

ECOFIN approves VAT in the Digital Age package

12 November 2024

In brief

What happened?

On 5 November 2024, the EU Finance Ministers at ECOFIN approved the latest version of the VAT in the Digital Age (ViDA) package released on 30 October 2024. This is positive news given that Estonia had earlier raised concerns in relation to the platform rules, a matter which was the subject of compromise discussions throughout 2024.

Why is it relevant?

Given the prominence of the digital economy, ViDA is highly significant in the European Union and on the global tax policy stage. The ViDA proposals are designed to:

- a) help streamline and harmonise the EU's VAT rules (thus lessening fragmentation and making them more apt for the modern economy and the single market);
- b) reduce administrative burdens for businesses operating cross-border; and
- c) safeguard significant tax revenues for Member States.

In detail

The latest ViDA package contains several compromises and new start dates, compared to the original 8 December 2022 proposals: see previous [PwC Tax Policy Alert](#). The main pillars of ViDA relate to:

1. Digital Reporting Requirements (DRR) and mandatory e-invoicing on intra-EU business-to-business (B2B) transactions - the application date and transitional date for DRR are **1 July 2030** and **1 January 2035** respectively;
2. The platform economy - the application date is **1 July 2028** (at the earliest) with a mandatory application date of **1 January 2030**; and

3. Simplifying VAT compliance by taking away the need for multiple VAT registrations - application date of **1 July 2028**.

1. VAT and digital reporting

The following changes have been approved:

- **Electronic invoicing** will become the **default system** for issuing invoices and eventually holding a valid e-invoice will become a material VAT recovery requirement. However, Member States will be allowed to authorise other invoices for domestic supplies.
- Invoices that have been issued, transmitted and received in electronic format that allow for automatic electronic processing will be considered to be electronic invoices and they should in principle comply with the **European Standard** (EN16931) and its list of syntaxes (other formats are allowed as long as these data formats ensure interoperability with the European Standard). Member States will not be allowed to request any additional data, to avoid unnecessary administrative burden. Summary invoices will be allowed (however, Member States may exclude this possibility in certain fraud sensitive sectors).
- The electronic invoices for cross-border transactions must be issued no later than **10 days** following the chargeable event.
- The current recapitulative statements (EC sales listings) will be replaced with DRR for cross-border supplies of goods and services. The reporting of the invoice data by the supplier needs to happen in **real time** (i.e. at the time the invoice is issued or should have been issued). However, in situations of self-billing or reporting by the buyer, the buyer needs to transmit the information no later than **five days** after the invoice is issued or should have been issued.
- Although real-time reporting of domestic transactions is not required under the EU VAT Directive, should a Member State opt to implement such a system, it will need to align with the digital reporting requirements for cross-border supplies. Member States can decide that holding an electronic invoice issued in compliance with the required standard becomes a **substantive condition** to be entitled to deduct or reclaim the VAT due or paid.
- Member States will not be allowed to impose any additional general transaction-based reporting requirements, but may keep national measures to prepare/submit VAT returns for audit purposes, e.g., SAF-T requirements and reporting obligations which are not general such as cash registers.

The requirements above will apply as from **1 July 2030** with specific rules for Member States with domestic digital real time transaction-based reporting obligations already in place or announced on 1 January 2024 (who will have to converge their national systems into the 'EU model' by 1 January 2035).

2. VAT treatment of the platform economy

From **1 July 2028** (at the earliest), a key proposal is that a taxable person who facilitates, through the use of an electronic interface, the supply of **short-term accommodation rental (maximum 30 nights)** and/or **passenger transport** by road, will be deemed to be the supplier of the underlying service, *unless*:

- the underlying service provider communicates to the platform their local VAT ID, or the ID number allocated under a special scheme; and
- declares that they will charge any VAT due on that supply.

Member States will be required to apply the rules from **1 January 2030** at the latest (meaning that a long lead-in time exists) and special schemes for small enterprises and travel agents are excluded. Platforms will also be able to leave it to underlying sellers to collect VAT. Not all platforms will be caught and there will be carve outs for platforms who process payments, list or advertise, or merely redirect customers.

Observation: Estonia had originally raised concerns in relation to the platform rules and preferred an ‘opt-out’ model. This was on the grounds of the potential cost to SMEs and the administrative burden. The latest rules provide more flexibility. However, an inconsistent picture is emerging globally as some countries outside the EU are not adopting a full liability model for platforms in relation to similar services.

3. Single VAT registration and reverse charge

From **1 July 2028**, the EC aims to alleviate the need for businesses operating across different EU Member States to obtain multiple VAT registrations. This will be achieved by expanding the One Stop Shop to cover additional types of supplies, including domestic business-to-consumer supplies of goods by taxable persons not established in the Member State of consumption. The expansion also introduces a special scheme for transfers of own goods, and applies a mandatory reverse charge mechanism in situations where suppliers are not established and not identified for VAT purposes in the Member State where VAT is due, but their (B2B) customer is.

Observation: The ViDA reform marks a new era for VAT in the digital economy, coinciding with the rapid global growth of VAT and digital reporting. This reform will result in significant process changes for businesses, necessitating a careful assessment of the rules, strategic planning, and additional resources. Embracing the substantial increase in data and technology use will be a key feature of this transition. Tax authorities will also need to adapt their systems to manage the new digital and data landscape effectively while providing robust support to businesses to ensure a smooth and mutually beneficial transition.

Next steps

Given the substantial differences between the EC proposal and the compromise text, the European Parliament will need to be reconsulted through a simplified written procedure. This approval should be forthcoming because the start dates are well into the future and the compromise text reflects a balance of factors.

Let's talk

For a deeper discussion of how these proposals might affect your business, please contact:

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