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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the documents

Proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC as regards VAT rules for the digital age

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

Proposal for a COUNCIL IMPLEMENTING REGULATION amending Implementing Regulation (EU) No 282/2011 as regards information requirements for certain VAT schemes

{COM(2022) 701 final} - {COM(2022) 703 final} - {COM(2022) 704 final} - {SEC(2022) 433 final} - {SWD(2022) 393 final}

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Executive Summary
Impact assessment on VAT in the digital age
A. Need for action
What is the problem and why is it a problem at EU level?
The discrepancy between the 30 year-old VAT rules and the current digital reality creates a two-faceted problem: 1. **Sub-optimal VAT collection and control** – the EU VAT legislative framework is not fully adapted to deal with the new digital reality and is prone to fraud. 2. **Excessive burdens and compliance costs** – the digital economy and new business models create new challenges and costs for tax administrations and businesses. The challenges and potential benefits of digitalisation in terms of control/fight against fraud and burden reduction are currently not being fully addressed. The problems are especially visible in three areas: (1) VAT reporting (digital reporting requirements ('DRR')), where the reporting obligation is not digital and Member States are introducing varying DRRs in an uncoordinated manner; (2) VAT treatment of the platform economy, where traditional and digital business are not treated equally; and (3) VAT registration, where the number of instances where businesses need to register in more than one Member State can still be reduced. The VAT rules for cross-border EU trade involve more than one Member State, by their very nature, and VAT is a tax that is harmonised at EU level.
What should be achieved?
The general objectives of the VAT in the digital age initiative are related to modernising the VAT system: (1) improving VAT collection and control; and (2) simplifying, modernising and clarifying certain VAT rules. The initiative's specific objectives are to: i) improve reporting requirements, unlocking the opportunities provided by digitalisation; ii) promote the convergence and interoperability of IT systems; iii) create a level playing field for businesses, regardless of their business model; iv) reduce burden, fragmentation and associated costs; and v) minimise the need to register for VAT in multiple EU countries.
What is the value added of action at the EU level (subsidiarity)?
The intra-EU dimension of VAT fraud requires EU intervention. The size of the VAT gap[1] (and its persistence over time) indicates that national instruments are not sufficient to fight cross-border and e-commerce fraud, which can only be fought efficiently and effectively by coordinated action and uniform application at EU level. Harmonised VAT rules are needed to ensure the proper functioning of the single market. To reap the full benefits of the single market, businesses need VAT rules that are applied uniformly across

[1] The VAT Gap is the overall difference between the expected VAT revenue based on VAT legislation and ancillary regulations and the amount actually collected: https://ec.europa.eu/taxation_customs/business/vat/vat-gap_en.

the EU instead of having to comply with different rules at national level. This can only be ensured by action at EU level.

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not,why?

The objectives can be achieved by a mix of several policy options in the three areas.

- **VAT reporting**: the options are: (1) recommending an EU DRR; (2) ask businesses to record transactional data in pre-determined format(s); (3) introducing DRR at EU level; and (4) introducing DRR at both EU and domestic level.
- **VAT treatment of the platform economy**: the options are: (1) legal clarification of the nature of the services provided and the status of the supplier, combined with streamlining record keeping obligations; (2) introducing a 'deemed supplier' provision, whereby the platform collects the VAT on the supply for (i) certain accommodation and transport services, (ii) for all accommodation and transport services or (iii) for all services supplied via platforms.
- **VAT registration**: the options relate to intra-EU trade (the one-stop shop or OSS) and importing low-value consignments (the import one-stop shop or IOSS):
    - OSS options include: (1) a minor OSS extension covering all domestic B2C[2] supplies of goods; (2) a broader OSS extension covering all domestic B2C supplies of goods and the transfer of (own) goods cross-border; and (3) the introduction of a reverse charge for B2B[3] supplies by non-established persons;
    - IOSS options include: (1) making the IOSS mandatory for a) deemed suppliers, b) taxable persons who distance sell into the EU above a certain limit, or c) taxable persons who distance sell into the EU, with no limit; and (2) removing the EUR 150 threshold for using the IOSS.

Since the total number of options in the three problem areas allows for hundreds of possible combinations, five successive approaches (status quo, minimalist, moderate, enhanced and maximal) which progressively increase the intensity of the EU intervention were considered.

The enhanced approach (which combines the introduction of DRRs at EU level, a deemed supplier provision for all accommodation and transport sectors and a combination of a broader OSS extension, a reverse charge and mandatory IOSS) is better balanced in terms of effectiveness, proportionality and subsidiarity, while the maximal approach (which additionally includes domestic DRRs, all services supplied via platforms and the removal of the EUR 150 IOSS threshold) has the greatest efficiency.

What are different stakeholders' views? Who supports which option?

[2] Business-to-Consumer.
[3] Business-to-Business.

Stakeholders agreed there was a conflict between the old VAT rules and today's digital age. On **VAT reporting**, they agreed that a DRR could bring benefits and made clear their preference for an e-invoicing solution that can also be used for their internal automation. Member States called for more autonomy in deciding on domestic DRR. Stakeholders generally recognised the problems with the **platform economy**. The views of business are more nuanced, depending on their business model. Those that would be impacted rejected the deemed supplier option and expressed their preference for the status quo. On **VAT registration**, stakeholders unanimously agreed that the OSS/IOSS scope needs to be extended. Businesses also asked for a deduction mechanism to be included in the OSS or, at least, for the reverse charge for B2B supplies by non-established persons. There is also support for making the IOSS mandatory, but less support for removing the EUR 150 threshold.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

The enhanced approach is more balanced and scores better in terms of proportionality and subsidiarity. Between 2023 and 2032, it is expected to bring between EUR 172 billion and EUR 214 billion net impacts against baseline. The maximal approach scores better in terms of efficiency, with net impacts ranging between EUR 303 billion and EUR 386 billion.

The enhanced approach will save EUR 50.6 billion between 2023 and 2032:

- EUR 41.4 billion from VAT reporting (EUR 11 billion from removing reporting obligations, EUR 24.2 billion from reducing fragmentation costs, EUR 4.3 billion by using pre-filled VAT returns, and EUR 1.9 billion from e-invoicing benefits);
- EUR 0.5 billion from streamlining and clarifications in relation to the platform economy;
- EUR 8.7 billion from removing VAT registration obligations.

Between 2023 and 2032, the savings for the maximal approach are higher and they amount to EUR 65.9 billion: EUR 56.7 billion from VAT reporting (EUR 11 billion from removing reporting obligations, EUR 24.2 billion from reducing fragmentation costs, EUR 7 billion by using pre-filled VAT returns, and EUR 14.5 billion from e-invoicing benefits), EUR 0.5 billion from streamlining and clarifications in relation to the platform economy, and EUR 8.7 billion from removing VAT registration obligations.

For both approaches, there are also qualitative environmental, social and business automation benefits, as well as benefits related to the functioning of the single market (a more level playing field) and tax control efficiency.

What are the costs of the preferred option (if any, otherwise of main ones)?

Businesses will bear the costs of the additional administrative burden arising from the introduction of DRRs. Between 2023 and 2032, these costs are expected to be EUR 11.3 billion for the enhanced approach and EUR 43.5 billion for the maximal approach. Tax authorities will bear the implementation costs associated with introducing DRRs, expected to be about EUR 2.2 billion in the enhanced approach and EUR 3.4 billion in the maximal approach.

There are also qualitative costs related to data confidentiality. These are expected to be higher

for the maximal approach, which implies more data exchanges, than for the enhanced approach. In the platform economy area, additional burdens relate to the administration of the deemed supplier scheme (more sectors are impacted in the maximal approach). There is no cost for businesses in extending the scope of VAT registration, and they will receive more benefit from systems already in place.
What are the impacts on SMEs and competitiveness?
Introducing an **EU DRR** generates costs for businesses. This burden will be higher for micro and small enterprises, to the extent that they are less likely to benefit from business automation and are less likely to operate cross-border. Under the options for the **deemed supplier scheme**, the platform would account for the VAT instead of the small underlying suppliers. This means that these underlying suppliers would not be required to register and account for the VAT themselves and would bear no additional burden. On **VAT registration**, 280 000 SMEs will benefit from the extension of the scope of the OSS/IOSS, saving up to EUR 0.34 billion in one-off costs and up to an average of EUR 0.67 billion in annual ongoing costs, making a total of EUR 7 billion for 2023- 2032.
Will there be significant impacts on national budgets and administrations?
Between EUR 135 billion and EUR 177 billion of additional VAT revenue (0.1% of GDP annual yearly average, 2023-2032) is expected for the enhanced approach and between EUR 284 billion and EUR 367 billion additional VAT revenue (0.2% to GDP annual yearly average, 2023-2032) is expected for the maximal approach. Between 2023 and 2032, national administrations are expected to have implementation costs of between EUR 2.2 billion (enhanced approach) and EUR 3.4 billion (maximal approach).
Will there be other significant impacts?
No other significant impacts.
Proportionality?
Both the enhanced and maximal approach meet the objectives of the initiative in a proportionate manner, but the enhanced approach appears to be more proportionate.
D. Follow up
When will the policy be reviewed?
The Commission will evaluate the functioning of the new legislation 5 years after its entry into force.