



Will EU succeed in making VAT compliance easier for businesses?

Businesses operating across EU are struggling with administrative requirements and differing VAT compliance obligations in various EU Member States (MSs).

The European Commission (EC) plans ambitious reforms to harmonize the rules of VAT determination and compliance in the EU but will it succeed to achieve consensus and support from MSs for its proposals?

On 20 October, the EC confirmed in its latest 2021 work plan that it would shortly be initiating the next rounds of its 'VAT in the Digital Age' reforms.

Background

Businesses trading across EU or placing their inventory in MSs, have to register for VAT in all MSs where they hold stock or have intra-EU supplies or acquisitions. This is costly and leads to inefficiencies. In addition, several MSs have introduced their own e-invoicing or reporting systems. Complying with all those systems and differing EU rules is costly for businesses operating internationally.

The EC plans ambitious reforms to harmonize the rules of VAT determination and compliance in the EU but will it succeed to achieve consensus and required support for its proposals?

Tax Package

EC presented its **Tax Package** in July 2020.

It includes 25 VAT and other tax reforms, including: extension of the **OSS** return, **gig and sharing economy** reforms; review of **financial services** exemption.

A number of these reforms will go forward under the **EU VAT in the Digital Age** program adding to EU e-commerce VAT package of July 2021, and other EU VAT reforms in progress (e.g. EU definitive VAT system planned for 2022 where no consensus is achieved so far).

EC Agenda for 2022/2023:

- Single EU VAT registration;

- Modernizing VAT reporting obligations, use of e-invoicing and new technologies;
- Further extending the scope of the VAT One Stop Shop;
- More consistent determination of tax residence (fixed establishment for VAT);
- Reinforcing verifications of cross-border transactions;
- Adapting the VAT framework to the platform economy.

Legislative proposals expected already in October 2022

EC announced that roadmaps and impact assessments will be provided with opportunities to comment in November 2021 and proposed Directive amendments to enacted reforms will follow in **Q3 of 2022** after public consultations. New rules are aimed to be enacted by the end of **2023** or in **early 2024**.

The main areas of reform are:

- Extension of OSS single VAT registration to all B2C and B2B;
- Recommendations on the real-time live reporting and e-invoicing; and
- Harmonizing VAT treatment of the platform economy - gig and sharing marketplaces

1. Single EU VAT registration

EC plans to introduce a single pan-EU VAT return to reduce the number of VAT registrations for businesses operating across EU. This would cover cross-border B2C cases where the OSS does not apply, and some or all B2B goods transactions. EC plans to allow stock transfers to be reported in so-called 'OSS 2.0. return'. Domestic sales from distribution hubs could be reported in OSS 2.0. return. Draft VAT Directive proposals would be published in Q3 of 2022 (after public consultations) for implementation at the end of 2023 or start of 2024.

2. E-invoicing and transaction-based reporting

EC is looking at three options for transaction-based reporting:

- Transaction data stored by taxpayer;
- Transaction data stored by national tax office; or
- Transaction data held at EU level.

The EC is also looking at harmonizing e-invoicing standards across the member states.

3. VAT treatment of the platform economy

EC is looking at ways how EU MSs could adapt their tax systems to reflect the new role taken on by Electronic

Interfaces (EIs) - platforms and marketplaces which have enabled millions of private individuals to provide services and goods for the first time. How should the VAT Directive be modified to capture the new dynamics created by the gig and sharing economies, as well as part of the e-commerce for goods' sector not yet addressed by other EU VAT reforms? The EC wishes to:

- Provide certainty on the tax liabilities for this new sector for providers, users and EIs to prevent double taxation;
- Keep compliance efficient and light to reduce the burden and costs for taxpayers and tax authorities alike;
- level the playing field for the traditional economy; and
- protect MS' tax bases, avoid non-taxation.

This work is being coordinated with the OECD.

Grant Thornton's international indirect tax team and digital advisory team can assist you in your VAT refund claims as well as in any other VAT / customs matters, compliance and update of your systems and processes. Please contact us if you would like to discuss your options and possibilities.

Contact

Do you have questions or do you need more detailed information? Please do not hesitate to contact us.

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