

VAT in the Digital Age Package (ViDA)

Policy Brief

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Summary: The EU is making three major changes to its VAT system:

1. Real-time digital reporting based on e-invoicing for cross-border businesses. This will help to reduce VAT fraud and make it easier for businesses to comply with VAT rules.
2. Updated VAT rules for passenger transport and short-term accommodation platforms. This will create a more level playing field between online and traditional businesses and make it easier for SMEs to comply with VAT rules.
3. The EU is also introducing a single VAT registration for businesses that sell to consumers in other Member States. This will make it easier for businesses to comply with VAT rules and reduce administrative costs.

Key Words: VAT, E-invoicing, Real-time digital reporting, Cross-border businesses, Single VAT Registration

Introduction

The European Commission's work on VAT in the Digital Age is part of its plan for fairer and simpler taxes that support economic recovery. It is exploring ways to make tax reporting more transparent and automated, and to better accommodate VAT for new digital business models. The European Commission, national tax authorities, and businesses are working together to develop VAT fit for the Digital Age.



A Proposal for a Council Directive amending Directive 2006/112/EC as regards VAT rules in the Digital Age

VAT rules for passenger transport and short-term accommodation platforms

A new deemed supplier regime will be introduced for short-term accommodation rentals and passenger transport facilitated through online platforms.

- This means that the platform, rather than the underlying supplier, will be responsible for charging and accounting for VAT on these transactions. This change is intended to ensure a level playing field between platforms and traditional suppliers, while also simplifying VAT collection for certain types of transactions. ***Clarifications to the existing VAT legislation***

In addition, the following clarifications have been made to the existing VAT legislation:

- Facilitation services provided by platforms will be considered intermediary services.
- The supply of short-term accommodation rentals by underlying suppliers to platforms will be VAT exempt without a deduction right.

The provision of short-term accommodation rentals will be considered a sector similar in nature to the hotel sector and will therefore not be eligible for VAT exemption.

E-invoicing

E-invoicing will become the default system for issuing invoices, and the use of paper invoices will only be possible in certain authorised cases.

- This change is intended to simplify and streamline the invoicing process for businesses and reduce administrative burdens.
- Electronic invoices must follow the European standard, and their issuance and transmission cannot be subject to prior authorization from tax authorities.



The deadline for issuing invoices for intra-Community supplies of goods and services where the reverse charge applies will be reduced from 45 days to 2 days. This change is intended to accelerate the flow of information to tax administrations and support the implementation of the new real-time reporting system.

Modifications and clarifications to the existing VAT legislation

The proposal includes several modifications and clarifications to the existing VAT legislation, including:

- Clarifying the timing of the chargeable event in respect of supplies under the non-Union OSS and Union OSS simplification schemes.
- Introducing special measures to prevent certain forms of tax evasion or avoidance by better securing the correct use and verification process of the IOSS VAT identification number.
- Rendering mandatory for Member States to accept the application of the reverse charge mechanism where a supplier, who is not established for VAT purposes in the Member State in which VAT is due, makes supplies of goods to a person who is identified for VAT in that Member State.
- Expanding the scope of the non-Union OSS to supplies of services from non-EU business to all non-taxable persons.
- Broadening the definition of Member State of consumption to include supplies of goods according to Articles 36 (supply of goods with installation or assembly), 37 (supply of goods on board ships, aircrafts or trains), and 39 (supply of gas, electricity, heating and cooling), and domestic supplies of goods.
- Making the use of the IOSS mandatory for electronic interfaces facilitating as deemed supplier certain distance sales of imported goods.
- Capital goods, or goods that do not allow for a full right of deduction in the Member State where the intra-Community acquisition takes place, are excluded from the special scheme.



A Proposal for a Council Regulation amending Regulation (EU) No 904/2010 as regards the VAT administrative cooperation arrangements needed for the digital age

A new central system for the exchange of VAT information between Member States' tax administrations at EU level called the central VIES is being developed. The new central VIES is a major step forward in the fight against VAT fraud. It will provide a more efficient and secure way to exchange VAT information between Member States and will make it more difficult for fraudsters to evade taxes.

In addition, the EU is making other changes to the exchange of VAT information, including introducing a standard format for the transfer of information related to the new special transfers of own goods scheme.



A Proposal for a Council implementing Regulation amending Implementing Regulation (EU) No 282/2011 as regards information requirements for certain VAT schemes

The modifications to the VAT Directive are intended to clarify the scope of the deemed supplier regime, simplify the reporting of transfers of own goods, and make the use of the One-Stop Shop (IOSS) obligatory for marketplaces. These changes are expected to improve the effectiveness of the VAT Directive and reduce the risk of fraud.

The text outlines the proposed modifications to the VAT Directive to address issues identified in the first year of application of the VAT e-commerce package. These modifications include:

- Requiring platforms to transmit underlying supplier identification information to the tax authorities.
- Establishing a new simplification scheme in the One-Stop Shop (OSS) for reporting transfers of own goods to another Member State.
- Making the use of the Import One-Stop Shop (IOSS) obligatory for marketplaces.
- Adapting the rules for exclusion from the OSS and IOSS schemes.
- Introducing specific rules pertaining to VAT return (periodicity and content) for the transfers of own goods scheme.
- Requiring taxable persons using the transfers of own goods scheme to keep records.

These modifications aim to improve the effectiveness of VAT collection in the digital age and reduce the administrative burden on businesses.



Links to more information: https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en

Disclaimer: This is a policy brief to create awareness about the legislative proposal and for information purposes. It is not an official position of the Malta Business Bureau.

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