VAT in the digital age
Response to the call for feedback

EuroCommerce welcomes the opportunity to provide feedback on the VAT in the Digital Age proposal of the European Commission. We fully support the European Commission's ambition to improve the VAT system through the use of digital tools, reducing VAT-related barriers for cross-border trade in the EU and making the VAT system better for businesses, while also becoming more resilient to fraud.

We believe the VAT in the Digital Age proposal is well placed to embrace digitalisation, and effectively addresses the challenges faced by businesses (and in particular by SMEs) who trade, or have ambitions to trade, across EU borders.

The key aspects from a commerce perspective are:

- **The expansion of the Union One Stop Shop ('UOSS') and the introduction of a transfer module allowing businesses to use one single VAT registration to report transfers of own inventory to locations across the EU, as well as the onward sales in those locations.** We strongly encourage Member States to reach consensus on this pillar, as it would be a pivotal tool to reduce the need for costly, time-consuming and often prohibitive need for businesses wanting to sell products across the EU to maintain multiple VAT registrations. Amendments to the text of the proposal should be in line with the 'north star goal' of reducing the VAT administrative burden for businesses. To achieve this, it is key that there is no (or very limited) negative VAT cash flow impact when businesses opt to report through the UOSS and the transfer module. Any newly introduced obligations for businesses and for electronic interfaces facilitating the transfer and/or the sale of goods should be proportional and ensure a level playing field.

- **A shift to real-time digital reporting based on e-invoicing for businesses that operate cross-border in the EU and a more harmonised framework for domestic transactions**. We acknowledge the motivation to introduce Digital Reporting Requirements (DRR), as they will play an important role in the simplification of the EU VAT system and the fight against VAT fraud. However, such measures need to take into account the substantial bureaucratic burden for companies, in particular for small and medium sized enterprises.

1. EU single VAT ID

We are very supportive of the **EU single VAT registration** and we strongly encourage Member States to prioritise discussions on this pillar if necessary in order to reach consensus. We strongly encourage Member States to ensure that any amendments to the proposal are in line with the 'north star goal' to reduce the administrative burden on businesses. The One-Stop Shop (OSS) in place since 1 July 2021 has already been a great step forward in simplifying VAT compliance for cross-border scenarios for B2C businesses. However, neither movements of retail inventory across EU countries for storage, nor the onward sale of that inventory are eligible for the OSS system. As such, businesses still face the burden of VAT registration requirements in every EU country of storage. As indicated in the Commission's Impact Assessment, the extension of the OSS as detailed in the proposal is hence a great improvement, as it will reduce burdens on hundreds of thousands of businesses operating across many industries throughout the EU, allowing them to store inventory closer to their customers, enabling faster and more sustainable delivery, without the requirement to VAT register outside their home country. This simplification will allow businesses and especially SMEs to take full advantage of the Single Market.

National governments will also benefit from a more competitive EU market, leading to a boost for tax revenues at a time where Member States are dealing with the social and economic effects of recent energy price spikes and geo-political tensions. Simpler VAT obligations also leads to higher levels of VAT compliance and level the playing field across all sizes of businesses. We would also expect that the simplification of EU VAT obligations will encourage businesses to onshore inventory within the EU prior to sale (instead of shipping directly from non-EU locations) and also reduce pressure on customs authorities, which should enhance tax authorities' ability to audit and enforce.

Additionally, to facilitate cross-border trade further, it should be explored to integrate additional provisions of rendered services in the UOSS, as for example intra-community passenger transport services, as well as domestic passenger transportation, when located in a different territory of the providers VAT head-office/establishment.

Furthermore, EuroCommerce would also welcome the inclusion of capital goods to the UOSS for the transfer of own goods. We realise the VAT issues at stake, especially regarding the deduction of input VAT. However, businesses that rent out their own goods to customers in other Member States still need to register for VAT abroad. Therefore, we would ask the Commission to try to find, together with businesses and Member States, a workable solution for the transfer of own capital goods from one Member State to another to be included in the UOSS.

Finally, we are supportive of the measure to make the existing Import One Stop Shop mandatory for marketplaces acting as deemed supplier, as this will improve the collection and simplify the audit and enforcement of VAT, while ensuring a level playing field.

2. Digital Reporting Requirements

We acknowledge the motivation to introduce Digital Reporting Requirements (DRR), as they will play an important role in the simplification of the EU VAT system and the fight against VAT fraud. We welcome the ambition and effort of the proposal to mitigate the risk of businesses facing a patchwork of requirements across EU countries, which currently acts as an administrative barrier to cross-border trade and adds significant costs for businesses, especially SMEs. However, there are still certain points that need to be considered:

- **Mandatory e-invoicing:** According to the proposal, Member States will be able to introduce the requirements of electronic invoicing for businesses as of January 2024, including the issuance, transmission and receipt in a structured electronic format. The new requirements would for example not allow PDF-invoices anymore. As many businesses still work with paper invoices, they need to undergo a major transformation step to adhere to the future digital requirements. If Member States are given the possibility to introduce the e-invoicing requirements as of January 2024, the available time frame for businesses to adapt would be extremely short. Businesses would need to substantially increase efforts (and time and financial resources) to adhere to the early introduction of e-invoicing. Prior to the proposal, it was envisaged to make electronic invoicing mandatory for businesses as of January 2028. Making DRR mandatory as of January 2028, would give businesses a more adequate implementation phase. Moreover, it is essential that already established invoicing standards (e.g. PDF, EDI-Standard EANCOM, SAP IDoc) can continue being used on an optional basis should a new EU standard be introduced. Furthermore, as the requirements are introduced at Member State level, the internal market could become fragmented if Member States implement them at different points in time. For this reason, the proposal should not provide for an optional introduction of e-invoicing from January 2024, but rather a mandatory introduction from January 2028.

- **Termination of e-invoicing approval requirement:** It is viewed critically that beneficiaries will not be able to reject electronic invoices as of January 2024. Practical issues could arise, for example when the beneficiary has no means to receive the e-invoice.
- **Summary Invoice:** Removing the practice of summary invoices will impact established commercial practices and cause costs for businesses, in particular SMEs, who will have to issue and ingest more invoices per day. From an anti-fraud perspective the motivation behind this requirement is unclear and should be revisited with appropriate business input. The abolition of the recapitulative statement needs to go hand in hand with the removal of existing instruments and formalities concerning allegedly fraudulent input tax deduction, since the tax authorities then will have all the information digitally available. However, if this data is to be reported at item level and not at total invoice level, we fear that the existing digital infrastructure will not be sufficient.
- **Invoice issuance:** Due to the introduction of real-time invoicing, the Commission's proposed a new two-day deadline regarding the issuance of invoices. This would be extremely burdensome for businesses, especially for SMEs that have less capacity and resources compared to larger companies. A two-day deadline would involve fundamental changes and adjustments of existing processes for companies, especially since a monthly or quarterly transmission of summarised statements was possible until now in many Member States. For this reason, businesses should be given more time, in order to allow adaptation, by extending the deadline time frame. This is important to still give companies the possibility to pursue innovation. Besides the issues raised above, we would like to stipulate that the concept of 'time of supply' may not be fully harmonised among the MS which may lead to debates with the tax authorities on the timely reporting of the invoices by both supplier and recipient.
- **Sufficient lead time for e-invoicing:** While we appreciate that Member States wish to be free to implement domestic e-invoicing at their own discretion, without needing to seek a derogation from the Commission, we foresee a risk that some Member States could seek to rush e-invoicing mandates into place without appropriate lead-time or consultation with stakeholders. This is a grave risk to business continuity given the fundamental role that invoices play in every day commercial operations. It is vital that all parties (businesses, e-invoice service providers and Member States) have enough time to prepare for new e-invoicing rules. We therefore call on the Commission to add guardrails to the proposed legislation that mandate a sufficiently long period of lead-time prior to imposition of new domestic e-invoicing mandates.
- **National IT systems:** Finally, in order for businesses to be able to adhere to the DRR, national IT systems need to be in place and functioning. If these IT systems are not able to carry the transformation, businesses will face severe difficulties when trying to adapt their processes.

3. Ensuring the VAT in the Digital Age proposal works in practice

It is also key that the many important reforms included in the VAT in the Digital Age proposal work in practice for businesses and tax authorities. Therefore, we urge the Commission to supplement its plan to create a 'central VIES' system by also addressing critical upgrades required to the functionality made available to taxpayers to check the validity of VAT numbers. The requirement to check VAT number validity is now a core part of VAT compliance and the ability to perform such checks in an efficient and scalable way is essential tool businesses to manage risk. VAT number validity checks are also increasingly required under other legislations, such as DAC7. As such, demands on the VIES system have expanded way beyond its original remit, and it is no longer fit for purpose. This creates inefficiency and risk for businesses and missed opportunities for compliant businesses to help weed out non-compliance from the system. VIES must urgently be upgraded to handle bulk validations, enhance the quality of information held within it, enable real-time updates and reduce downtime.

Finally, as regards the Implementing Act that the EU Commission will draft to make the IOSS system more fraud proof, we urge the Commission to consult with the industry very early on to ensure that solutions are adapted to ecommerce reality and practically feasible for all stakeholders.

A further necessary step in order to advance the digitisation of the internal market and the simplification of the EU VAT system is to expand the databases provided by the EU Commission (e.g. Access2markets), to an up-to-date and legally binding tool providing real-time information on EU VAT rates and tax inquiries that companies can access easily. Hence, the legal risk that (small) companies are exposed to due to the complexity of the VAT rates within the EU can be minimised.

Conclusion

Acknowledging the wide-ranging benefits of the proposal and the need for added resilience to the VAT system, to which retailers and wholesalers want to contribute, we call on the EU Member States to adopt the VAT in the Digital Age proposal, taking into account the above made comments. The most urgent action is needed to ensure the implementation of a single VAT registration as soon as possible, including expansion of the Union One Stop Shop.