



Important EU VAT reforms gain support by the member states as well as by the European Parliament

The EU plans ambitious reforms to further harmonize the rules of VAT determination and compliance in the EU.

Will it succeed to achieve consensus and support from EU member states for its proposals?

French Presidency of the EU plans to push for harmonized B2B e-invoicing across the EU.

German new government aims to implement an electronic reporting system.

Various other member states (e.g. Ireland and Sweden) are discussing possibilities to harmonize digital reporting requirements (DRR) in the EU.

On 16 February 2022, the European Parliament voted in favour of harmonising pan-EU e-invoicing and the adoption of the EU definitive VAT system.

Background

Businesses trading across EU or placing their inventory in various EU member states, have to register for VAT in all member states where they hold stock or have intra-EU supplies or acquisitions. This is costly and leads to inefficiencies. In addition, several member states have introduced their own e-invoicing or reporting systems. Many EU member states have an e-invoicing system or plan to implement one (e.g. France is planning to implement their own e-invoicing system in 2024). While e-invoicing has helped countries increase VAT compliance, differences between e-invoicing systems and various digital reporting requirements from country to country can make it difficult for businesses to keep up. E-invoicing is not always easy to comply with as businesses have to submit data in real time or near-real time about their transactions. Complying with all those systems and differing EU rules is costly for businesses operating internationally.

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 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).

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.

EC Consultation / Survey

In January 2022, the EC initiated consultation in three areas (see more details below). Everybody has a possibility to submit their views until 15 April. The survey consists of more than 40 questions, most of which ask contributors to rate the statements or options. You can reach the survey through the following link: [EU Survey - Survey \(europa.eu\)](https://europa.eu/eu-survey).

The main areas of reform where the opinion of the public is asked are as follows:

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

The EC aims to find out whether it should keep the status quo with some non-legislative interventions (i.e. non-binding guidelines from the EC) or push for a full harmonization of VAT reporting requirements. Full harmonization would mean member states with existing systems would have to ensure their interoperability and midterm convergence to the harmonized EU system,

Legislative proposals expected already in October 2022

EC announced that roadmaps and impact assessments will be provided with opportunities to comment 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 as follows:

1. E-invoicing and transaction-based reporting

The EC is considering various options for harmonized transaction-based reporting:

1. Harmonized data storing requirements - requiring taxpayers to record data about their VAT transactions in a standard digital format, which tax authorities can access upon request;
2. Harmonized DRRs, which consists of two sub-options depending from for which transactions the harmonization is achieved:

2A Harmonizing DRRs for intra-EU transactions

- The introduction of an EU DRR for intra-EU transactions;
- Recapitulative statements removed;
- DRRs remain optional for domestic transactions;
- New DRRs will conform to the EU DRR;
- Existing DRRs will ensure interoperability, then converge in the medium-term.

2B Harmonizing DRRs for all transactions

- The introduction of an EU DRR for both intra-EU and domestic transactions;
- Recapitulative statements removed;
- Existing DRRs will ensure interoperability, then converge in the medium-term.

Centralized vs non-centralized clearance

It is also being discussed which path to follow, i.e. whether to introduce Italian style centralized pre-clearance system or a non-centralized system.

Italy introduced e-invoicing with centralized clearance a few years ago. Several countries such as Hungary have introduced e-invoicing with non-centralized clearance.

Spain and Poland are planning to introduce a pre-clearance model.

2. 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.

3. VAT treatment of the platform economy

EC is looking at ways how EU Member States 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 Member States' 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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