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VAT in the Digital Age: BusinessEurope's reply to the European Commission's Public Consultation

We are pleased to provide written comments on the European Commission's Public Consultation on VAT in the Digital Age (ViDA).

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.

Key Messages

With the proliferation of technology and digitalisation, businesses have been able to operate cross-border quicker and in a more agile manner. A majority of EU Member States have already introduced or are planning to introduce their own digital reporting requirements in an attempt to increase VAT collection and combating VAT fraud. But, given the lack of common VAT compliance requirements, the current VAT system in the EU has become highly fragmented, complex, and less resilient to fraud. The resulting effect on the majority of companies operating in the EU is that they have to comply with an increasingly difficult tax compliance environment and a patchwork of obligations across the EU Member States.

BusinessEurope welcomes the Commission's initiative aimed at updating the current VAT rules and continues to support the Commission's initiatives aimed at combatting VAT fraud and reducing the EU's VAT Gap. In this context, the ViDA proposal package is expected to introduce extensive and radical changes to businesses' current systems and operational processes. This will entail a significant implementation cost for a large number of businesses operating in the EU and businesses will need to respond and react quickly in order to meet the proposed commitments set forward by the Commission.

On this basis, and in order to ensure growth and competitiveness of the Single Market, there needs to be more consideration and analysis given to certain parts of the proposal in order to ensure a clear and balanced proposal for all stakeholders involved. Whilst ViDA should set the foundations for increased simplification of the VAT rules, it is important to have political commitment of all Member States to this agenda and consultation with all stakeholders involved in order to ensure that small and large businesses alike can easily comply with the VAT framework in the EU.

Against this background and in order for ViDA to achieve a fair and efficient VAT system, BusinessEurope recommends that:

(i) A more realistic timeframe is considered. Some of the proposed rules are designed to take effect eight months after the finalisation of this public consultation (from 1

January 2024). Given the unanimous approval required from all Member States, we recommend a minimum of twenty-four months from the date ViDA is approved before the first measures start being implemented. Additional lead time will be needed for small and medium-sized businesses and for the introduction of the more complex proposals, such as the introduction of mandatory electronic invoicing, that requires fundamental changes to ERP systems and underlying business processes, or rules on the platform economy.

(ii) The reform of the existing VAT rules is guided by the principles of proportionality, effectiveness, and simplicity. Digitalisation has the potential of simplifying many complexities that exist in the VAT system. However, digital reporting should only be introduced in a harmonised manner to avoid further fragmentation. In addition, a thorough analysis of the effectiveness of the proposed reforms should be carried out to ensure that no unnecessary complexities are introduced for those companies that run their business in an honest and fair manner. In this context, the proposed two-day timelines to issue and report invoices, the additional data points required on invoices as well as the elimination of summary invoices need to be reconsidered and reassessed against the overall aim of the ViDA proposal before they are adopted.

(iii) Given the significant investment required by businesses to adjust their existing processes to new capability requirements, measures and incentives such as faster VAT refunds, faster audits and reduced enquiries from tax authorities, improvement of relief for bad debts, VAT deduction on the cost of implementing these proposals for VAT exempted businesses, combining the use of data for more efficient reporting (for example for Intrastat and EC sales), a relaxation of the *Kittel* 'knew or should have known' test in cases of correctly and timely reported transactions, and other investment incentives from a direct tax perspective should be considered in order to incentivise the optimal implementation of ViDA for businesses. It will be key that the rules result in less onerous obligations on businesses, simplified reporting obligations and more targeted and qualitative checks in order for honest taxpayers to benefit from more tax certainty.

(iv) Whilst we wholeheartedly support the Commission's initiative to fight any form of VAT fraud (including any form of carousel fraud such as Missing Trader Intra-Community fraud), careful consideration should be given to the appropriateness of introducing more administrative obligations designed to tackle the flaws in the current VAT system, as these may still not result in a reduction of the VAT gap but will nonetheless have adverse implications on the majority of businesses operating in the Single Market. In this respect, the fight against fraud should not come at the expense of the large majority of companies that are trying their best to comply with the current complexities and fragmentations of the EU VAT legislative framework.

(v) The exchange of data between Member States' tax authorities through electronic invoicing and reporting, directly or indirectly via platforms, will need to be protected. We expect that a large amount of strategic, commercially sensitive and personal data will be shared thereby allowing a mapping of the commercial flows within the EU. Any leakage, misuse or destruction of this data would be highly detrimental to

European businesses. As such, ViDA should be accompanied by a robust process aimed at detecting and preventing misuse of information and/or cyber-attacks in order to safeguard the proper functioning of the proposed digital reporting rules.

(vi) Whilst we support the Commission's first steps taken in the ViDA proposal to align the VAT treatment of goods and services by introducing the B-to-B domestic reverse charge mechanism for goods and services alike when supplied by a non-established business, the Commission should have taken this opportunity to standardise the VAT treatment of goods and services as the distinction has become increasingly blurred with the use of digital tools. Different interpretations by the Member States lead to natural mismatches that, in turn, lead to difficulties when analysing and matching invoice data. The same VAT treatment of goods and services would therefore not only make the VAT system less complicated and more modern, but also more robust against VAT fraud.

(vii) The ViDA proposal should work in practice for businesses and tax authorities alike. Therefore, the 'central VIES' system that will be created must be able to handle bulk validations as well as subscriptions for businesses to status updates of trading partners in order to streamline the process. Furthermore, real-time upgrades should be reliable in terms of data quality and stability of the system.

(viii) Rules on deemed supply should ensure that the principle of VAT neutrality is respected and a level playing field is maintained and should not disregard existing rules in Member States that confer specific exemptions. A uniform definition of an 'intermediary' in the context of the Platform Economy is required together with common presumptions for when platforms are acting in their own name in order to provide legal and tax certainty.

(ix) The Commission should continue working with the Member States to examine how ViDA can be implemented optimally for small and medium sized businesses, and to improve current cooperation between the different national tax administrations to establish greater levels of trust and efficiency. In particular, the One Stop Shop system can be improved by permitting input VAT deductions and VAT refunds as well as harmonised sanctions and interest payments.

(x) More flexibility should be provided for businesses to elect for a Member State of Identification for OSS purposes.

Background

On December 8, 2022, the European Commission published a new EU Value Added Tax (VAT) proposal for its "VAT in the Digital Age" initiative for the 2024-2028 timeframe. The proposed series of measures aim to make the VAT system work better for businesses. They are also intended to address VAT challenges raised by the development of the Platform

Economy and to make the VAT system more resilient to fraud by encouraging businesses to embrace and promote digitalization.

The three major objectives of the package are as follows:

(A) Modernizing VAT reporting obligations by introducing Digital Reporting Requirements ("DRR") which will standardize the information that needs to be submitted by taxable persons or businesses on each transaction to the tax authorities in an electronic format. At the same time, it will impose the use of structured e-invoicing for cross-border transactions.

(B) Addressing the challenges of the Platform Economy by updating the VAT rules applicable to the Platform Economy when they facilitate the supply of short-term accommodation rental or passenger transport services.

(C) Giving businesses the option not to register in multiple jurisdictions in the EU by introducing Single VAT Registration ("SVR"). This is intended to be achieved by improving and expanding the existing system of One-Stop Shop ("OSS") and Import One-Stop Shop ("IOSS") and introducing the reverse charge mechanism for domestic supplies of non-established sellers in order to minimize the instances for which a taxable person is required to register in another EU member country.

BusinessEurope's specific comments on the proposals contained in ViDA

A. Electronic invoicing and VAT digital reporting requirements

BusinessEurope welcomes and supports the Commission's initiative to introduce digital reporting requirements in order to update the current EU VAT system which has become highly fragmented, complex, and open to fraud. There are a number of elements contained in the ViDA proposal that we believe have the potential to achieve a fairer and simpler VAT system.

In this regard:

- We welcome and support the Commission's proposal to adopt mandatory structured electronic invoicing as the default system for the issuance of invoices in the EU. We believe that this will encourage an increased use of electronic invoicing and will ultimately achieve a more efficient VAT system.

- We support the proposed removal of the recapitulative statements as this will eliminate the burdensome reporting of goods and services by businesses and enable tax authorities to receive much more precise information in a shorter period of time.

- We also support the proposed deletion of Article 266 of Directive 2006/112/EC that allows Member States to request additional information on intra-Community transactions. This will ensure harmonisation of these reporting requirements, thereby reducing the potential for more fragmented rules across the Member States.

- We welcome the proposal to eliminate all existing state-clearance models (apart from the existing technical validation models) thereby introducing a more standardised system and removing the burdensome requirement for tax authorities to validate invoices issued by businesses before sending them on to customers.

However, BusinessEurope believes that ViDA should seek to introduce even more harmonised rules and contribute to the Commission's commitment of a 25% reduction of reporting requirements. This will ensure a more efficient and simplified VAT system that works for businesses and that achieves the aims that it is set out for. The flexibility granted to Member States to implement ViDA should be restricted to the absolute minimum with regards to intra-EU transactions in order to abstain from introducing further complexities and risks in terms of operability and communication between suppliers, customers, and tax authorities. In addition, all stakeholders involved (businesses, service providers and Member States) should have enough time to prepare for new electronic invoicing rules. Some elements in the proposal are scheduled to be introduced as early as January 2024. We believe that this is not a realistic timeframe for VIDA to be effective and efficient given the fundamental changes needed to be in place by then.

In order to avoid the introduction of unnecessary and unintended complexities for businesses, we are putting forward our detailed comments in relation to certain parts of the proposal that, in our view, should be reassessed:

- **Introducing the mandatory receipt of structured e-invoices as of 1 January 2024 is not realistic**

ViDA proposes that as of 1 January 2024, invoices may be sent by the supplier to the customer in a structured electronic format without prior approval of the customer. The proposed removal of the customer's prior approval as early as 1 January 2024 set out in Article 232 poses major challenges for businesses, especially for SMEs and small businesses.

Indeed, the proposed timing does not factor the time needed to have all Member States unanimously agreeing to this proposal and subsequently legislating on a domestic level.

It also places challenges for suppliers who will need to update their systems and controls to send invoices electronically but mostly for customers who must have the ability to manage different invoice formats/syntaxes from different suppliers without their prior approval. Indeed, the ability to receive electronic invoices where the supplier chooses to issue these, requires changes to ERP systems that are not easy to implement.

We are supportive of a uniform standard, but at a time when businesses are also looking at handling other reporting requirements internally, such as ESG data, proposing to have the mandatory receipt of structured invoices in eight months' time does not provide businesses with sufficient time to upgrade their current ERP systems, or acquire and implement new systems. We therefore recommend more lead time is provided from the approval of the ViDA package before the mandatory measures take effect. A sufficient timing would be twenty four months from the date of agreement between the Member States.

- **A default system of electronic invoicing requires clear and unambiguous guidance on the definition of the European Standard**

As businesses will be allowed to issue electronic invoices adhering to the European e-invoicing standard (EN16931) set out in Directive 2014/55/EU and its list of syntaxes, we note that it is a very complex and costly exercise to work out the relevant information contained in this standard.

Considering that businesses and tax administrations will need to adapt their invoicing systems to the proposed European e-invoicing standard in a short period of time, it will be necessary for the content of the European standard for e-invoicing to be more accessible and clearer. We recommend making the relevant information contained in this standard easily accessible on the Commission's website. A clarification whether the European e-invoicing standard covers semantic and syntactic standards, but not transmission models, would be helpful.

We also note there is a need for more co-operation between VAT specialists and e-invoicing specialists when designing invoicing systems compliant with ViDA in order to ensure that the views of all different stakeholders impacted are considered.

- **Carve-outs to the default system of electronic invoicing should be provided**

The proposal to issue electronic invoices according to the European e-invoicing standard should include carve outs to cover the following circumstances:

(i) Invoices in .pdf format will continue to be accepted as a valid invoice for certain transactions and for domestic supplies any existing method of invoicing is permitted, including the usage of .pdf invoices. Our reading of the proposed Article 217 is that this is no longer possible after the introduction of the above-mentioned European e-invoicing standard. This is expected to have a significant impact on businesses with transactions that are not subject to the European e-invoicing standard.

(ii) Certain transactions for which an electronic invoice is not required, for example for EDI and other system-to-system transactions where data is structured, and for those industries that rely on summary invoicing [as discussed in the next section] as well a mix of out-of-scope elements, to avoid invoicing these elements separately.

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- **Summary invoices should not be eliminated**

Summary invoices are, in practice, a major simplification tool for businesses of all sizes that sell goods or services in bulk or on a recurring basis. These allow businesses to create a single invoice that summarises multiple transactions or deliveries instead of creating a separate invoice for each transaction. Aside from the time and cost saving considerations and the simplified record keeping for both suppliers and customers, summary invoicing helps reduce errors in invoicing because the supplier is less likely to make mistakes when creating one invoice instead of many. Additionally, the customer is less likely to miss or overlook an invoice if they receive a single summary invoice. By sending summary invoices on a regular basis, the supplier can improve cash flow because payments for multiple transactions can be collected at once. Customers, on the other hand, can also manage their cash flow better by knowing when to expect the summary invoice.

Summary invoicing can therefore help to build better relationships between suppliers and customers, leading to increased business opportunities in the future. Some businesses have also set up their invoicing systems around summary invoicing including, but not limited to, the following:

- Fuel card providers: instead of sending an invoice for each transaction made with a fuel card, the provider combines all transactions into a single invoice that is issued periodically. This consolidated invoice would include all fuel card transactions made by a company or individual using the fuel card during the invoicing period. This method reduces the costs and administrative burden of processing and reconciling multiple invoices, simplifies payment procedures and provides greater visibility and control over fuel card expenses.

- Inventory management where the supplier holds stock on behalf of the buyer: summary invoicing involves sending a single invoice to the customer for all the goods that have been released from the supplier's warehouse over a set period (for example, a month), rather than invoicing each individual delivery separately. This means that the buyer receives a summary of all the transactions that have taken place, rather than multiple invoices for each delivery, which can be time-consuming, costly and cumbersome to process.

- Utility companies: electric, gas and water suppliers typically use summary invoicing where a customer receives utilities from multiple suppliers, such as in the case of a commercial building with multiple tenants or a residential complex with multiple households. A single invoice would be generated by one supplier which would include charges for the consumption of a customer from all suppliers. The supplier who generates the summary invoice then distributes the payment to the other suppliers on behalf of the customer. This process simplifies the billing process for customers and improves the efficiency of the utilities' supply chain.

- Building and construction sector: summary invoicing is particularly useful for the building and construction industry where multiple invoices from various subcontractors and suppliers can be difficult to manage and track.

- Service industries: service providers such as consulting firms, marketing agencies and IT service companies also benefit from summary invoicing when they have ongoing relationships with clients and perform multiple services over time.

Overall, any business that has frequent, and not one-off, transactions with the same parties will want to ensure it reduces the administrative burden of invoicing. Replacing summary invoices with invoices on a transactional basis is expected to unnecessarily increase processing costs particularly in cases where a high number of transactions are being regularly processed or need to be corrected.

It also raises questions on the definition of a transaction. For example, there may be instances where one transaction consists of goods being shipped on the same day via two different means of transport. In this case, it is not clear if one invoice is needed to cover the transaction as a whole or two to cover the two separate supplies. In addition, in some Member States, it is mandatory to have ancillary supplies that share the VAT treatment of the main supply on one and the same invoice. In practical terms, this can only be achieved by having a summary invoice in place to reflect the several elements of a supply.

As it is not fully clear what is meant by a 'summary invoice', and to eliminate the above practical difficulties, usage of invoices on a periodical basis and for corrective purposes should continue to be allowed.

- **The proposed 2-day timelines to issue & report electronic invoices are inadequate**

Whilst we understand the need to move to a near-real time digital reporting, the proposed requirement for businesses to shorten the deadline for issuing electronic invoices related to certain intra-Community supplies to two working days after the chargeable event takes place (from the 15th of the following month in which the chargeable event takes place) and to then report certain invoice data of such intra-Community supplies within another two working days is not realistic and is expected to impose significant challenges and increased costs for cross-border traders and small businesses alike.

The timeframe raises questions on the amount of resources required to manage but also on the data quality involved in issuing and reporting invoices. The following are some examples that illustrate the practical issues that come up with the proposed timeline:

On the issuance of invoices:

- The larger issuers of the invoice (the supplier or the customer in case of self-billing) may be able to commit to these timeframes but we expect that this could compromise the quality of data checks and control processes before any invoice is sent out. The timetable is unworkable for the SME community that only have bookkeepers once a week or twice a month and does not allow for internal controlling to take place to ensure, for example, that the correct VAT rate has been applied.

- Large companies may have a wide variety of IT/ERP/invoicing systems and may also have acquired IT-systems from other companies. For various reasons, most cross-border transactions are not ready to be invoiced in real-time but need to be processed before the invoice can be issued.

- Long chains of transactions, transhipment, temporary storage in terminals, consignment stocks, changes in ownership or sudden redirections of an ongoing transport etc. could lead to delays in issuing the invoice until the delivery has reached an agreed location.

On the reporting of certain invoice data:

- For buyers, reporting an invoice within two days from its receipt is extremely problematic as the timing does not allow for an internal verification and/or approval to take place. Most entities will require a sign-off by the person acquiring the goods/services on behalf of the undertaking and whilst we recognise that some of these processes are automated, verification is still needed to match the goods purchased with those actually received. A timeframe of two days from receipt of invoices would therefore not make a timely verification of the content possible. We expect that this would result in a large amount of corrections needed and thereby making it a burdensome process for businesses and tax authorities alike.

- The electricity industry has particular challenges such that after each delivery period, usually a month, measured values in the electricity networks must be compiled for millions of customers. The goal is to collect measured values on a 15-minutes basis. The amount of collected data requires a large data capacity, which means that the data analysis must take place during weekends therefore the proposed timelines will not be met.

- The language in Article 271a and Article 271b of the proposal potentially expands the digital reporting requirements to transactions with non-EU operators and B-to-C transactions. We question whether this is the intended objective of ViDA. If it is, then we would like to stress that digital reporting requirements on these transactions cannot be based on mandatory e-invoicing as envisaged in Article 271b as it is not legally possible for transactions with non-EU operators.

- The lack of definitions or uniform guidelines (for example intermediary, composite supplies, domestic reverse charge) could lead to the flow of manual invoices. The flow of real time invoicing is dependent on continuing VAT simplifications and harmonisations.

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An alternative and optional approach for SMEs:

- We recommend that the Commission considers an alternative and optional approach for SMEs that provides the buyers with a list of invoices to be acknowledged based on the invoices reported by the sellers. Under this approach, instead of having the buyers report the electronic invoices received, they are able to access the list of invoices from a dedicated system, preferably of their local tax administration, and are able to acknowledge receipt of the invoice electronically or based on an electronic match in their bookkeeping system. This approach grants smaller businesses a longer timeframe to match invoices and at the same time caters for vacation periods of employees during which verification / approval of invoices may not be possible to be carried out in the proposed 2-day timeframe.

On this basis, we recommend reconsidering the two-day timeframe and clarifying that any obligation to report transactions would be based on the date of invoice acceptance rather than its receipt. This is on the basis that, aside from the need of having rules in place to combat fraudulent behaviour, the VAT system should ensure that businesses are able to determine their VAT processes and obligations accurately, reasonably and on time.

- **The new data requirements on invoices are disproportionate**

The rationale behind the proposal requiring new data elements to be added to the mandatory invoice content (specifically the seller's International Bank Account Number (IBAN) or any other identifier in the absence of an IBAN to which payment for the invoice will be made, and the due date(s) for payment of the invoice) is unclear and disproportionate to the overall aims of ViDA.

These requirements may raise challenges because it is common practice for suppliers to use different IBAN numbers on invoices for specific projects, or not use any IBANs at all for certain intra-group transactions or use alternative payment methods such as an inter-company clearing system.

In addition, the inclusion of the payment due date(s) on invoices creates administrative difficulties where there are no payments or where payment date is different from the purchase date, for example in the context of intra-group transactions that do not attract payment, barter exchanges, and where there are payments in different instalments as there would be no requirement for customers to pay an invoice through one bank transaction. For platforms, payment amounts by intermediaries are frequently netted against amounts collected on behalf of third parties.

The justification for adapting systems to the new data requirements and for collecting a large volume of data (which could consist of sensitive commercial and personal data) is unclear as we fail to see how this will lead to more collection of VAT and a reduction in VAT fraud.

We expect that this proposal would be particularly burdensome for small businesses established in countries where electronic invoicing is not required for domestic sales as well as for subsidiaries of larger businesses that offer only limited support services.

In addition, it should be noted that invoices may also need to be corrected from time to time where they are issued incorrectly. This can lead to lengthy discussions between the supplier and the customer before an invoice is agreed upon which could lead to late reporting and an adjustment or cancellation of the initial invoice and the re-issuance of a new invoice. Guidance is therefore required to provide more certainty to suppliers and customers on penalties as well as late payment interest. In addition, if it is assumed that a correction of invoices includes debit and credit notes that are typically issued to adjust the taxable amount, for example in case of discounts or year-end rebates, businesses may end up having to adjust a huge number of invoices. As such, we recommend that where a corrective invoice adjusts more than one invoice, it is acceptable for businesses to refer to a range of invoices or a period within which a number of invoices are raised as is currently acceptable.

Finally, the exemption for intra-community supplies of goods envisaged in Article 138 should not be conditional on the additional data requirements being proposed in ViDA. This could lead to instances where customers may receive invoice with VAT chargeable without having the right to deduct VAT as the invoice does not meet the proposed data requirements.

B. The Platform Economy

The ViDA proposal will bring about significant changes for short-term rental hosts, platforms, passenger transport business, authorities, and consumers. The effects of this part of the proposal ought to be examined in more detail before it is adopted and implemented as it will be crucial to ensure that the new rules relating to the platform economy are clear, proportionate and balanced and do not overrule existing VAT exemptions. In particular:

- We believe that the principle of VAT neutrality and maintaining a level playing field needs to be respected when proposing any changes in this field. For example, under the current proposal, there is a risk that the principle of VAT neutrality is compromised as the services of the underlying suppliers would be subject to VAT but suppliers would not be able to deduct input VAT on the costs related to these services. Moreover, services from suppliers below the SME / VAT registration thresholds or suppliers from Member States with a specific exemption or zero-rating in place will be subject to VAT when facilitated by a platform even if they are typically exempt or not subject to VAT if the service is offered via their own website or an offline channel.

- Businesses would welcome a uniform definition of an intermediary in the context of the platform economy and common presumptions for when platforms are acting in their own name in order to provide legal and tax certainty.

- ViDA proposes that platform operators prepare for the proposed changes in less than two years. Given the extensive adaptation of the existing systems that are required for businesses and tax authorities alike, we recommend extending the timeline further.

Finally, the ViDA proposal does not seek to harmonise fragmented reporting and record-keeping obligations for platform operators in the EU. Although platforms are subject to the reporting and record-keeping requirements mandated by DAC 7 and the VAT Directive, several Member States have introduced their own compliance obligations. Whilst acknowledging that certain record-keeping obligations extend beyond the scope of VAT law and fall exclusively within the mandate of Member States, the fact that certain data must be reported multiple times in many formats together with the introduction of the deemed supplier regime significantly increases the compliance burden for platforms operating across the EU. Therefore, the existence of these overlapping requirements necessitates a fitness check to ensure the effectiveness and proportionality of the rules in place.

C. A Single VAT Registration

BusinessEurope welcomes and supports the introduction of the domestic reverse charge rule for non-established businesses and the extension of the One Stop Shop (OSS) regime where this avoids multiple VAT registrations with the related administrative and cost burdens related to cross border trade.

Specifically, we support the new simplification scheme for cross-border transfers of own goods as this will allow businesses to report these transactions in one Member State, irrespective of the country from where the goods are transported. We also welcome the exemption of intra-EU acquisitions of goods by businesses applying this scheme as this eliminates the need to register in the Member State of arrival. To ensure the maximum simplification for businesses and tax administrations, we call for capital goods in sectors with full input VAT recovery to be included in the new simplification scheme for cross-border transfers of own goods. In this respect, a common definition of capital goods would be helpful.

We would like to stress the importance of providing more flexibility for businesses to elect for a Member State of Identification for OSS purposes. In addition, the current rules that a business should choose just one Member State of Identification for OSS purposes restricts businesses from obtaining the optimal benefits for their business models.

We appreciate that Member States will be obliged to introduce a domestic reverse charge mechanism that would apply where a seller is selling goods or services in a Member State where it is not established. We also appreciate that the reverse change mechanism is voluntary in case a business is voluntarily VAT registered in the Member State in question. We appreciate that this is the first step towards aligning the VAT treatment of goods with the treatment of the services. In the longer term, aligning the VAT treatment of the goods with that of services would be a major simplification for businesses. In this respect, more clarity will be needed on whether the B-to-B domestic reverse charge mechanism will be included within the scope of the digital reporting requirements.

In addition, we call on the Commission to support Member States improve the current cooperation between the different national tax administrations to establish greater levels of trust and efficiency. In particular, we recommend that the One Stop Shop regime is improved by:

(i) Permitting input VAT deductions and the current arrangements for VAT refunds in the OSS system (potentially with a more automated processing of VAT credits) in order to have a better functioning Single Market. This would avoid the existence of two parallel procedures (one for reporting and one for refunds) in combination with cash flow disadvantages resulting from the need to pre-finance VAT which would create a very inefficient system. It would also be good to include capital goods, or goods that do not allow for the full right of VAT deduction in the Member State where the intra-Community acquisition takes place.

(ii) Permitting the imposition and payments of sanctions and interests relating to mistakes or corrections to be done through the OSS so businesses ensure that they are compliant the rules to avoid penalties or exclusion from the OSS regime.

VIDA proposes to make the Import One Stop Shop (IOSS) regime mandatory for platforms facilitating sales of imported goods. This is a welcome development as it is likely to improve the level playing field for e-commerce sellers as sellers who have not opted in for the IOSS are able to list products at lower prices (excluding VAT which will be paid by customers upon delivery) while those who use the IOSS must include VAT in their listed prices.

Finally, ViDA proposes to remove Article 35 of the VAT Directive, i.e. introducing changes with respect to transactions relating to second-hand goods which are currently taxed under the margin scheme. This is expected to create major difficulties for operators (such as second hand car dealers), in particular for SMEs and small businesses, as they will need to be aware of the different VAT rules and rates across all Member States. We therefore call for further consultation with business operators in this area before the proposals are adopted.

Concluding remarks

BusinessEurope continues to support the Commission's efforts to update the EU's VAT system, reduce its complexities and close the VAT gap. As the current VAT system is highly fragmented, complex, and subsequently reduces and distorts trade and investment, the common application of digital tools and more standardised rules across the Member States are needed in order to increase the collection of revenue and combating VAT fraud.

It will be key to ensure that this reform process is accompanied by a thorough analysis of the effectiveness of the proposed measures against the aims it is set out for in order to ensure that no unnecessary complexities are introduced for businesses in the process. This will ensure that the Single Market offers a truly improved environment for cross border trade with reduced compliance costs promoting the growth of European businesses.