standard by 2028, leading to further savings for companies.

**What is Missing Trader fraud and how will the new reporting system help to address it?**

VAT missing trader fraud or Missing Trader Intra-Community Fraud (MTIC) (also called carousel fraud when it repeats just like a carousel) exploits the fact that VAT is not immediately charged on business-to-business transactions of goods between EU Member States (i.e. the supplier does not have to charge VAT on his transaction and the acquirer has to account for the VAT due).

For instance, when a VAT registered trader buys goods from another Member State, he does not pay VAT to the supplier but is required to charge and account for VAT on his acquisitions in his own Member State.
On the other hand, suppliers do not have to apply VAT on their sales and have the right to reclaim the VAT they have already paid. Fraudsters can take advantage of the system by acquiring goods free of VAT and reselling them on the domestic market inclusive of VAT, and at a lower price than competitors.

Fraud takes place when that VAT is not passed on to the national authorities. The first company in the chain in the Member State of acquisition (the Missing Trader) can simply disappear, taking the collected VAT with him. This kind of fraud happens very fast. Missing Traders can disappear after a few months making the detection of fraud, and the subsequent enforcement of the missing VAT a real challenge for tax authorities that – currently – rely on monthly or quarterly information from taxpayers.

By ensuring that the Member States concerned have real-time digital reporting information on cross border transactions of goods and services, they will be in a much better position to crack down more quickly and to address this fraud.

**VAT IN THE PLATFORM ECONOMY**

**How is the platform economy currently treated for VAT purposes?**

The platform economy has boomed in recent years, with online platforms acting as an intermediary between the suppliers of certain services and consumers. Under current VAT rules, it is the underlying providers of services, e.g. the person renting out an apartment, who is obliged to collect and remit VAT to the tax authorities.

But many underlying suppliers – whether an individual person or a small business - are unaware that they may be liable for VAT on the services they offer. Even when aware, it can be difficult to acquaint themselves with the VAT system and to comply with their VAT obligations.

At the same time, the economies of scale and sheer number of users of these platforms, particularly in the accommodation and passenger transport sectors, mean that these providers are now in direct competition with traditional VAT registered suppliers such as hotels and private transport companies.

**What will change?**

The new rules announced today clarify that intermediary platforms in the short-term accommodation and passenger transport sectors must ensure VAT collection and remittance on the sales they facilitate when the underlying supplier has not done so. This will remove the current inequality in the area of VAT suffered by traditional operators in these sectors. In addition, estimates show that this simple change should bring in up to €6.6 billion per year in additional VAT revenues for Member States over the next ten years. Similar provisions are already up and running in other parts of the world, including in Canada, and are operating smoothly.

In parallel, and by standardising the information that must be provided to authorities, the platforms themselves will collectively save €48 million per year over the same 10-year period.

SMEs who rent property in another Member State through an online platform, and who may be required to register and charge VAT in that Member State, will also benefit. Under the new rules, the platform will be able to account for this VAT on behalf of the SME.

Finally, the new proposal clarifies definitively that the short-term rental of accommodation is not exempt from VAT in the EU.

**How will it work in practice?**

Under the current VAT rules, a hotel in a large European city, for example, faces competition from a platform which may facilitate thousands of listings in the same city, many of which are not taxed.

Under the new rules, where the underlying supplier of passenger transport or short-term accommodation does not charge VAT, the platform will charge VAT on their behalf. The platform will collect the VAT from the customer and remit it to the tax authorities. Day-to-day operations of underlying suppliers is not affected: VAT is simply automatically added to the price shown on the platform.

As with other businesses dealing with cross-border supplies, where the supply is in a Member State in which the platform is not established, they will be able to declare the VAT via the existing simplification measures, such as the OSS and the reverse charge.

**SINGLE VAT REGISTRATION IN THE EU**

**How has the EU’s VAT system kept pace with the digital age when it comes to VAT registration?**
Huge progress has been made in recent years to make the EU’s VAT system as easy as possible to use for companies that sell to consumers across the EU, in particular online. Since July 2021, a new online system (the ‘One Stop Shop’ – or OSS - and ‘Import One Stop Shop’ – or IOSS - portals) allows businesses to declare and remit the VAT due on their cross-border sales of goods and services to consumers within the EU via one Member State administration and in one language (see separate question below).

But some traders who want to sell goods to consumers within a Member State other than their own still need to register in those other Member States for VAT purposes. The same problem affects traders who simply want to move stock to another Member State for storage. Registering for VAT can be time consuming and expensive, costing a minimum of €1,200 per Member State - particularly costly for SMEs, start-ups and businesses looking to scale-up.

**How will you address the issue?**

Now we need to go one step further by expanding the OSS to include additional sales, thereby giving businesses the possibility to register only once in one Member State for their supplies across the EU, including when they simply want to move stock to another Member State in order to be sold there directly to consumers at a later stage.

The expanded ‘One Stop Shop’ will allow them to take care of their VAT obligations via a single online portal and in one language.

Furthermore, by extending the deemed supplier provision, online platforms will also collect the VAT due in respect of sales via their platforms made by EU established traders, thereby further simplifying VAT obligations for these EU traders, especially SMEs. Estimates show that businesses, 93% of them SMEs, will save €800 million annually in VAT registration-related costs.

Under the proposal, companies in one Member State holding stock in another will also be able to sell goods on to another company in the second Member State, where the recipient business will account for VAT in that Member State (according to the reverse mechanism) without the supplier needing to register separately for VAT purposes. Companies in this situation currently have to register for VAT in other Member States just to sell that stock on to another business.

**Example 1:**

Today, a flowers and plants wholesaler based in France who has stocks of seeds and plants in Germany, Spain and Poland for sales to consumers at a later date, needs to register and comply with VAT administration rules in each of these Member States.

Under the new system, this wholesaler will have the possibility to register only once for VAT across the entire EU and will be able to take care of all his VAT administration via the online portal, in only one language. This will save him money and time that he can invest in his business.

**Example 2:**

If the same wholesaler wants to sell to other businesses in the Member States in which he holds his stocks, he will be able to apply the reverse charge mechanism. This will allow him to avoid registration in those Member States as the business acquiring the goods will declare and pay the VAT due.

**What changes for online platforms selling into the EU?**

The new proposal also makes it mandatory for platforms selling goods from third countries to consumers in the EU to register for the IOSS. This move will further ensure that VAT is being charged on all eligible goods sold into the EU, in turn securing revenues for Member States and bringing a more level playing field for EU businesses.

Separately, online platforms that facilitate the sale of goods to a final consumer in the EU will become responsible for the collection and remittance of VAT (‘deemed supplier’), whether they are located inside or outside of the EU. Furthermore, platforms will also become the deemed supplier for transfers of underlying suppliers' goods to other Member States, prior to their sale. OSS simplification options are also available for platforms to declare and pay the VAT due on all such supplies.

**What other changes are being proposed today to improve the One Stop Shop system?**

The ‘One Stop Shop' (OSS) and ‘Import One Stop Shop' (Import OSS) allows businesses to declare and remit the VAT due on their sales on goods and services within the EU, and on imports of low-value goods into the EU.

In that vein, the system was designed to simplify VAT compliance for cross-border online shopping
sales and introduce greater transparency for EU shoppers when it comes to pricing and consumer choice. It also contributes to a fairer and simpler system of taxation in the EU, and to the modernisation of VAT in line with the realities of the e-commerce market.

Figures emerging following an ex-post evaluation of the first 6 months of application of the e-commerce package point to a successful implementation of the new system with Member States collecting approximatively €8 billion in VAT revenues via the OSS and IOSS portals, which equates to approximately €16 billion on an annual basis.

Now that the OSS and IOSS systems are fully up and running, the Commission is today proposing further targeted simplifications that can offer an even better experience for e-commerce traders and customers. Those are:

- Updating the systems to reflect the entry into force of new VAT rules governing VAT rates and the VAT scheme for SMEs
- Faster and more efficient correction process
- Improved exchanges of information between tax and customs authorities.

For more information

Press release
Questions and Answers: VAT GAP 2022 report
Factsheet on VAT in the Digital Age proposals
Factsheet on the VAT Gap 2022 report
More information on the DG TAXUD website on the VAT in the Digital Age proposals (including legislative texts)
More information on the DG TAXUD website on the 2022 VAT Gap report

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