

CALL FOR EVIDENCE FOR AN IMPACT ASSESSMENT

This document aims to inform the public and stakeholders on the Commission's future legislative work so they can provide feedback on the Commission's understanding of the problem and possible solutions, and give us any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	VAT in the digital age
LEAD DG (RESPONSIBLE UNIT)	DG TAXUD, Unit C1 - Value added tax
LIKELY TYPE OF INITIATIVE	Legislative proposal
INDICATIVE TIMETABLE	Q3-2022
ADDITIONAL INFORMATION	–

This document is for information purposes only. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described, including its timing, are subject to change.

A. Political context, problem definition and subsidiarity check

Political context

VAT is a [major source of revenue](#) for Member States' budgets, representing approximately 7% of GDP and an important own resource for the EU. In 2019, the EU-27 VAT revenue amounted to over one trillion euro, but revenue loss was [estimated at EUR 134 billion](#). A significant part of this loss consists of fraud, in particular [missing trader intra-community](#) (MTIC) fraud, estimated in the range of [EUR 40-60 billion](#). The VAT system is not only prone to fraud, but has also become increasingly complex and burdensome for businesses. These 30-year-old VAT rules 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.

In its [action Plan for fair and simple taxation supporting the recovery](#), the Commission [announced](#) a legislative package – *VAT in the digital age* – for 2022. The action plan aims to modernise VAT reporting obligations and facilitate e-invoicing, update the VAT rules for the platform economy and move to having a single VAT registration in the EU.

Problem the initiative aims to tackle

The digital economy and the development of new business models create new challenges for tax administrations. The legislative framework is unable to deal properly with the new digital reality and is prone to fraud. To address these issues, three areas have been highlighted:

1. Digital reporting requirements, including e-invoicing

Many Member States, pressed by the magnitude and importance of losing revenue when they need it the most to support the economy and recover after the COVID pandemic, are introducing different digital reporting obligations domestically. This uncoordinated growth in reporting obligations creates substantial new compliance burdens for businesses operating in different Member States and increases the risk of fragmentation, hindering the operation of the single market. The current rules do also not allow for the mandatory use of e-invoicing.

2. VAT treatment of the platform economy

Current VAT rules are ill-equipped to deal with the challenges of the platform economy, e.g. ensuring fair taxation of both online and traditional economic transactions, and ensuring Member States take a uniform approach to the application of the VAT rules regarding the provider, nature of services, place of supply and reporting in the light of the divergent and evolving business models.

3. Single VAT registration in the EU

The newly introduced OSS ([one-stop-shop](#)) allows businesses to avoid multiple VAT registrations in the EU for cross-border transactions. However, specific types of cross-border transactions still fall outside of its remit (e.g. supplies with installation, e-mobility). Improvements to the IOSS ([import one-stop shop](#), covering imports from outside the EU) are also needed to further strengthen VAT compliance in relation to imported goods.

Basis for EU action (legal basis and subsidiarity check)

<p>Legal basis</p>
<p>The Treaty on the Functioning of the European Union, Article 113, gives the EU the right to act and adopt provisions to harmonise legislation in the area of indirect taxation, including value added tax.</p> <p>The legislative proposal must be adopted at Union level, as it amends existing Union VAT legislation governed by the VAT Directive (Directive 2006/112/EC).</p>
<p>Practical need for EU action</p>
<p>The problems at stake concern the application and control of VAT rules in relation to cross-border sales of goods and services; given the cross-border nature of the problems, a common European solution is needed. The intra-community dimension of VAT fraud calls for EU intervention regarding reporting obligations. The size of the VAT gap indicates that national instruments are not sufficient to fight cross-border and e-commerce fraud, as proved by the estimated fraud due to MTIC, which can only be fought efficiently and effectively by coordinated action at EU level. Further simplifications and harmonised VAT rules are needed to help businesses benefit from the potential of the single market.</p>
<p>B. Objectives and policy options</p>
<p>The objective of the initiative is to ensure the proper functioning of the single market, to reduce compliance costs for businesses and to protect the financial and economic interests of the EU and its Member States by combating VAT fraud and ensuring tax equality and neutrality.</p> <p>This will involve:</p> <ul style="list-style-type: none"> • making compliance with VAT rules easier for EU businesses, particularly those working in the digital economy and those carrying out cross-border trade; • laying down a framework which helps tax administrations to fight VAT fraud, in particular MTIC fraud; • preventing regulatory failure and market fragmentation; • ensuring fairer treatment of both traditional and platform economies. <p>The policy options are:</p> <ol style="list-style-type: none"> 1. Digital reporting requirements, including e-invoicing <p>The policy options will look at the introduction of partial (limited to cross-border transactions) or fully harmonised (covering domestic and cross-border transactions) digital reporting requirements, including e-invoicing. A further option could be to introduce data storage obligations that will require taxpayers to record transactional data using a pre-determined format and provide information only upon request.</p> <ol style="list-style-type: none"> 2. VAT treatment of platform economy <p>The policy responses range from clarifying the existing VAT rules to ensure a more uniform approach to these new business models, to considering whether platforms could play an active role in the collection of VAT.</p> <ol style="list-style-type: none"> 3. Single VAT registration in the EU <p>The policy options are to: (i) extend the scope of the one-stop shop (OSS) to include not yet covered business-to-customer supplies; (ii) combine the OSS with simplification measures for intra-EU business-to-business supplies; and (iii) extend/improve the import one-stop shop (e.g. eliminating the EUR 150 threshold and making use of the IOSS mandatory).</p>
<p>C. Likely impacts</p>
<p>For digital reporting requirements, costs linked to the introduction of new reporting obligations are expected, but the reduction of 'fragmentation costs' related to differences in jurisdictions' data reporting requirements would benefit all businesses. This part of the initiative will require the highest level of new IT investments and may require a longer implementation period. Depending on the level of centralisation of the IT infrastructure to be built, implementation may run until 2030. However, Member States investing in their IT would benefit from a more efficient tool to fight against fraud and make good use of the data to provide better services to taxpayers. This would be a game changer in the fight against fraud.</p> <p>For the VAT treatment of the platform economy, the increased obligations and associated burden will be limited to platforms and businesses providing services facilitated by the use of a platform, especially in areas such as transportation and accommodation. This impact may be offset by the more uniform treatment of the VAT rules. Traditional service providers would benefit from a more level playing field.</p> <p>It is expected that having a single VAT registration in the EU will lead to lower compliance costs, especially in specific economic sectors such as the installation and assembly of goods, supplies of gas, electricity, heat or cooling energy and e-mobility, where the need for multiple VAT numbers is common under the current system.</p>

D. Better regulation instruments

Impact assessment

The assessment will be carried out in the first quarter of 2022 and will support the legislative initiative. The current situation and likely impacts of a number of policy options will be assessed. The impact assessment will also assess whether an approach that is more limited in scope would still adequately address the issues. The impact assessment will benefit from the findings of an independent study. Particular attention will be paid, in close cooperation with Member States, to the IT component, its operational feasibility and overall interoperability, allowing for an adequate implementation period for businesses and Member States. Particular attention will also be given to quantifying related administrative burdens.

The administrative impact of new rules on the authorities, businesses and the public will be quantified and the possibility of removing existing reporting obligations will be assessed in line with the introduction of digital reporting requirements.

The current EU VAT legislation does not contain any provisions referring to digital reporting requirements and the treatment of the platform economy. The VAT e-commerce package introduced new rules for single VAT registration system in July 2021. Subject to data availability, a targeted evaluation will be conducted, covering the preliminary assessment of the implementation of the VAT e-commerce package; the evaluation will be presented in an annex to the impact assessment.

Consultation strategy

The consultation of various stakeholder categories aims to: collect data on the application of VAT rules regarding the three areas under consideration, and gather necessary knowledge to assess various policy options.

The consultation is broadly split into two parts, a public consultation and a targeted stakeholder consultation. The public consultation is available via the ['Have your Say' website](#) for a 12-week period. It is based on a [questionnaire](#) available in all official EU languages, to which respondents can reply in any official EU language. This consultation welcomes position documents. The public consultation is promoted on the website of the European Commission's Directorate-General for Taxation and Customs Union (DG TAXUD) and on social media. The targeted consultation uses dedicated channels (interviews, position documents, expert groups, workshops, etc.) to capture predominantly the views of national authorities and businesses.

A report summarising the results of the public consultation will be published on the consultation page, while a synopsis report analysing results of all consultation activities will be annexed to the impact assessment report.

Why we are consulting?

The consultation seeks stakeholders' views on whether the current VAT rules are adapted to the digital age, and on how digital technology can be used both to help Member States fight VAT fraud and to benefit businesses.

Views are sought on: (i) VAT reporting obligations and e-invoicing; (ii) the VAT treatment of the platform economy; and (iii) the use of a single EU VAT registration.

Target audience

The public consultation seeks general public views. In addition, the list of targeted stakeholders includes: business federations, SMEs, trade associations, companies, Pan-European and national service providers, platform, e-commerce and cross-border operators, postal operators and express carriers, international organisations, e-invoicing providers, national tax and customs authorities, brokers, academia, practitioners and tax advisers.

Direct link to the questionnaire: <https://ec.europa.eu/eusurvey/runner/digiVAT>