



# OPINION

European Economic and Social Committee

## VAT in the Digital Age

Proposal for a Council Directive amending Directive 2006/112/EC  
as regards VAT rules for the digital age  
[COM(2022) 701 final – 2022/0407 (CNS)]

Proposal for a Council Regulation amending Regulation (EU) No 904/2010 as regards the  
VAT administrative cooperation arrangements needed for the digital age  
[COM(2022) 703 final – 2022/0409 (CNS)]

**ECO/606**

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| Referral                                     | Council of the European Union, 10/02/2023 and 13/02/2023           |
| Legal basis                                  | Article 113 of the Treaty on the Functioning of the European Union |
| Section responsible                          | Economic and Monetary Union and Economic and Social Cohesion       |
| Adopted in section                           | 18/04/2023   |
| Adopted at plenary                           | 27/04/2023   |
| Plenary session No                           | 578  |
| Outcome of vote<br>(for/against/abstentions) | 145/0/0  |

## **1. Summary and recommendations**

- 1.1 The EESC welcomes the Commission initiative aimed at updating the 30-year-old Value-Added Tax (VAT) rules in order to make the single market function better with less fragmentation, and to make it fit for the digital era.
- 1.2 The EESC considers that a VAT system better adapted to the current developments of the digital economy, improving the functioning of the single market, should be the main objective of the proposal. In addition, the proposal should make tax collection effective and timely, reducing VAT fraud and, as a consequence, the VAT gap.
- 1.3 In order to fully benefit from the single market, businesses require uniform application of VAT rules across the EU. This can only be ensured by action at EU level, preventing red tape, discrepancies and loopholes in the applicable VAT rules. The EESC encourages the Commission to continue working towards implementation and stresses the importance of explanatory notes or similar guidance to ensure uniformity.
- 1.4 The EESC is pleased that the proposed rules for digital platforms and their role in helping the collection of VAT are consistent with previous Commission initiatives on the digital economy.
- 1.5 The EESC appreciates that the domestic reverse charge mechanism will be applicable to supplies of both goods and services. The EESC points out that the current system treats goods and services in intra-Community trade differently. The EESC regrets that the comprehensive proposal from the Commission does not take the opportunity to align VAT treatment between goods and services. This would have decreased the administrative burden on businesses, especially on SMEs.
- 1.6 The EESC considers that the suggested timeline for reporting intra-Community supplies of goods and services within two days seems unreasonably short. The EESC is worried that the time limit of two days for electronic invoices and reporting would constitute a barrier to intra-community trade , especially since many SMEs are already facing problems with the much longer time limit within the current regulatory framework.
- 1.7 The Commission suggests that the possibility of issuing summary invoices be eliminated under the proposal. The EESC considers that summary invoices should not be eliminated since it would create problems in many sectors. The use of summary invoices should always be allowed for domestic transactions. For intra-Community transactions, the EESC notes that another possibility could be to limit the use of summary invoices, e.g. by having a limitation of seven days.
- 1.8 The EESC encourages the Commission to continue working towards including VAT deductions in the One Stop Shop (OSS) as soon as possible and towards timely VAT refunds.
- 1.9 The EESC is concerned that the considerable implementation costs for the measures in the comprehensive VAT package could lead to higher prices for consumers.

1.10 The EESC shares the Commission's view that the intra-EU dimension of VAT fraud requires EU intervention, in line with a proper application of the subsidiarity principle.

1.11 The EESC points out that the data collected and exchanged between tax authorities could include personal data as well as sensitive business data. Such data must be protected and handled with the utmost care to preserve the integrity of consumers and businesses.

## 2. **Introduction and background**

2.1 On 8 December 2022, the Commission published a package of measures<sup>1</sup> aimed at modernising the EU Value-Added Tax (VAT), with the double purpose of updating the VAT system to the digital era and making it more fraud-resilient, thereby reducing the current VAT gap (estimated at some EUR 93 billion)<sup>2</sup>.

2.2 More specifically, the package is composed of three legislative measures: i) a proposal for a Directive amending Directive 2006/112/EC on VAT rules in the digital age<sup>3</sup>; ii) a proposal for a Regulation amending Regulation (EU) 904/2010 regarding the VAT administrative cooperation arrangements<sup>4</sup>; iii) a proposal for an implementing Regulation, amending Regulation (EU) 282/2011 as regards information requirements for certain VAT schemes<sup>5</sup>.

2.3 The legislative package pursues three main objectives: i) modernising VAT reporting obligations by introducing digital reporting requirements (DRR); ii) addressing the VAT challenges of the so called "platform economy", by clarifying the applicable rules to ensure equal treatment between operators and by enhancing the platforms' role in collecting VAT; iii) avoiding the need for multiple VAT registrations across the EU through the introduction of a Single VAT Registration.

2.4 A mandatory transaction-by-transaction reporting system for intra-Community transactions will be established to provide swift information to Member States. Flexibility will be given to Member States to decide whether to introduce such a reporting system for domestic transactions. Electronic invoicing will play a crucial role within the new reporting scheme, becoming the default system for the issuance of invoices and the basis for digital reporting.

2.5 All taxable persons will be allowed to report data from electronic invoices which comply with the European standard. Member States will be able to provide for the transmission of data from electronic invoices issued in a different format, as long as they also allow the use of the European standard. The data formats authorised by Member States will have to guarantee interoperability with the European standard for intra-Community transactions.

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<sup>1</sup> [Legislative Package on VAT in digital age](#), 08.12.2022

<sup>2</sup> However, it should be noted that the VAT GAP varies remarkably from Member State to Member State.

<sup>3</sup> [COM\(2022\) 701 final](#)

<sup>4</sup> [OJ L 268, 12.10.2010, p. 1](#)

<sup>5</sup> [COM\(2022\) 704 final](#)

- 2.6 A "deemed supplier" regime (whereby platforms account for VAT on the underlying supply where no VAT is charged by the supplier) will be introduced in the short-term accommodation rental and passenger transport sectors of the platform economy.
- 2.7 The implementation of the OSS and the Import One Stop Shop (IOSS) has proven to be a success, reducing complexity. However, some supplies of goods and services are not covered by the OSS simplification scheme. An extension of the scope of the current OSS will be pursued to ensure a further decrease in the need for multiple VAT registrations across the EU. Moreover, the IOSS will be made mandatory for platforms in order to further simplify the import process of e-commerce goods and to make it more fraud-proof.
- 2.8 According to the impact assessment<sup>6</sup>, the three proposals put forward strike the best balance between all available regulatory options in terms of effectiveness, proportionality and subsidiarity. The impact analysis estimates that, between 2023 and 2032, the implemented measures are expected to generate between EUR 172 billion and EUR 214 billion of net benefits, including EUR 51 billion in savings (EUR 41.4 billion from VAT reporting; EUR 0.5 billion from streamlining and clarifications in the platform economy; and EUR 8.7 billion from removing VAT registration obligations).

### 3. **General comments**

- 3.1 The EESC welcomes the Commission initiative aimed at updating the 30-year-old VAT rules in order to make the single market function better with less fragmentation, and to make it fit for the digital era. It is a long-awaited step within the VAT action plan implemented by the Commission in the last years. The EESC also considers this proposal an important step towards supporting the single market through enhanced cooperation and uniformity across tax authorities.
- 3.2 The EESC considers that a VAT system better adapted to the current developments of the digital economy, improving the functioning of the single market, should be the main objective of the proposal. In addition, the proposal should make tax collection effective and timely, reducing VAT fraud and ensuring a level playing field.
- 3.3 The EESC shares the Commission's view that the intra-EU dimension of VAT fraud requires EU intervention, in line with a proper application of the subsidiarity principle. The current VAT gap indicates that national instruments are not sufficient to tackle cross-border fraud.
- 3.4 Harmonised VAT reporting rules will be conducive to a better functioning and increased consolidation of the single market. Fragmentation and different reporting regimes in different Member States generate administrative burdens for businesses and can constitute a barrier to cross-border selling in the single market. The EESC is aware that Member States have been active in generating their own reporting regimes and that having different types of regimes is making the single market function less effectively. To reduce this fragmentation, a common

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<sup>6</sup> [SWD\(2022\) 393 final](#).

approach is welcomed. The EESC considers it important that the new reporting obligation lead to the abolition of the recapitulative statements.

- 3.5 In order to fully benefit from the single market, businesses require and need a uniform application of VAT rules across the EU, instead of having to comply with different implementation of common rules at national level. This can only be ensured by action at the EU level, preventing red tape, discrepancies and loopholes in the applicable VAT rules. The EESC encourages the Commission to continue working towards uniform implementation and stresses the importance of explanatory notes or similar guidance to ensure uniformity.

#### 4. **Specific comments**

- 4.1 The EESC recalls that businesses, and especially SMEs, will bear substantial costs from the additional administrative burden arising from the introduction of DRR. Even though such costs are necessary in order to effectively modernise the current system, compliance costs for businesses should be as minimal as possible, and continuously monitored during the implementation process in order to assess the burden of compliance.
- 4.2 The EESC also notes that the estimated costs of implementation will be very significant for businesses across the EU<sup>7</sup>. The EESC warns that the additional cost, particularly for businesses, could result in consumers paying higher prices, as evidenced by a study that proves that (over) regulation and prices are correlated across numerous businesses<sup>8</sup>.
- 4.3 The EESC points out that, even though the reporting obligations for intra-Community transactions refer just to B2B transactions, the data collected, and exchanged between tax authorities, may include personal data, and that such data will be stored for at least a five-year period. The collected data will likely also include sensitive business data which need to be protected as well. In this respect, the EESC underlines the principle of data minimisation and the need for full protection of such data. This should be ensured and monitored over time.
- 4.4 The EESC positively notes that the proposed rules for digital platforms and their role in helping the collection of VAT are consistent with previous Commission initiatives about the digital economy, including the proposal for a directive to improve the conditions of people working through digital labour platforms. Further, the EESC notes that making the IOSS mandatory will benefit consumers as buying goods from platforms will be easier for them, while at the same time VAT collection on these purchases will be improved.
- 4.5 The EESC points out that the current system treats goods and services in intra-Community trade differently, with only services being subject to the reverse charge mechanism. The EESC regrets that the comprehensive proposal from the Commission does not take the opportunity to align VAT treatment between goods and services. Updating the rules in such a way would have aligned the rules with the current economic reality, where customers typically buy solution

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<sup>7</sup> The implementation cost for businesses is estimated at EUR 11.3 billion, whereas the implementation cost for the tax authorities is estimated to be EUR 2.2 billion.

<sup>8</sup> [Regulations could be increasing consumer prices](#)

packages rather than merely goods or services. Such a change would have decreased the administrative burden on businesses, especially SMEs, which currently have to distinguish between separate components of composite supplies merely because of the VAT rules.

- 4.6 The EESC supports the Commission's general objective to make platforms play a greater part within the VAT regulatory framework. The proposals can be seen as an effective approach to tackling distortion of competition. Therefore, the concerns underlying the proposals of a Digital Services Tax have been appropriately and sufficiently addressed.
- 4.7 The EESC welcomes the widening of the use of the OSS. This will result in fewer foreign VAT registrations for companies, making compliance less burdensome and less costly, especially for SMEs.
- 4.8 The proposed real-time reporting is based on electronic invoicing. Whereas the EESC welcomes the use of digitalisation in the area of taxation, it would like to point out that the level of electronic invoicing varies greatly between Member States. Therefore, it may be relevant for the Commission to note the need for technical support that might be needed in different Member States, and to examine whether such support could be provided to businesses by the Commission and Member States. Further, the EESC thinks that the Commission should be clearer about the European standard for electronic invoicing and the fact that it will evolve over time. The EESC recommends that the Commission publish the European standard as soon as possible so that companies can start preparing for the changes.
- 4.9 The EESC points out that the proposal expands the information requirements for invoices, as the International Bank Account Numbers (IBAN) or the equivalent and the payment date both need to be reported. Expanding the invoicing requirements may lead to uncertainties and higher administration costs for businesses. Further, the EESC notes that it is common for businesses to have several IBAN numbers on an invoice and, consequently, there is a need for more clarification on what needs to be reported. The EESC recommends that the Commission examine whether such information can be utilised by the tax administrations to ensure VAT collection. If the information cannot be utilised in VAT collection and controls, it is merely an additional burden for businesses.
- 4.10 The EESC considers that the suggested timeline for the reporting of intra-Community supplies of goods and services within two days seems unreasonably short. The EESC also expresses some concerns that the time limit of two days could constitute a barrier to entry for the single market, especially since many SMEs are already facing problems with the much longer time limit within the current regulatory framework.
- 4.11 The EESC points out that the time limit of two days may be excessively burdensome for the buyer. The time limit should therefore be increased significantly also taking into account the size of the businesses involved and possibly considering specific exemptions for the smallest enterprises. Further, the EESC notes that tighter due dates often lead to more mistakes and retroactive corrections, which again are sanctioned differently in Member States. The EESC therefore encourages the Commission to advise Member States on limiting the sanctions and interest rates, especially in the early years of adoption.

- 4.12 The Commission suggests that the possibility of issuing summary invoices would be eliminated with the proposal. The EESC considers that this may be very difficult for the functioning of certain sectors, and encourages the Commission and the Council to look more closely into the benefits gained by eliminating the possibility, and comparing it with the costs and problems that arise for various sectors with this elimination. The use of summary invoices should always be allowed for domestic transactions. For intra-Community transactions, the EESC notes that another possibility could be to limit the use of summary invoices, e.g. by having a limitation of seven days.
- 4.13 Input VAT deductions are a key element of a well-functioning VAT system and differentiate VAT from Goods and services Tax (GST) or other indirect taxes. Whereas the EESC understands that the realities of Member States have not allowed the Commission to suggest that the OSS include input VAT deductions, the EESC encourages the Commission to continue its work on the matter. Even if VAT deductions could not be incorporated into the OSS immediately, the EESC encourages the Commission to examine the possibility of faster VAT refunds for companies that are compliant through the OSS system. Making VAT refunds faster would make the single market function better. Further, as a long-term goal the EESC encourages the Commission to continue working towards having VAT deductions in the OSS in the future.
- 4.14 The EESC is concerned that the high implementation costs for the measures set out in the comprehensive VAT package could lead to higher prices for consumers. It is therefore very important to reduce complexity and administrative costs for businesses to the greatest extent possible by ensuring a uniform reporting system and uniform implementation of rules in all Member States.
- 4.15 The EESC is also worried about the timelines proposed by the Commission. Whereas the major changes are suggested to come into force in 2028, certain areas of the proposal are already suggested to come to force in 2024. The EESC reminds the Commission that sufficient time is needed to ensure proper implementation. Consequently, the EESC encourages the Commission to make the timeline longer by amending it so that at least a year is provided for implementation after the Council comes to an agreement on the proposal.

Brussels, 27 April 2023

Oliver RÖPKE

The president of the European Economic and Social Committee

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