



The European Parliament backs important EU VAT reforms

On 16 February 2022, the European Parliament (EP) voted in favour of harmonising pan-EU **e-invoicing** and expanding the scope of the VAT **One-Stop Shop (OSS)**.

The EP calls for a move towards **the definitive VAT system** which means a move to charging VAT on intra-EU movements of goods based on the destination country.

The move to **the definitive VAT system** means that the businesses need to report and pay VAT of all the EU Member States (MSs) where they have (cross-border) B2B sales instead of reporting zero-rated intra-Community supplies in the MS of departure and their business purchaser self-charging VAT on the purchase as under current system.

In order to ease the VAT compliance of the businesses operating cross-border in the EU and make it possible for them to report VAT of all those various EU MSs of destination of their goods, the move to **the definitive VAT system** needs to be accompanied by harmonizing of pan-EU **e-invoicing systems** and expanding of the **OSS**.

Background

Businesses trading across EU or placing their inventory in various EU 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 (e.g. Italy, Hungary and Greece) or digital reporting systems (e.g. SII in Spain). Many EU MSs plan to implement e-invoicing in near future (e.g. France in 2024).

While e-invoicing has helped countries to increase VAT compliance, differences between e-invoicing systems and various digital reporting requirements from country to country 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 EU plans ambitious reforms to further harmonize the VAT determination and compliance in the EU.

The **transitional VAT system** was adopted in 1992 for Business-to-Business (B2B) transactions, which means that the cross-border movement of goods is split into two different transactions: an exempt supply in the MS of departure of the goods and an intra-Community acquisition taxed in the MS of destination.

The move to the **definitive VAT system** means that (B2B) cross-border supplies would be taxed in the MS of destination. VAT would be charged by the supplier at the rate of the MS of destination of the goods. This means that the businesses need to report and pay VAT of all the EU MSs where they have (cross-border) sales. In order to ease the VAT compliance of the businesses operating cross-border in the EU and make it possible for them to report VAT of all those various EU MSs of destination, the move to **the definitive VAT system** needs to be accompanied with harmonizing of pan-EU **e-invoicing systems** and expanding of the **OSS**.

The European Commission (EC) plans ambitious reforms to harmonize the rules of VAT determination and compliance in the EU but in order to succeed in adopting all those necessary reforms, the EC needs to achieve consensus and support from EU MSs and institutions.

A positive step in this directions is that the EU French Presidency recently announced its plans to push for harmonized B2B e-invoicing across the EU.

The European Parliament voted in favour of VAT reform

The European Parliament (EP) passed on 16 February the resolution, which support most importantly the following changes in the EU.

Implementing the definitive EU VAT system

The resolution urges the European Council to adopt as soon as possible the proposal on a definitive VAT system that highlights the principle of taxation in the country of destination, based on a [proposal of 25 May 2018 to amend the VAT Directive](#). It stresses the need to move to a definitive VAT system based on the principle of taxation in the country of destination; urges the Council to adopt, as soon as possible, the proposal for a directive of 25 May 2018.

Harmonizing of E-invoicing and digital reporting

The EP stands for the expansion of e-invoicing and calls for the introduction of an EU e-invoicing standard harmonising, in particular, the information contained in an e-invoice in order to facilitate cross-border interoperability, ensure legal compliance, increase transparency in commercial transactions and thus limit fraud and errors.

The EP calls on the EC to present concrete proposals to promote a quicker system of exchange of information on intra-EU VAT transactions and to make it interoperable with national mechanisms.

The EP notes that there is a considerable VAT gap in the e-commerce sector; invites the Commission to study the conclusions of the European Court of Auditors' special report on the matter, in order to close the VAT gap.

Single VAT return

The EP:

- takes note of the willingness of the EC to propose, for 2022/2023, an amendment to the VAT Directive with a view to further expanding the scope of the VAT One-Stop Shop (OSS) and

calls on the EC to explore how to expand the scope of the OSS.

- supports the idea of expanding the scope of the OSS, which has been in place since 2015, to the declaration and payment of VAT; underlines the need to specifically target the adaptation of the OSS at the expanding e-commerce market;

Legislative proposals already in October 2022

In January 2022, the EC initiated public consultation with a possibility to submit views until 15 April. You can reach the survey through the following link: [EU Survey - Survey \(europa.eu\)](#).

The EC announced that 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**.

E-invoicing and DRRs

The EC is considering various options for harmonized transaction-based reporting, e.g. :

A 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.

B 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 in near future. France is planning to implement a mandatory B2B e-invoicing system where invoices are validated by a Certified Provider prior to being reported to the government.

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.

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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