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New VAT measures: welcome to VAT in the Digital Age

On 8 December 2022, the EU Commission agreed on an ambitious draft reform of the EU VAT system to adapt the VAT Directive 2006/112/EC to the digital age.

The reform has 3 pillars: real time and structured e-invoicing for all businesses making intra-community supplies; a VAT collection role for digital accommodation and transport platforms; and extended EU e-commerce VAT reporting. The changes will be phased in between 2025 and 2028, once they are adopted by the Member States at the Council of the EU.

Background

Value added tax (VAT) is one of the main sources of revenue in all EU Member States, as well as a key source of funding for the EU budget. Despite the fundamental importance of VAT in shaping budgetary policies, the VAT system is hampered by sub-optimal collection and control methods. Moreover, it imposes excessive burdens and compliance costs.

In light of this, the EU Commission agreed on a new draft directive for "VAT in the Digital Age" (ViDA) on 8 December 2022, which proposes a series of measures to bring EU VAT into a new era.

The general objectives of the ViDA initiative aim to modernise the VAT system by (i) improving VAT collection and control, and (ii) simplifying, modernising and clarifying certain VAT rules.

What's new?

The reformed VAT system proposed by the EU Commission introduces 3 new pillars:

a) New digital reporting obligations based on e-invoicing

Real-time digital reporting for VAT purposes, based on e-invoicing, is proposed for businesses that operate cross-border in the EU.

Mandatory e-invoicing will be introduced for all intra-community business to business (B2B) supplies of goods and services, to guarantee near real-time digital reporting. E-invoicing will remain discretionary for domestic transactions.

Furthermore, near real-time digital reporting of transaction data will be introduced for intra-Community supplies, although only EU cross-border B2B transactions will be subject to near real-time reporting. A common EU database will record all transactions and tax authorities will be able to cross-reference sales and purchases to ensure the correct collection of VAT.

The changes will take effect from 2028.

b) Updated rules of platform economy

Under the new rules, platform economy operators in the relevant sectors will become responsible for collecting and remitting VAT to tax authorities when their users do not (because they are, for example, small businesses not usually required to register for VAT).

In particular, the new rules stipulate that intermediary platform operators in the short-term accommodation and passenger transport sectors will be considered "deemed suppliers". This means that operators will be

deemed to receive the relevant service from the accommodation or transport supplier and to provide the same service to the end-customer.

Together with other clarifications, this will ensure a uniform approach across all Member States and contribute to a more level playing field between online and traditional short-term accommodation and transport services.

The changes will take effect from 2025.

c) The introduction of a single VAT registration across the EU

Building on the existing "VAT One Stop-Shop" (OSS) model for online shopping companies, the proposals would allow businesses selling to consumers in another Member State to register only once for VAT purposes for the entire EU, and to fulfil their VAT obligations via a single online portal in one single language.

Further measures to improve the collection of VAT include making the "Import One Stop-Shop" mandatory for certain platforms facilitating sales to consumers in the EU.

The changes will take effect from 2025.

Food for thought

The proposed Directive is an initiative that supplements the existing body of legislation addressing VAT rules in the context of the increasing use of digital technology by both tax authorities and businesses.

Indeed, as the EU Commission points out, the VAT system has not yet fully exploited the opportunities created by these technological advances.

You can contact our VAT team for any questions in this respect.

[To read the EU Commission legislation proposals, click here_](#)

[To read the 8 December 2022 EU Commission press release, click here_](#)

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