VAT in the digital age

In December 2022, the Commission tabled a proposal (VAT in the digital age) for a directive aimed at reinforcing the fight against value added tax (VAT) fraud, modernising VAT rules for the platform economy and cutting businesses’ compliance costs. The Council must vote unanimously, after consulting the Parliament, to adopt the directive. Parliament is due to vote its report during the November II plenary session.

Background

Every year, about €1 trillion in VAT revenue is raised in the EU, making it a key revenue source for Member States. VAT is also the basis of an EU own resource, having contributed about €20 billion to the EU budget in 2022. Yet, large amounts of VAT revenue remain uncollected. The VAT gap, estimated at about €61 billion for 2021, is caused by fraud, maladministration, bankruptcies and insolvencies, among other things.

European Commission proposal

The proposal is divided into three sections. A key novelty in the first one is the introduction of a digital reporting requirement (DRR) for intra-EU business-to-business transactions (B2B) to counter VAT fraud. Under this EU-wide reporting arrangement, companies would need to report, in almost real time, data drawn from electronic invoices to the tax authorities. This would allow Member States to keep a close eye on the trail of VAT collected, and to intervene quickly when there is suspicion of fraud. To minimise the costs for businesses, invoices issued according to a European standard would always be a legitimate format for the transmission of data.

In the second section, the Commission proposes making platform economy operators automatically responsible for charging and remitting VAT to the authorities when facilitating supplies of short-term accommodation rental or passenger transport services. This should place platform economy operators on equal terms with other more traditional ones such as hotels and taxi drivers. In the third section, the Commission proposes extending the VAT one-stop shop (OSS), an online portal allowing businesses to declare and pay VAT on all sales across the EU in a single VAT return, rather than dealing with national obligations in multiple Member States.

European Parliament position

Parliament’s Committee on Economic and Monetary Affairs (ECON) is responsible for the file, with Olivier Chastel (Renew, Belgium) as rapporteur. His report was adopted by ECON on 24 October 2023. While broadly supporting the Commission proposal, in a bid to reduce compliance costs it increases the maximum time for businesses to report the invoice data to the tax authorities and shortens the list of data to be reported. Given the vast amount of data that would need to be collected, the report calls on Member States and the Commission to ensure strict data protection. Furthermore, it encourages the Commission to identify remaining shortcomings of the OSS portal and to update it further where possible, for example, in connection with customs obligations. Negotiations in the Council are ongoing. Recently, the Council has stated that more work needs to be done, but the compromise texts prepared by the Swedish Presidency of the Council have been a solid basis for further dialogue.

First-reading report 2022/0407(CNS); Committee responsible: ECON; Rapporteur: Olivier Chastel (Renew, Belgium). For further information, see our ‘EU Legislation in progress’ briefing.

Outcome of the Conference on the Future of Europe: This proposal is relevant for measures 16(1); 31(6).