

Political agreement reached on the EU's VAT in the Digital Age Proposal

On November 5, 2024, the 27 EU Member States reached unanimous political agreement on the *VAT in the Digital Age* ("ViDA") proposal.

While there are still some formal steps to be completed before the proposal is fully adopted, the political agreement is very likely to give a green light to proposals for major changes to how VAT operates across the EU. In this tax alert, we summarize the key elements of the proposal, when they are due to take effect, and what the impact will be for businesses.

What is ViDA and when will it take effect?

ViDA is a set of proposals aiming to significantly modernize the EU's VAT system. The proposal was first published in December 2022 and has been under discussion at the EU Council since then. The overall thrust of the proposals has remained broadly the same since first announced, but the package now agreed contains important changes both to the detail and timeline of the proposals.

There are three parts or pillars to the proposal.

- 1 E-invoicing and Digital Reporting**
- 2 Platform Economy**
- 3 Single VAT registration**

While there are different effective dates for the elements of the proposal (with some taking effect as early as 20 days after the formal adoption of the package, most likely in the first half of 2025), the most significant implementation dates are likely to be:

- **July, 1 2028** in respect of the introduction of a "deemed supplier" rule making platforms facilitating passenger transport and accommodation liable to account for VAT on those supplies in certain circumstances, as well as the extension of the existing one stop shop (OSS) and reverse-charge mechanism for certain supplies. However, it is important to note that with regard to the deemed supplier rule, Member States are allowed to postpone the effective date to January 1, 2030 at the latest.
- **July 1, 2030** in respect of the introduction of mandatory e-invoicing and digital reporting for cross-border EU business-to-business (B2B) and business-to-government (B2G) supplies. However, Member States have or are likely to introduce domestic requirements along similar lines to those included in ViDA at earlier dates, particularly in relation to e-invoicing and digital reporting. Therefore, it is important that businesses monitor these changes and prepare for them as soon as possible.

First pillar of ViDA: E-invoicing and digital reporting

The most wide-reaching pillar of ViDA is the transition to mandatory EU e-invoicing and digital reporting for VAT. This will involve three steps.

1. *20 days after official publication of the proposal (aim: first half of 2025)*
Member States will be allowed to make the issuing of e-invoices mandatory for domestic supplies without having to obtain a derogation (authorization) from the EU Council. Member States may also stipulate that a customer is obliged to accept e-

invoices from that date. This could see more EU Member States adopt mandatory e-invoicing for domestic transactions before July 1, 2030. The EU Council even urges Member States to gradually introduce e-invoicing in stages to accommodate small and medium-sized enterprises.

2. *From July 1, 2030*

- VAT registered businesses will be obliged to issue a structured e-invoice for cross-border business-to-business (“B2B”) and business-to-government (“B2G”) supplies within the EU. The e-invoice will be based on a standard EU format, but Member States may allow other formats under certain conditions. The e-invoice must be issued within 10 days of the date of the supply (or the date of payment, if earlier). This is a change from the two-day time period included in the original ViDA proposal.
- Certain data from the e-invoice must be digitally reported to the relevant tax authorities by the supplier directly after the e-invoice has been issued (or within five days if the customer issues the e-invoice under a “self-billing” arrangement). The digital reporting of this data will mean that periodic EC Sales Lists are no longer required.
- The intention is also to have the customer digitally report data from the e-invoice within five days of its receipt from the supplier. However, an important amendment to the original proposal is that Member States may choose to waive the customer’s digital reporting obligation if certain conditions are met.
- Another important change compared to the original ViDA proposal is that monthly summary invoices (instead of transaction-level e-invoices) will be permitted, subject to certain conditions, for a period of up to one calendar month. This is a welcome development as the proposed abolition of summary invoices under the original proposal had been a cause for concern for businesses in certain industries.
- The current proposal also requires some additional data items to be included on an e-invoice (mostly as of July 1, 2030), including an indication of the use of the triangulation simplification, the bank account number or other account to which payment is to be made, a reference to the number on the original invoice in the case of a corrective invoice, and (effective January 1, 2027) an indication whether cash accounting applies.

While ViDA aims to achieve full harmonization of e-invoicing across the EU, as a compromise measure, Member States that had existing e-reporting obligations for domestic transactions in effect on January 1, 2024 or were in the process of implementing such obligations on that date, may retain those obligations in their current form. This means that businesses operating in multiple Member States may still have to deal with varying e-invoicing and reporting obligations across the EU for some time to come. Member States may also introduce e-invoicing obligations before July 1, 2030, provided they are in line with the EU e-invoicing standard.

3. *From January 1, 2035*

The intention is to introduce full harmonization of e-invoicing and digital reporting obligations across EU Member States, including for domestic transactions where applicable.

Impact for businesses

The transition to e-invoicing and digital reporting is a very significant change requiring businesses to review and update their current invoicing and VAT reporting procedures. The impact is likely to be felt throughout the business and will require input and support from a wide range of stakeholders (IT, tax, logistics etc.). While the principal change on July 1, 2030 is some time away, businesses with multinational operations must monitor the e-invoicing and digital reporting obligations around the EU and further afield as many of these will take effect before that date.

Second pillar of ViDA: Platform economy

The second pillar of ViDA impacts the VAT treatment of transactions involving online platforms and marketplaces.

From July 1, 2028 (with a potential delay in some cases – see below), a digital platform acting as an intermediary or agent in facilitating the supply of short-term accommodation rentals (i.e. 30 consecutive nights or less per customer) and/or passenger transport by road will be regarded as the “deemed supplier” of those services for VAT purposes and will therefore be liable to account for VAT thereon. However, the platform will not be liable if the underlying supplier provides its VAT identification number (effective in the Member State where the VAT is due) to the platform operator and declares to the platform operator that it will account for VAT on that supply. Therefore, the deemed supplier requirement is principally intended to apply in circumstances where the underlying supplier is not required to account for VAT on the supply.

A late change to this proposal – which was necessary to overcome a Member State veto – is that Member States can postpone the introduction of this deemed supplier rule until January 1, 2030 at the latest. However, one Member State (Spain) has already announced that it will request a derogation to apply the deemed supplier rule before July 1, 2028. We may therefore see a variety of different implementation dates across the EU.

A second important change to the original proposals is that Member States may choose not to make the platform a deemed supplier if the underlying supplier qualifies and opts for the small and medium-sized enterprise (“SME”) VAT regime (i.e. if the business is below the SME threshold in the relevant country and does not elect to apply normal VAT rules).

Other Platform Measures

While the changes under this pillar primarily affect platforms in the passenger transport and accommodation sector, ViDA also includes measures that will affect platforms facilitating other types of services as well as goods. These changes are also effective from July 1, 2028.

- The place of supply of a platform’s “facilitation services” (i.e. a charge levied for the use of the platform) to non-business (B2C) customers will be where the underlying service takes place. All customers served by the platform that have not provided a VAT identification number will be considered non-taxable persons for the application of this measure.

- Platforms (and other parties) facilitating supplies of goods and which hold goods owned by a third party (e.g. in a central warehouse) will be required to inform the third party if these goods are moved to another country.

Impact for businesses

This pillar of ViDA is sector-specific; however, for businesses operating platforms, particularly in the passenger transport and accommodation sectors, its impact will be significant. In addition, there will be an impact for providers that sell passenger transport and/or accommodation services on platforms and are not currently obliged to charge VAT on those supplies, as the platforms may be obliged to apply VAT to their supplies with a corresponding impact on sellers' prices and revenue.

While Member States can opt to limit or delay the deemed supplier rule, which may reduce a platform's obligations in certain jurisdictions, this also has the potential to create additional complexity, as different rules will apply in different Member States and platforms, and a need to adopt procedures to confirm the VAT status of the underlying sellers. Further variability is likely due to Member States having flexibility in defining the meaning of short-term accommodation rentals.

Platform Rules that won't change under ViDA

It is also important to note that certain proposed changes included in the original ViDA proposal are not in the agreed version. These include the following:

- The proposed extension of the platform fiction for platforms that facilitate the supply of goods has mostly been deleted. In the original proposal, the platform would become the deemed supplier of almost every good sold through the platform. Now, the current scope of the fiction (for imported goods up to EUR 150 and for goods sold by a non-EU based supplier from an EU warehouse) remains virtually unchanged.
- The *Import One Stop Shop* (IOSS) for platforms will not become mandatory under ViDA.

Both of these measures remain under consideration as part of the negotiations concerning the EU Customs Reform Package.

Third pillar of ViDA: Single VAT Registration

The Single VAT Registration (SVR) pillar is intended to reduce the need for non-established traders to register for VAT in an EU Member State in which they are not established. The measures in this proposal are set out below and will mainly take effect from July 1, 2028 (unless otherwise indicated):

- The existing *One Stop Shop* ("OSS") regime for B2C distance sales of goods and certain services provided by EU-established traders (the "Union scheme") makes it possible to pay VAT on those supplies across multiple EU countries through a single return. The OSS will be extended to other B2C supplies, including supplies of electricity and natural gas, supply and install contracts, and domestic supplies of goods and services. This extension will mainly apply from July 1, 2028, however, the extension of OSS to B2C supplies of electricity, natural gas and other energy-related supplies will take effect from January 1, 2027. This is particularly relevant

for suppliers supplying electric vehicle (“EV”) charging outside of their Member State of establishment.

- There will be a new OSS module for businesses to report movements of their own goods between EU Member States. Currently, the movement of own goods between Member States, with certain limited exceptions, triggers a VAT reporting and registration obligation in both the country of dispatch and country of arrival of each movement. From July 1, 2028, a business may instead choose to report the intra-EU movement of own goods in the OSS, thereby avoiding the need to report acquisition VAT in the country of arrival. However, this will not be permissible where the owner is not entitled to fully deduct input VAT in respect of those goods. In a change to the original ViDA proposal, the OSS for transfers of own goods may be used for “capital goods” where the owner has a right to full VAT recovery. However, if those goods are subsequently used for non-deductible activities or self-supplied (e.g. diverted to a private use or supplied free of charge) an adjustment to disallow some or all of the VAT recorded in the OSS must be paid.
- The current VAT call-off stock simplification (introduced as part of the [Quick Fixes](#) in 2020) will become redundant as a result of the new OSS for movement of own goods and will be abolished from July 1, 2028.
- The VAT reverse-charge mechanism for B2B transactions will also be extended to reduce the circumstances in which a B2B supply of goods or services by a non-established trader requires a VAT registration in the country where the VAT is due. At present, Member States can elect to apply a reverse charge to certain supplies, such as domestic supplies of goods or services related to immovable property. Under the new rules, Member States will be obliged to allow the reverse charge if a non-established supplier is not VAT registered in the country where the VAT is due and the customer is. Even if the customer is not VAT registered in the Member State where the VAT is due, Member States will have the option to require the customer to operate reverse charge VAT on that supply.
- Under the original ViDA proposal, goods sold under the margin scheme were due to become taxable in the Member State of destination if the supplier was directly or indirectly involved in the transport to that Member State. A similar rule would apply to sales of works of art (regardless of who would arrange the transport). The rules on the place of supply for these types of goods have been deleted in the amended proposal and therefore remain subject to VAT where the margin scheme applies.
- Rules for evidencing the place of supply of live streaming and virtual admissions to events (B2C) will be introduced with effect from the 20th day after official publication of the ViDA proposal. These rules will largely mirror those for the place of supply of electronically supplied services. This will provide further guidance to support the change to the place of supply of live streaming and virtual admissions to events, which is already agreed to take effect from January 1, 2025.

Impact for Businesses

While the above measures should reduce the circumstances in which businesses have to register for VAT outside of their country of establishment, it will not completely eliminate the need for such registrations. For example, a non-established supplier will still need to VAT register in an EU Member State from which it makes an intra-Community supply of goods. Not registering for VAT in the other Member State may

also have negative cash flow implications as the supplier may then have to reclaim input VAT incurred in that Member State through the non-resident refund claim mechanism rather than through a local VAT return. Businesses will therefore need to consider whether it is preferable to maintain existing foreign VAT registrations (where possible) or maximize the use of the simplifications.

What does this political agreement mean and what are the next steps?

The political agreement reached on November 5, 2024 means that the 27 EU Member States have unanimously agreed on the content of the new proposals. However, the proposals have not yet been fully adopted, because some technical details still have to be finalized in the legal texts and the European Parliament must (again) give its (non-binding) opinion about the proposals.

The proposal will therefore not be fully effective until the Council formally adopts it at a later meeting. However, as a result of the political agreement reached on November 5, it is expected that the formal adoption will follow in due course. This process may take some months, due to the size of the package.

What can you do now?

Now that the content of the ViDA package is politically agreed and formal adoption is likely to follow, we recommend that you begin assessing the impact for your organization. Almost all businesses will be impacted in some way. In preparation for the new rules, businesses will have to make significant changes to their systems and processes, and in order to be ready to implement these in a timely manner, it is important to consider and prepare for these on time.

In the meantime, it is also important to remember that Member States do not necessarily have to wait until the prescribed date in ViDA to introduce these changes. For example, several EU Member States have or are proposing to introduce mandatory e-invoicing and/or new reporting obligations, including for example Germany, Belgium, Poland, Spain and France. Therefore, it is important to monitor these requirements in the short-term and, in preparing for those changes, take account of the wider EU changes further down the track.

We would be happy to help you prepare for these significant changes.

KPMG Meijburg & Co
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