European Commission

VAT in the Digital Age

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EUROPEAN COMMISSION

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Directorate-General for Taxation and Customs Union

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Abbreviations and acronyms

B2B	Business-to-Business
B2C	Business-to-Consumer
B2G	Business-to-Government
B&B	Bed and Breakfast
CBA	Cost-benefit analysis
CTC	Continuous Transaction Control
DAC7	Revised Directive on Administrative Cooperation (Council Directive 2011/16/EU)
DRR	Digital Reporting Requirement
EU	European Union
EU27	European Union without the United Kingdom
ESS	Electronically Supplied Service
GDP	Gross domestic product
IOSS	Import-One-Stop Shop
IT	Information technology
MNCs	Multinational Companies
MS	Member States
OSS	One-Stop Shop
PTC	Periodic Transaction Control
SAF-T	Standard Audit File for Tax
SME	Small and Medium-sized Enterprise(s)
TA	Tax Authorities
TBE	Telecommunications, Broadcasting and Electronic
VAT	Value-Added Tax

1. INTRODUCTION

This Report was prepared within the framework of the study on **VAT in the Digital Age** for the European Commission, Directorate General for Taxation and Customs Union, by a grouping of consulting firms and research institutions led by Economisti Associati Srl and including Oxford Research AB, the Center for Social and Economic Research, Wavestone S.A., Mazars N.V., Hedeos société d'avocats, Desmeytere Services and Università di Urbino.

The Report covers three distinct but interrelated areas of VAT policy:

1) **Digital Reporting Requirements (DRRs)**;
2) **The VAT Treatment of the Platform Economy**; and
3) **The Single VAT Registration and Import One Stop Shop (IOSS)**.

The purpose of the Report is two-fold: (i) **to assess the current situation** with regard to the three domains listed above; and (ii) **to assess the impacts of a number of possible policy initiatives in these areas**. The Report is intended to feed into the preparation of an Impact Assessment by the European Commission, to accompany possible legislative or non-legislative initiatives.

2. DIGITAL REPORTING REQUIREMENTS

2.1. Introduction

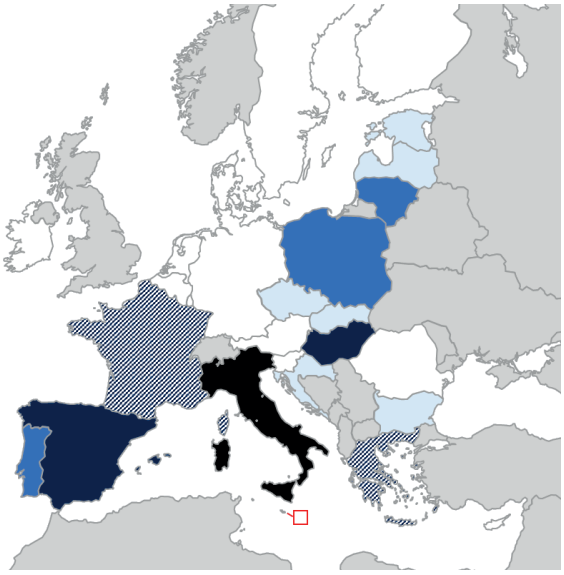
This part of the Study covers '**Digital Reporting Requirements' (DRRs),** that is any **obligation for VAT taxable persons to periodically or continuously submit data in a digital way on all (most of) their transactions, including by means of mandatory e-invoicing, to the tax authority.**

DRRs can be distinguished into:

- **Periodic Transaction Controls (PTCs)**, in which transactional data are reported to tax authorities at regular intervals. In the EU, PTCs include **VAT Listing** and **SAF-T** systems.
- **Continuous Transaction Controls (CTCs)**, in which transactional data are submitted electronically to tax authorities just before, during or shortly after the actual exchange of such data between the parties. CTCs include **real-time reporting mechanisms** and **mandatory e-invoicing** – either with or without clearance.[1]

As of September 2021, **12 Member States have introduced a DRR** (as shown in Figure 1 below). Periodic obligations are the most widespread and have been introduced in nine Member States, in six of them as VAT listing and in three as SAF-T. Only three countries have introduced a CTC system, namely Spain and Hungary, as real-time, and Italy, which is the only Member State with a mandatory e-invoicing requirement. Two more – France and Greece – have already planned the introduction of DRRs.

Figure 1. Digital Reporting Requirements in the EU (as of September 2021)



Legend:

	Clearance e-invoicing (IT)
	Real-time reporting (ES, HU)
	SAF-T reporting (LT, PL, PT)
	VAT listing (BG, CZ, EE, HR, LV, SK)
	Forthcoming reporting requirement (EL, FR)
	No reporting requirement
	Non-EU countries

Source. Authors' own elaboration based on (i) "Study on the evaluation of the invoicing rules of Directive 2006/112/EC", Annex D, January 2019; (ii) SOVOS 2021; and (iii) targeted consultation validated by tax authorities.

[1] Clearance is defined in terms of the role of the central IT platforms set up by the tax authority. In a non-clearance e-invoicing system, the supplier is able to send the e-invoice directly to its customer without having to request any token from the tax authority. In a clearance system, the supplier is required to either (i) obtain a verification token from the tax authority as a pre-condition to send the invoice, or (ii) send the draft e-invoice to a central IT platform, which in turns delivers (or issues and delivers) the e-invoice to the customer

2.2. The current situation

2.2.1. Costs and benefits for tax authorities

According to the tax authorities of the Member States with a domestic DRR, its introduction has **improved tax control activities, in particular by increasing the accuracy and the effectiveness of risk analysis**, i.e. the identification of suspicious taxpayers and chains of transactions. This was achieved because of the automatic cross-checking of the transactional data provided, by matching the data among trading partners or with other databases. The implementation of DRRs also increased the effectiveness and, to a lesser extent, efficiency of audit activities.

The improvements in tax control activities, together with the push on taxpayers' compliance and the reduction of mistakes and omissions, led to a **significant and measurable positive effect of DRRs on VAT revenue.** Under the various econometric models and specifications used for the analysis, **the cumulative increase of VAT revenue during the 2014-2019 period was estimated at between EUR 19 and EUR 28 billion** in the Member States which have introduced a DRR in these years. This corresponds to an annual increase of VAT revenue of between 2.6% and 3.5%, i.e. to an equivalent increase of the VAT rates by 0.6 to 0.8 percentage points. Some evidence exists on a higher impact of CTCs compared to PTCs, but the econometric analysis is not conclusive, given that the former have been introduced only recently and in only a few EU Member States. Finally, **the additional costs for tax authorities were a fraction of the benefits achieved**.

2.2.2. Costs and benefits for domestic operators

The most visible impact of DRRs on domestic taxpayers consists in the **compliance costs**. Expectedly, costs increase in proportion to the complexity of the DRRs, as well as with company size. In particular, costs for micro entities are estimated near or below EUR 200 per year when it comes to VAT listings, SAF-T and real-time requirements; they can however increase to EUR 500 with e-invoicing.[2] Differences are more marked for large companies, which would spend about EUR 2 000 to 3 000 per year under the simpler systems, while compliance costs of more than EUR 15 000 can be expected in Spain (real-time) and Italy (e-invoicing).

As for the benefits, the main ones emerging from the analysis are due to the concomitant **removal of other information provision obligations**, which typically happens after the introduction of CTCs, as in Hungary, Spain and Italy. Another benefit consists in the provision of **pre-filled VAT returns**, which are already operational in Portugal (SAF-T) and Spain (real-time) and envisioned in Hungary and Italy. Some additional savings were identified in Italy, concerning the **dematerialisation of e-invoices**, and the consequent savings in printing and posting costs, as well **increased business automation**. The latter benefit is likely to become very significant, should the automation of the business processes allowed by the use of structured e-invoices become widespread among the business population. However, it is still too early to tell, and the current evidence concerns a minority of companies, mostly large entities.

2.2.3. Costs and benefits for Multinational Companies

The lack of harmonisation of DRRs across the EU generates fragmentation costs for Multinational Companies (MNCs) operating in multiple Member States, which have to comply with diverse local requirements. In this situation, a company incurs compliance costs not just once (e.g. in its country of main establishment), but several times, depending on the number of countries in which it is established or registered for VAT purposes.

[2] Yearly costs are estimated by annualising setup investment costs over three years.

The costs to set up compliance systems for PTCs requirements can be up to several tens of thousands of Euros for small-scale MNCs, and several hundreds of thousands of Euros for large-scale ones. Once aggregated over the overall MNC population, **total fragmentation costs were estimated at up to EUR 1.6 billion per year.**

2.2.4. Conclusions on the current situation

The main conclusions from the assessment of the current situation can be summarised as follows:

1) Considering the EU Member States in which a DRR has been implemented, the **net annual benefits to businesses and Member States can be estimated at about EUR 8 billion**. These result from about EUR 5 billion of costs for taxpayers, about EUR 12 billion of additional VAT revenue and about EUR 1 billion of savings from simplifications for taxpayers.

2) **For all types of DRRs, net impacts are positive**. In a nutshell, the additional VAT revenue exceeds the costs for setting up the system and complying with the requirements. This is true even by not considering higher revenue effects from CTCs, given the lack of conclusive data in that respect.

3) The **net impacts on taxpayers** (i.e. the difference between the administrative burdens and the savings generated by the DRRs) **remain negative across all types of DRRs**, though the quantitative analysis cannot account for the benefits due to business automation, which are especially significant for e-invoicing.

4) The VAT revenue recouped suggests that DRRs have a **positive impact on the fight against VAT fraud**. This generates indirect, but important, benefits for honest businesses, due to an improved fraud detection, which helps ensure a level-playing field, fairer competition, and reduces the risk of joint and several VAT liabilities for trading partners.

2.3. Problem definition

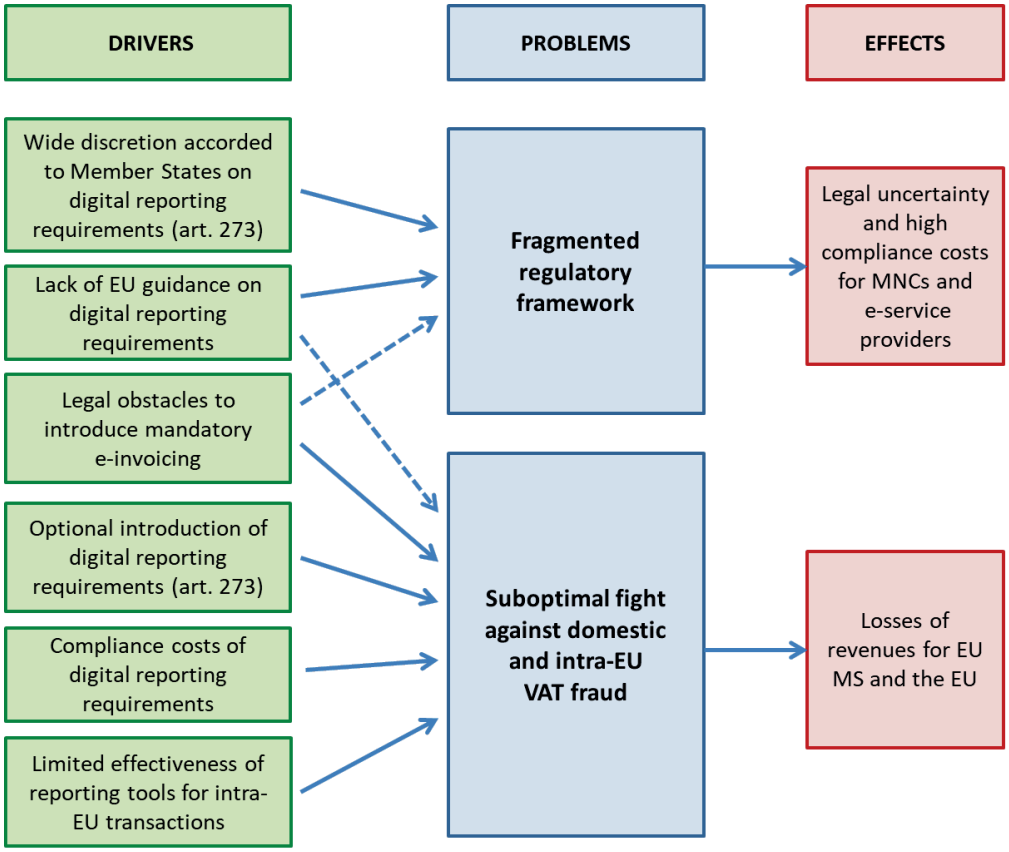
The existing rules (or lack thereof) on DRRs generate two main problems:

1) First, the growing number of different reporting mechanisms introduced by Member States translates into a **fragmented regulatory framework**, which, in turn, results in legal uncertainty and additional costs for companies operating in multiple Member States and VAT service providers. This results in barriers to trade and inefficiencies in the functioning of the Internal Market.

2) Secondly, the partial adoption of reporting requirements across the EU, also determined by the associated compliance costs, and the outdated tool for reporting intra-Community transactions (i.e. the recapitulative statements) **do not allow Member States to effectively tackle VAT fraud.** This gap concerns, firstly, intra-EU transactions, but also fraud at the domestic level. The potential VAT revenue losses attributed to the non-introduction of DRRs have been estimated at between EUR 22 and 27 billion per year. This would correspond to EUR 9 to 11 billion VAT revenue lost on intra-EU transactions only.

Figure 2 below shows the problem tree, with drivers, problems, and their consequences.

Figure 2. Digital Reporting Requirements: Problem tree



Notes. A blue arrow means a strong link; a blue dashed arrow means a weaker relation.
Source. Authors own elaboration.

2.4. Policy options

The following policy options are retained for the analysis of impacts:

1) **Option 1 - Status quo.** No measures to harmonise the DRRs are introduced at EU level; a number of Member States are likely to introduce DRRs depending on their VAT Gap and the policy patterns of other Member States; the introduction of mandatory e-invoicing remains subject to a derogation being obtained and recapitulative statements are not modified.

2) **Option 2 – Recommendation & Removal.** The introduction of DRRs remains optional for Member States; their introduction is encouraged for those Member States with a significant VAT Gap and supported by the Commission, provided that the new system conforms to the EU design. The core elements of the EU design are described in a non-binding Recommendation. The Recommendation elaborates on the design of both a transactional reporting mechanism DRR and an e-invoicing system. In parallel, the derogation currently needed to introduce mandatory B2B e-invoicing is removed. Recapitulative statements are not modified.

3) **Option 3 – Keep data with the taxpayers**. No EU DRR is imposed; rather, a new provision is included in the VAT Directive requiring taxpayers to record transactional data according to a pre-determined format. The tax authority could access such records upon request. Member States remain free to maintain (or introduce) national DRRs. For Member States which introduce a DRR, compliance with the reporting mechanism would also ensure compliance with the new obligation (hence, no duplication).

4) **Option 4 – Introduction of an EU DRR.**

- **Option 4a. Partial harmonisation**. An EU DRR is introduced for intra-EU transactions; the recapitulative statements are abolished. DRRs for domestic transactions remain optional for Member States. Member States wishing to introduce such mechanisms should conform to the system used for intra-EU transactions. For Member States where DRRs for domestic transactions are already in place, interoperability must be ensured in the short-term[3]; then, national DRRs are required to converge to the EU DRR system in the medium-term (i.e. in five to ten years).

- **Option 4b. Full harmonisation**. An EU DRR is introduced for intra-EU and domestic transactions alike. The recapitulative statements are abolished. For Member States where DRRs for domestic transactions are already in place, the interoperability clause applies in the short-term; then, national DRRs are required to converge to the EU DRR system in the medium-term (i.e. in five to ten years).

For options 4a and 4b, the impacts depend on the exact design of the systems. First, the analysis considers four sub-options, depending on **the type of DRR** chosen: (i) VAT listing, (ii) SAF-T, (iii) real-time, and (iv) e-invoicing. The analysis of impacts then considers a number of **other features** in terms of: (i) taxpayers covered; (ii) transactions covered (B2B, B2G and B2C); (iii) role of the customer; (iv) clearance vs. non-clearance (for e-invoicing solutions); (v) frequency of CTCs; and (vi) additional services to taxpayers (e.g. pre-filling of VAT returns).

2.5. Comparison of policy options

All options are assessed against Option 1 – Status quo. For each option, a forecast is made on the adoption or upgrade of national DRRs, based on the available information on policy developments and likely scenarios. The comparison of options is shown in Table 1.[4] From this comparison, it can be concluded **that the best policy choice results from the introduction of an EU DRR.**

[3] Interoperability is defined as follows: (i) for VAT Listing, SAF-T and real-time requirements, the capacity to extract a pre-determined set of basic transactional data in a pre-determined format and share it automatically with other national authorities; and (ii) for e-invoicing, the capacity to accept a common format (e.g. based on the e-invoicing hEN standard) and via a common transmission mechanism (e.g. Peppol), in addition to any national specification.

[4] The net benefits are quantified as the difference compared to the status quo and include the following impacts: administrative burdens and burden savings for businesses, fragmentation costs for MNCs, implementation costs for tax authorities and environmental impacts.

Table 1. Summary of the impacts

	CBA: Net impacts (EUR bn, 2023-2032)	Tax control	Benefits from business automation	Data confidentiality	Macro-economic impacts
#1 Status quo	More MS are going to adopt national DRRs over the next decade. This will result in overall positive net impacts, due to the higher VAT revenues more than compensating additional costs for companies	Tax control efficiency and effectiveness is expected to increase with the diffusion of DRRs.	The current trend of MS considering the introduction of mandatory e-invoicing would spur further business process automation	The diffusion of DRRs would mean that more transactional data are exchanged; this increases confidentiality risks	Net impacts too small to generate significant macro-economic impacts
#2 Recommendation and Removal	13	+	+/++	-	0
	Costs and benefits slightly higher than under #1, due to more widespread diffusion of DRRs	More widespread adoption of DRRs compared to status quo leads to better risk analysis, and improves audit effectiveness and efficiency	Removal of the derogation facilitates adoption of mandatory e-invoicing, spurring more companies to automate (parts) of invoicing, accounting processes, depending on MS choices	More widespread adoption of DRRs compared to status quo increases the risks of malicious attacks on companies' data	Net impacts too small to generate significant macro-economic impacts
#3 Keep the data with the taxpayers	25	0/+	+	+	0
	Compared to DRRs, some savings in administrative burdens; more limited effect on VAT revenue	Audits would become more effective, efficient; no improvements to risk analysis possible	Electronic handling of transactional data may increase automation; benefits from e-invoicing fail to materialise	No data transmitted to the TA reduces the surface attack for malicious users; risk of accessing data on the company's premises (especially SMEs) remains	Net impacts too small to generate significant macro-economic impacts
#4A EU DRR - Partial Harmonisation	127 – 143	++	+	--	+
	Costs and benefits increase following the introduction of an EU DRR for intra-EU transactions and a growing adoption for domestic transactions	Adoption of an EU DRR and wider diffusion for domestic transactions lead to better risk analysis, and improves audit effectiveness and efficiency	Electronic handling of transactional data may increase automation; significant benefits (+++) only from the e-invoicing sub-option	Risks to data confidentiality increase significantly the more fiscal data are stored and exchanged	+0.1% GDP (annual yearly average 2023-2032)
#4B EU DRR - Full Harmonisation	203 – 231	+++	+	---	++
	Costs and benefits increase the most following the application of an EU DRR to intra-EU and domestic transactions	Maximum improvements of risk analysis and audits due to the coverage of both intra-EU and domestic transactions in all MS	Electronic handling of transactional data may increase automation; significant benefits (+++) only from the e-invoicing sub-option	Risks to data confidentiality increase the most since transactional data are stored and exchanged in all MS	+0.2% GDP (annual yearly average 2023-2032)

Notes. Qualitative impacts are scored on a --- to 0 to +++ qualitative scale against the dynamic baseline scenario, with positive and negative impacts being scored as major (+++/---), moderate (++/--), or minor (+/-).

Source. Author's own elaboration.

2.5.1. Type and features of the EU Digital Reporting Requirement

The quantitative analysis does not provide solid findings on the impact of the type of DRR. This is due, in particular, to the fact that the econometric analysis provides no conclusive evidence on a differential impact on VAT revenues between PTCs and CTCs.

Therefore, the analysis of the choice among different DRRs has been performed by means of a qualitative analysis, shown in Table 2 below.

The resulting comparison shows that **an e-invoicing solution ranks first across the various scenarios**.[5] Albeit generating higher compliance costs and risks to data confidentiality, it scores better than all or most other sub-options in terms of additional services that can be provided to taxpayers, administrative cost reductions, and environmental benefits. Most importantly, it is the only sub-option generating significant positive benefits in terms of business automation, as well as in being fit-for-the-future, given that the current trends at global and EU level would risk making the other sub-options soon outdated.

Table 2. Type of Digital Reporting Requirements: Multi-Criteria Analysis

	VAT Listing	SAF-T	Real-time	e-Invoicing
Compliance Costs	-	-	--	---
Fragmentation costs	++	++	++	++
VAT revenue	++	++	++*	++*
Tax control	++	++	++	++
Additional services	+	+	++	++
Administrative burden savings	0	0	0	++
Environmental benefits	0	0	0	+
Business automation	0	0	+	+++
Data confidentiality	-	-	-	--
Fit-for-the-future	0	0	0	+++

Note.: +++ in the sensitivity analysis. Source. Authors' own elaboration*

When it comes to other features of the EU DRR, the main conclusions of the analysis are as follows:

- **Taxpayers covered.** It is suggested to exclude from the scope of the EU DRR those taxable persons covered by the VAT special scheme for small enterprises or otherwise not identified for VAT purposes. Their inclusion would significantly increase compliance costs, with limited positive effects on VAT revenue and the fight against VAT fraud.

- **Transactions covered.** At least in its early phase, the EU DRR should focus on B2B and B2G transactions.[6] While excluding a non-trivial amount of VAT transactions, this choice avoids imposing larger costs for those taxable persons only active in the B2C segment, mostly very small players. At a later stage, it may be appropriate to assess the extension of the EU DRR to the B2C segment, what costs would be generated, whether a different reporting system should be introduced, or whether the existing scope proved sufficient.

- **Role of the customer.** The existing evidence shows that the role of the customer is not decisive. Asking customers to verify or confirm transactional data does generate additional burdens, and these tasks could be performed more efficiently by the tax authorities, via automated means. Similarly, there seems to be no significant advantage when requiring the customer to accept and confirm the e-invoices received. This could increase the certainty of the fiscal document, also when used to obtain trade financing, but could also expose suppliers to abusive commercial

[5] The resulting comparison and ranking of the various DRRs has been performed based on the Better Regulation methodology, as developed by the Joint Research Centre. A statistical analysis has been done of all possible rankings of DRRs, based on three different weighting systems, as well as accounting for the possibility that CTCs have a more positive impact on VAT revenue.
[6] Accordingly, the quantitative analysis shown in Table 1 above is based on this assumption.

behaviour. In any case, it is suggested that, if the customer is required to accept or confirm the e-invoice or data received, this is implemented via a silent-is-consent mechanism.

- **Clearance vs. no-clearance.** The limited available evidence on the pros and cons of the clearance system for e-invoicing shows, at present, no clear advantages for clearance. Benefits seem limited, although the costs and negative impacts due to the implementation of a clearance model in Italy also appeared negligible. Once a common EU e-invoicing architecture is set up, which companies can use 'next to' any local platform, one could consider leaving Member States free to opt for a clearance or no-clearance model for domestic transactions.

- **Frequency of CTCs.** The evidence points out that requiring submission within a few days of the transaction taking place has limited drawbacks for tax authorities compared to instant reporting. Furthermore, a slightly delayed reporting reduces complexity and costs, especially for the smallest taxpayers.

- **Additional services and other obligations.** The analysis strongly points out to the beneficial effects of additional services that can be provided to taxpayers following the introduction of any EU DRR, particularly the pre-filling of VAT returns and the removal of the recapitulative statements, which can partly compensate the compliance costs for businesses.

2.5.2. SME Test

The introduction of a DRR generates significant costs for businesses. **This burden risks impacting disproportionately micro and small entities**, given their smaller size. Furthermore, micro and small entities are also likely to enjoy less benefits, due to the more limited potential for business automation and their lower propensity to operate cross-border.

The results of the SME test thus suggest two policy caveats:

- The use of the transactional data to provide taxpayers with **additional services**, and in particular the pre-filling of the VAT return, is necessary to increase benefits for businesses.

- If more complex requirements are considered, the negative net impacts for small businesses would be more severe. Therefore, **appropriate support measures**, for instance for the investment in e-invoicing services could be considered, to make sure that the net costs for taxpayers are lowered or compensated.

The implementation of the above suggestions would also be necessary to make sure that the introduction of an EU DRR conforms with the **one-in-one-out principle**.[7]

[7] Under the one-in-one-out principle, the Commission committed to offset new burdens from legislative proposals by reducing existing burdens in the same policy area, so that negative impacts for businesses are limited.

3. VAT TREATMENT OF THE PLATFORM ECONOMY

3.1. Introduction

This part of the Study focuses on the VAT treatment of the platform economy, which is the term used to describe a **multi-sided model of transactions**, where there are three or more parties involved. In these transactions, the role of the **online/digital platform** is to facilitate the connection between two or more distinct but interdependent sets of users (whether firms or individuals, whether carrying out an economic activity or not) who interact via electronic means. In these interactions, one of the parties to the platform offers access to or transfers assets, resources, time and/or skills, goods and/or services to the other party, in return for monetary consideration or, in certain cases, by barter/non-monetary exchanges. In most cases, these users could be named as 'providers' and 'consumers', respectively. Providers and consumers can be both businesses and private individuals; platforms usually link different types of users. A platform usually charges a fee for the facilitation of the transaction.

Seven sectors and 18 sub-sectors have been identified as those with a significant presence of platform-based activities. These are **e-commerce, transport, accommodation, real estate, finance, professional and household services, and advertising**, as shown in Table 3.

Table 3. Typology of platforms

Sector	Sub-sector	Type
E-commerce	Marketplace of goods	Goods
Transport services	Ride on demand	Services or temporary access to assets
	Ridesharing	
	Car sharing	
	Delivery services	
	Trip booking	
Accommodation	Residence renting	
	B&B and hotel accommodation	
	Home sharing	
	Home swapping	
Real estate	Rental and sales intermediation	
Finance (crowd funding)	Reward-based funding	
	Equity funding	
	Debt funding	
Professional and household services	On-demand household services	
	On-demand professional services	
Advertising	Search engines	
	Social media	

Source. Authors' own elaboration, based on European Commission studies (2016, 2018).

3.2. Current situation

3.2.1. The scale of the platform economy

The analysis of firm-level databases led to the identification of **1 831 digital platforms** with a non-minor market presence in the EU27 or the UK, regardless of where they have their headquarters. A cluster of digital platforms stands out: a small group of platforms with substantial operations in all or nearly all Member States and with an annual turnover significantly above the average. **The group of digital platforms with an EU27 turnover above EUR 1 billion consists of 11 operators. These platforms**

account for ca. 81 percent of the total revenue generated by digital platforms in the EU27 in 2019.

The remaining market share mostly belongs to platforms with their EU27 revenue ranging from EUR 100 million to EUR 1 billion. Finally, the most numerous group (ca. 70 percent of platforms) have an annual revenue of less than EUR 1 million and account for only for ca. 0.5 percent of total revenue of the platform economy.

In 2019, **the turnover of digital platforms in the EU27 is estimated at EUR 67 billion**. The revenue of the underlying supplies of goods and services net of the facilitation fees and excluding the advertising sector is worth about three times the platforms' revenues, at **EUR 191 billion.**[8] The sum of both platforms and providers' revenue, that is the ecosystem value, reach **EUR 258 billion**.[9]

Table 4. Scale of platform economy operations, by sectors (EU27, EUR billion, 2019)

Sector	Revenue of digital platforms	Revenue of platform providers (net of the facilitation fees)[10]	Ecosystem value	VAT revenue
Accommodation	6.3	36.9	43.2	3.6
Advertising*	32.8	n.a.	32.8	n.a.
E-Commerce	16.6	93.8	110.4	15.2
Finance	0.6	6.7	7.3	3.9
Household and Professional Services	1.4	7.1	8.5	
Real Estate	0.7	3.8	4.5	
Other	1.3	11.8	13.1	
Transportation	7.2	31.0	38.2	3.1
TOTAL	**66.9**	**191.1****	**258.0**	**25.7****

*Note. * Revenue of digital platforms only. ** Excluding the advertising sector. The numbers may not add up due to rounding. Source. Authors' own elaboration.*

The estimated EU27 VAT revenue on the platform economy ecosystem amounts to approximately EUR 25.7 billion (2019).[11] The split of VAT revenue between the value added of the facilitation service, value added of underlying goods and services, and hidden VAT is shown in Figure 3.[12]

[8] The value of the platform revenue in relation to the ecosystem is larger than it should be, as the revenue of providers could not be estimated for the advertising sector (that accounts for nearly 50 percent of platforms' turnover). Yet, it can be argued that, in the case of the advertising sector, where the interrelation between the platform and users is more indirect, the 'ecosystem' term may not apply.
[9] Excluding the advertising sector.
[10] Value of transactions underlying platforms' facilitation service.
[11] Excluding the advertising sector.
[12] The VAT revenue attributed to the underlying goods/services does not include non-deductible input VAT of non-taxable and exempt providers, which constitutes a separate revenue component.

Figure 3. Composition of VAT revenue in the platform economy (excluding advertising, 2019)

Source. Authors' own elaboration.

Out of the sectors analysed,[13] **the largest contribution to VAT revenue - ca. EUR 15.2 billion – comes from the e-commerce sector**. This represents nearly 60 percent of VAT revenue in the platform economy excluding the advertising sector. **The revenue from accommodation services accounts for EUR 3.6 billion**, **and nearly the same revenue comes from the transportation sector (ca. EUR 3.2 billion).** The remaining VAT revenue was charged mostly to platforms and companies in the real estate and household and professional services sectors. Overall, sectors other than e-commerce, accommodation and transportation brought ca. 15 percent of VAT revenue from the platform economy.

3.2.2. Legal issues

The development of the platform economy raises new VAT-related legal challenges. The main legal issues – potential or actual - are connected to:

1. **The taxable person status of the provider**. Uncertainties about the VAT status of the platform providers are widespread. According to the stakeholders' views, the differences in the approaches taken by Member States significantly increase the regulatory complexity for digital platforms operating cross-border, and increase their compliance and administrative costs.

2. **The nature of the platforms' facilitation services and the resulting place of supply**. The problems related to the nature of the supplies carried out via platforms, and thus their place of supply, have been a major issue for the platform economy stakeholders. Although, there is a prevalent approach, which is to categorize platform services as electronically supplied, but there are differences across Member States, some of which consider them as intermediary services. It is also likely that the variation in interpretations could become more significant in the future. The differences not only create regulatory complexity for digital platforms, but could also lead to double or non-taxation and to an inappropriate re-distribution of VAT revenue across Member States.

3. **The interaction with the special VAT scheme for SMEs**. The problems related to the application of the special schemes for SMEs operating in the platform economy is of great importance, primarily due to potential violation of the equality and neutrality principles. The VAT scheme applies to very small economic operators; however, when supplying services via a platform, even very small economic operators could benefit from both large network

[13] Excluding the advertising sector.

effects and also from the VAT exemption. The applicability of the special scheme for small enterprises thus provide platform providers with substantial VAT savings and could thus give them an edge over brick-and-mortar businesses subject to the standard VAT treatment operating in the same sectors.

4. **The deduction of input VAT.** Issues related to input VAT deduction may also violate the principle of neutrality between taxpayers acting via platforms or within the traditional economy. Still, no Member States adopted specific guidance with respect to the platform economy and the issue did not emerge during the targeted consultation. Hence, the deduction of input VAT is not considered to pose any specific significant problems for platform economy providers, and there is no regulatory fragmentation in this respect.

5. **The definition of consideration**. The complexity of defining the taxable consideration is grounded in the difficulty of determining the monetary equivalent and enforcing the collection of VAT on non-monetary transactions, rather than in the differences in legal approaches applied by the Member States. In other words, though Member States tend to agree that certain non-monetary transactions would indeed be taxable, it is very hard both to determine the VAT due and obtain its payment.

As to the **other national policies** examined, i.e. the additional tax and reporting obligations introduced in some Member States, these are considered by the platforms as an obstacle and a source of large compliance costs. In particular, multiple reporting obligations and their fragmentation across Member States hinder the automation of data processing. This, in turn, has a substantial impact on compliance costs borne by digital platforms operating to setup and operate their very large databases of users and transactions.

Finally, over recent years, **the digital economy became subject to various EU measures**. Three of them are of specific relevance to the VAT treatment of transactions in the platform economy and to the applicable reporting obligations:[14]

- In accordance with the **VAT e-Commerce Package**, [15] businesses operating electronic interfaces, such as marketplaces or platforms, are deemed, in certain situations and for VAT purposes, to be the supplier of the goods sold to customers in the EU by businesses using the marketplace or platform. Consequently, the platforms will have to collect and pay the VAT on these sales.

- According to **DAC7**,[16] online platforms need to collect and verify the tax information of EU sellers who use their services and to report taxable sales activities each year to local tax authorities, which will then transmit the information to other EU Member States. In general, DAC7 will be an important source of information not only for income tax purposes but may also be helpful for VAT purposes. However, its usefulness for VAT purposes may be limited. Firstly, the information will be reported for annual periods, secondly, it does not

[14] The analysis in the main report also considers the Digital Services Tax and Enhancement of Corporate Income Tax Efficiency; the European Data Governance; the Digital Services Act and the Digital Markets Act; the Regulation on promoting fairness and transparency for business users of online intermediation services; and the Central Electronic System of Payment Information

[15] Council Directive (EU) 2017/2455 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods and Council Directive (EU) 2019/1995 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies of goods.

[16] Council Directive (EU) 2018/822 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.

necessarily relate to the country of consumption (except for immovable property) and thirdly, due to the thresholds applied may not give the full picture.

- In addition to the DAC7 Directive**,** record keeping obligations for, and the scope thereof, are regulated by the VAT Directive in **Article 242a**. According to this provision, platforms are obliged to keep records of supplies facilitated by them, whether the platform is liable for the VAT on the supplies or otherwise. These records must be sufficiently detailed to enable the tax authorities of the Member States where those supplies are taxable to verify that VAT has been accounted for correctly. The records should be kept for 10 years from the end of the year in which the transaction took place.

3.3. Problem definition

Five drivers were identified as root causes of the problems related to the VAT treatment of the platform economy, which are:

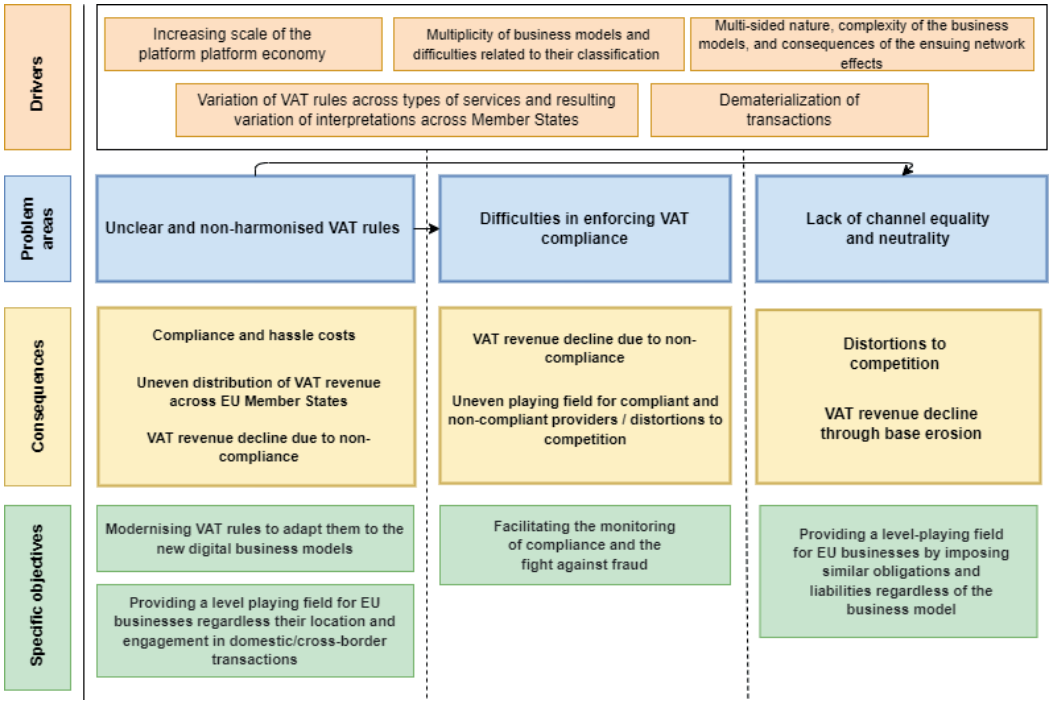
1) The increasing scale of the platform economy.
2) The multiplicity of business models and difficulties related to their classification.
3) The multi-sided nature and complexity of the platform business models and the ensuing network effects.
4) The variation of the VAT rules across types of services and resulting variation of interpretations across Member States.
5) The dematerialisation of transactions.

All in all, because of the drivers identified above, the current VAT rules are not applicable in a clear, uniform and equal way to the platform business models across the EU. More specifically, **three general problem areas were identified:**

1) **Unclear and not harmonised VAT rules,** concerning: (i) **the taxable status of the provider**, (ii) **the nature of platforms' facilitation services** and their place of supply**,** and (iii) **the reporting and record keeping obligations**.
2) **Difficulties in enforcing VAT compliance in the platform economy.**
3) **Lack of VAT equality and neutrality**.

The above problem areas result in a number of consequences which are harmful to the proper functioning of the Single Market (including both cross-border and intra-border competition), to the economic operators of the platform economy, as well as to Member States. In particular, **they generate unnecessary costs and burdens, lower and inappropriately distributed VAT revenue, as well as distortion of competition** (see Figure 4).

Figure 4. Problem tree



Source. Authors' own elaboration.

3.4. Policy options

The assessed policy options are as follows:

Group #1. Current treatment and narrow interventions categories:

(A) **Dynamic baseline scenario** (status quo).

(B) **Clarification of VAT rules** for the platform economy, and namely:

(B1) **Clarification of the nature of the services** provided by platforms: a legislative amendment to clarify the nature of the services provided by the platform (intermediary or electronically-supplied services), and hence their place of supply.

(B2) Introduction of a **rebuttable presumption on the status of platform providers**. The provider would not be considered a taxable person unless he/she provides a VAT number to the platform. Providers who do not communicate the VAT number to the platform should also be required to confirm that they are not a taxable person exempt from VAT registration (e.g. when registering on the platform or periodically).

(B3) **Streamlining of recordkeeping obligations**. No fully-fledged policy option is proposed in the area.[17]

[17] No fully-fledged policy option is proposed in the area of record-keeping obligations as: (i) a full review of the recordkeeping obligations for platforms would extend beyond the VAT Directive and the Implementing Regulation, which are the acts concerned by the possible intervention, (ii) any streamlining measure would need to take into account the recently introduced or forthcoming recordkeeping obligations, whose effects are yet too early to assess, (iii) any possible framework may become soon outdated, depending on whether an EU Digital Reporting Requirement is introduced, and on the feature(s) of the reporting mechanism chosen, which may render some of the existing obligations obsolete. Cf. Volume 1 of the present Study.

Group #2. Deemed supplier role for digital platforms:

(C) **Narrow deemed supplier** for the supply of certain accommodation and transport services.

(D) **Sectoral deemed supplier** for the supply of all accommodation and transport services.

(E) **All services deemed supplier** for supplies of services for monetary consideration.

3.5. Functioning of the deemed supplier regime

Under options C to E, **the platform would act as deemed supplier for certain transactions for monetary consideration which it facilitates**. The deemed supplier role will apply when the provider is:

- **a non-established person not identified for VAT purposes in the EU**; or
- when established in the EU is:
  - **a non-taxable person** (private individual) or
  - **a member of the 'Group of Four':** (i) taxable persons carrying out only supplies of goods or services in respect of which VAT is not deductible; (ii) taxable persons subject to the common flat-rate scheme for farmers; (iii) taxable persons subject to the SME scheme; and (iv) non-taxable legal persons.

For VAT purposes only, the underlying provision of services is split into two deemed supplies:

1) **Deemed supply of services #1**, from the provider to the platform. This transaction is VAT exempt without the right of deduction or out of scope (e.g. when the provider is a private individual).

2) **Deemed supply of services #2**, from the platform to the customer. This transaction is taxable according to the regime applicable to the specific services supplied.

Furthermore, the provision of services from the platform to the provider is exempt from VAT with the right of deduction, to avoid a build-up of non-deductible VAT.

3.6. Comparison of policy options

All options were assessed against Option A – Status quo. Each legislative scenario from Group #1 and #2 was assessed for expected impacts in terms of:

1) **VAT revenue**, in the EU as a whole and the shifts of revenue between Member States, including both direct effects of changes in tax rules and indirect impacts on VAT compliance.

2) **Legal certainty and administrative burdens** borne by economic operators-

3) **Impacts on competition** linked to the impact on equality and neutrality of VAT and on the **functioning of the Internal Market**.

The comparison of options is shown in Table 5. Though the Commission announced that more work will be needed in respect of the refinement of the policy options, especially

on the deemed supplier regime,[18] **a number of solid broad conclusions can be drawn from the analysis of the policy options as they currently stand**:

1) **The clarifications envisaged under Option B have clear positive impacts on platform operators, by reducing administrative burdens, legal uncertainties, and by improving the smooth functioning of the Internal Market**. The impacts are especially positive on administrative burdens, since the simplification and streamlining of certain obligations is not coupled with the introduction of any new obligation or regime. This is true even accounting for the fact that no full-fledged policy option is proposed for the streamlining of reporting obligations, and hence the associated savings are estimated only on a potential basis.

2) **The harmonisation of rules provided for by Option B is also expected to increase VAT compliance, and thus VAT revenue, but the effects would be limited compared to the introduction of the deemed supplier regime.** Overall, under Option B, the additional VAT revenue compared to status quo could reach overall EUR 2.5-2.6 billion in 10-years' time.

3) **The clarification of the nature of the services provided by platforms (Sub-Option B.1) would have an impact on the distribution of VAT revenue between Member States**. The classification as intermediary services would bring VAT revenue 'closer' to the place of consumption, and thus increase it for touristic destinations. The classification as ESS would increase VAT revenue for Member States of tourists' origin. The shifts would be limited, between 1 and 3 percent of the current VAT revenue from accommodation services. The shifts would be larger under the intermediary services option, considering that these services are more often classified as ESS in the current situation.

4) Expectedly, **the introduction of the deemed supplier regime would have positive effects on VAT revenue. The impacts grow the larger the scope of the deemed supplier regime, from few tens (Options C and D) to more than one hundred billion EUR (Option E) over a decade.** The additional VAT revenue results from both direct and indirect impacts:

    a. **Positive direct impacts result from the application of VAT of a number of transactions which are currently exempt or out-of-scope**. **This is however balanced by the loss of hidden VAT on platforms' facilitation services.** Under the deemed supplier regime, the currently hidden VAT on services provided to private individuals or taxable persons without the right of deduction (e.g. those covered by the VAT SME scheme) would no longer accrue to the public budget. The loss of hidden VAT is particularly relevant in the determination of total revenue impacts for sectors which typically benefit from VAT exemptions or reduced rates (e.g. provision of real estate, international transport).

    b. **Indirect compliance benefits are very likely under the deemed supplier regime.** First, the reduction of the number of taxpayers in charge of paying VAT from millions of providers to thousands of (sometimes very large) platforms will markedly increase the ability of tax administrations to monitor VAT liability in the platform economy. Secondly, the understatement of turnover to remain below the VAT Scheme threshold, which is one of the main sources of non-compliance in the platform economy pointed out by tax authorities, will no longer lead to the evasion of the VAT due on their supplies. Though there are no consistent and comprehensive statistics on the level of non-compliance in the platform economy, the available data show that even a low to

[18] Cf. Group on the Future of VAT, GFV No 115, Minutes 36th Meeting.

moderate increase in compliance will have significant impacts on VAT revenue, in the order of EUR 1 to 5 billion per year.

5) **The impact of the deemed supplier regime on administrative burdens and legal certainty is overall mildly positive, but with some negative effects too**:

   a. As the implementation of the deemed supplier regime in all alternative scopes would be accompanied by a number of simplifications similar to Option B, ca. EUR 480 million gains in lower administrative burdens should be expected.

   b. At the same time, the deemed supplier, as any 'special' VAT regime, requires drawing a number of boundaries between transactions that fall within or outside the regime. This may create uncertainties and grey areas, which are more significant the smaller the scope of the regime (i.e. under Options C and D).

   c. Finally, by increasing the number of transactions subject to VAT, it increases VAT compliance costs (e.g. for invoicing, keeping of VAT ledgers, submission of data for reporting mechanisms where applicable). These additional administrative burdens are larger the larger the scope of the regime (i.e. under Option E)

6) **The deemed supplier regime would rebalance the competition conditions between traditional and platform-based distribution channels**, by eliminating the tax-induced advantage for occasional and very small suppliers operating via platforms. In a nutshell, a private individual or a small-scale accommodation operator will no longer be able to provide VAT-exempt services via a platform, possibly undercutting larger operators subject to VAT. However, the introduction of the deemed supplier rule would also create a new cleavage, between very small and occasional suppliers operating within or outside a platform. When operating via platforms, their supplies will be subject to VAT, and exempt in the other cases. Still, occasional and very small operators offering their services via platforms could register for VAT to avoid such a negative effect. They are likely to do so when the increase in compliance costs is likely to be more than compensated but the deductible VAT, i.e. at above a turnover of EUR 10-15 000. Furthermore, even under the deemed supplier regime, occasional and very small providers operating via platforms would still enjoy the simplification associated with their VAT status, and benefit from the platform's network effects.

Table 5. Partial Cost Benefit Analysis (2023-2032, total compared to status quo)

Option / Sub-option		VAT revenue	Legal certainty and administrative burdens	Competition / Internal Market
A	**Status Quo**	Growth of platform economy and increase in collection effectiveness will increase VAT revenue (both in absolute and relative terms)	Compliance with record-keeping obligations and efforts to determine the status of providers generate burdens for about EUR 1.9 billion	No change to the tax treatment means no effect on market conditions
B	**Clarification of VAT rules for the platform economy**	0/+	++	+
B.1	**Nature of the services provided by the platform**	Up to + EUR 2.5-2.6 billion (due to increased compliance)	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications)	More harmonised level-playing field across MS
B.2	**Rebuttable presumption on the status of platform providers**			
B.3	**Streamlining record-keeping**			
C	**Deemed supplier: certain accommodation and transport services**	+	+	+
		+ EUR 19-45 billion (due to increased compliance and broader tax base)*	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications) Higher burdens related to the administration of the deemed supplier regime (low) New legal uncertainties linked to the boundaries of the system (high)	Reduction of distortions between same services offered via different channels, minor negative impact on competition among exempt suppliers
D	**Deemed supplier: accommodation and transport services**	++	0/+	+
		+ EUR 24-66 billion (due to increased compliance and broader tax base)*	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications) Higher burdens related to the administration of the deemed supplier regime (moderate) New legal uncertainties linked to the boundaries of the system (moderate)	Reduction of distortions between same services offered via different channels, minor negative impact on competition among exempt suppliers
E	**Deemed supplier: all services for monetary consideration**	+++	0/+	0
		+ EUR 63-146 billion (due to increased compliance and broader tax base)*	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications) Higher burdens related to the administration of the deemed supplier regime (low) New legal uncertainties linked to the boundaries of the system (low)	Reduction of distortions between same services offered via different channels, significant negative impact on competition among exempt suppliers

*Note. * - the direct impact on VAT would be larger by ca. EUR 6.5 billion if the exemption for short term accommodation rental is excluded. In green, positive impacts. In red, negative impacts. Impacts are assessed on a --- to +++ scale (significant, moderate, minor positive / negative impacts against the status quo).*
Source. Authors' own elaboration.

4. SINGLE PLACE OF VAT REGISTRATION IN THE EU AND IMPORT ONE-STOP SHOP

4.1. Introduction

This last part of the study is about the concept of a **single place of VAT registration in the EU** and the **Import One-Stop Shop (IOSS)**. In brief, the single place of VAT registration means that the situations where businesses are obliged to VAT register in more than one Member State should be minimised, regardless of their operations and supply chains.

The present part of the study examined the scope and scale of these situations in order to determine whether and in what ways they are problematic. This in turn provided the evidence for the identification of policy options for future improvements, and an assessment of the likely impacts of these.

The analysis was conducted based primarily on an extensive targeted consultation of different types of businesses, business federations, VAT practitioners and tax and customs authorities, supplemented by legal analysis, secondary data and reports, input from internal experts on the study team and feedback in the frame of two Fiscalis workshops on VAT in the digital age. Overall, this has allowed for a thorough and robust assessment. However, it is also important to bear in mind that, since the new rules and mechanisms have only been recently introduced, many findings involve a relatively high degree of uncertainty, while the level of precision on certain aspects is limited.

4.2. The current situation

Reducing the scope of situations requiring multiple VAT registrations formed part of the rationale for the changes that were recently introduced with the e-commerce VAT package on 1 July 2021. In addition to a number of important simplifications, for EU-established businesses, the new e-commerce rules reduced the intra-EU distance-selling threshold for the application of the destination principle to EUR 10 000 for distance sales of goods (and telecommunications, broadcasting and electronic – TBE – services) and ended the import VAT exemption for goods valued at up to EUR 22.[19] While, other things being equal, these changes could have *increased* VAT registration obligations, they are being offset by the **introduction of two new mechanisms, – the One-Stop Shop (OSS) and the above-mentioned IOSS**. These allow businesses to declare and pay VAT incurred on certain types of B2C transactions in Member States where they are not established, and thereby to reduce the scope of situations requiring VAT registration.[20] A new rule has also been introduced to reduce VAT avoidance among businesses whose supplies are facilitated by electronic platforms.[21]

Nonetheless, there remain numerous circumstances – adding up to a significant volume of transactions and affecting many stakeholders – that oblige businesses to obtain and hold more than one VAT registration. These were identified and screened for importance, and designated a score based on (i) prevalence (i.e. how widespread the type of transaction is) and (ii) weight in terms of economic importance. A score of 3 denotes that a type of transaction is both widespread among businesses and represents a

[19] Throughout the study, the discussion of imported goods refers to commercial (i.e. B2B or B2C) supplies, and explicitly excludes private (i.e. C2C) shipments.
[20] For B2B transactions, the reverse charge mechanism under Article 194 of the VAT Directive also allows non-established businesses to avoid multiple registrations in many cases, even if its application and use vary by Member State.
[21] When an electronic interface facilitates (i) the distance sales of goods B2C imported from a third country (not exceeding a value of EUR 150) to a customer in the EU or (ii) the B2C supply of goods within the EU if the underlying supplier is not established in the EU, the electronic interface is 'deemed' to purchase the goods from the underlying supplier and to sell them to the final customer, thus being liable to report on and pay the VAT.

significant share of turnover for the businesses concerned; 2 denotes that the transactions are only prevalent in specific market segments; and 1 denotes transactions that are marginal both in terms of prevalence and weight. The table below presents the four types of transactions that were deemed non-marginal (i.e. scored 2 or 3).[22]

Table 6. Summary of transactions that require VAT registration by non-established businesses and their degree of magnitude

#	Transaction	Magnitude
1	**Intra-EU Acquisition/Intra-EU Supply in/from a Member State where the business is not established, including**:	
	a. **Transfer of own goods cross-border**: for VAT purposes, such transfers are treated as a supply and self-sale, meaning that the supplier must be registered in the destination MS. Such transfers are especially common as part of the first leg of a B2B2C transaction (either via an own website or electronic interface, where goods are first transferred cross-border before being sold to a final customer), while also including the transfer of material or equipment cross-border to meet business needs.	**3** – widespread, representing significant parts of business turnover
	b. **Chain transactions**: the successive supply of the same goods by three or more businesses; typical in several value chains, such as commodity trading, and for manufacturing and production businesses, including chemical, oil and gas, and some retail businesses.	**3** – widespread, representing significant parts of business turnover
	c. **B2B2C sale of goods first acquired in a MS where the supplier is not established**: where a business sells goods online that it does not keep in stock but rather purchases once the sale is made and sends directly to the customer in a third Member State; typical in certain emerging business models in e-commerce.	**2** – prevalent in specific market segments
2	**Domestic supplies of goods B2B where the reverse charge does not apply**: includes several specific types of supplies, which all have a low prevalence individually.	**2** – prevalent in specific market segments
3	**Domestic supplies of B2C goods**: often refers to the last leg of the types of B2B2C transaction mentioned above, for which the OSS cannot be used, as well as other specific types of supplies which are relatively limited in prevalence.	**2** – prevalent in specific market segments
4	**B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 or products subject to excise duties**: these types of supplies are not covered by the IOSS and the targeted consultation indicated that they represent around 20% of distance sales in imports.	**2** – prevalent in specific market segments

Source. Authors' own elaboration.

4.3. Problem definition

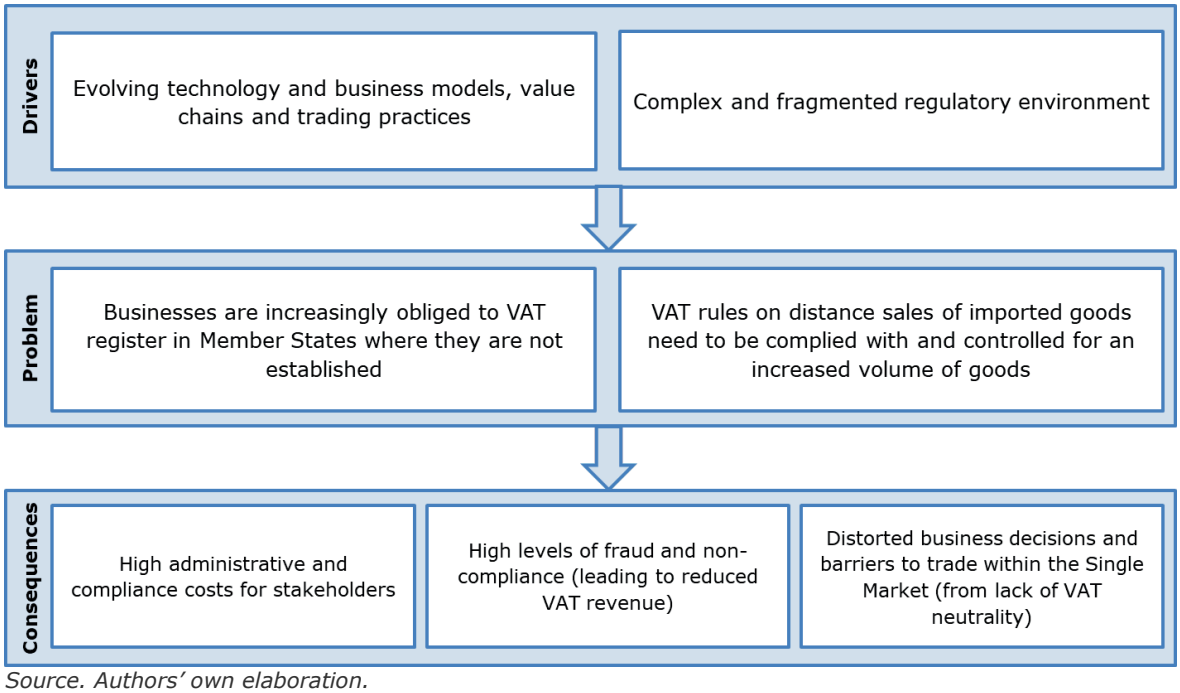
The analysis of the current situation identified two main problems. First, businesses are often obliged to VAT register in Member States where they are not established. Second, the growth in distance sales of imported goods means that VAT rules must be complied with and controlled for an ever-increasing volume of consignments. The same two drivers cause both of these problems. One of these relates to evolving technology and business models, in particular digitalisation and the explosion in e-commerce, which is making the types of transactions that trigger VAT registration more prevalent. The other driver stems from the complexity of VAT registration and reporting obligations in the EU and discrepancies between Member States in how the relevant provisions are applied.

The problems lead to several consequences in terms of costs for businesses needing multiple VAT registrations, VAT fraud and non-compliance and distorted business

[22] Two additional types of transactions, namely export from a Member State where the exporter is not established (unless under transit), and the domestic supply of B2B services where the reverse charge does not apply were also identified but deemed marginal.

decisions (e.g. as businesses structure their activities to avoid VAT registrations, or as compliant businesses need to compete with illicit traders). The different components are depicted in the problem tree diagram below.

Figure 5. Problem tree for single place of VAT registration in the EU and IOSS



Source. Authors' own elaboration.

4.4. Policy options

Several policy options were identified that could address the problems, and in particular reduce the scope of situations causing the need for multiple VAT registrations.

Table 7. Summary of the policy options and transactions covered

Overview	Transactions covered
OSS options	
Option 1 – status quo This would leave in place the VAT system as of 1 July 2021, with only minor refinements (e.g. additional guidance, quick fixes) to improve the implementation and use of the OSS.	N/A
Option 2 – extension of the OSS to domestic B2C supplies of goods This would entail a minor increase in the scope of the OSS to cover domestic B2C supplies of goods *NB: forms a necessary part of any final policy choice including options 3 or 4; can be combined with any IOSS options*	Domestic supplies of B2C goods (#3)
Option 3 –extension of the OSS to remaining B2C supplies of goods and B2B supplies by non-established persons. To deal with the complexity of B2B transactions, this option is broken down into three sub-options:	
Option 3a would extend the use of the OSS to intra-EU supplies and intra-EU acquisitions of goods, in situations where these relate to the first leg of the B2B2C transactions that are (inter alia) increasingly important in e-commerce, particularly but not only for supplies facilitated by electronic platforms. *NB: can be implemented on its own, or combined with one of Option 3b, 3c or 4; can be combined with any IOSS options*	Transfer of own goods cross-border (when part of a B2B2C transaction or similar B2B2B transactions) (#1a) B2B2C sale of goods first acquired in a MS where the supplier is not established (#1c) Domestic supplies of B2C goods (#3)

Option 3b would be combined with Option 3a to increase coverage of the OSS to all B2B supplies of goods and services, while leaving the current VAT refund mechanisms (via the EU VAT refund system (Council Directive 2008/9/EC) and 13th Directive (86/560/EEC) in place. *NB: can be implemented on its own, or combined with Option 3a; can be combined with any IOSS options*	Domestic supplies of B2C goods (#3) Transfer of own goods cross-border (when not part of a B2B2C transaction) (#1a) Chain transactions (#1b)
Option 3c would have the same coverage as 3b, while also introducing a deduction mechanism into the OSS, thereby allowing businesses to use it to claim back the deductible input VAT incurred in a Member State where they are not established *NB: can be implemented on its own, or combined with Option 3a; can be combined with any IOSS options*	Domestic supplies of B2C goods (#3) Domestic supply of goods Domestic supplies of B2C goods (#3) B2B where the reverse charge does not apply (#2) Domestic supplies of B2C goods (#3) Domestic supplies of certain B2B services where the reverse charge does not apply (#6)
Option 4 – extension of the OSS as in Option 2, plus the introduction of a mandatory reverse charge for B2B supplies by non-established persons. This would replace the current patchwork of rules to make Art. 194 mandatory for all B2B transactions involving non-established suppliers. To ensure uniform application, this option would need to be accompanied by measures to harmonise the use of Art. 194, and to enhance coordination and information-sharing between Member States (for which the latter could be facilitated inter alia via the digital reporting requirements examined in part 1 of the study). *NB: can be implemented on its own, or combined with Option 3a; can be combined any IOSS options*	Chain transactions (#1b) Domestic supply of goods B2B where the reverse charge does not apply (#2) Domestic supplies of B2C goods (#3) Domestic supplies of certain B2B services where the reverse charge does not apply (#6)
IOSS options	
Option 1 – status quo	N/A
Option 2 - removal of the EUR 150 threshold for use of the IOSS and / or extension to excise goods *NB: can be implemented on its own or in combination with IOSS Option 3, as well as any selection of OSS options*	B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 and excise goods (#4)
Option 3 - removal of the optional character of the IOSS, either for deemed suppliers (IOSS Option 3a), for taxable persons distance selling into the EU over a certain threshold, indicatively set at EUR 10 000 (IOSS Option 3b) or for all taxable persons making eligible distance sales of goods into the EU (IOSS Option 3c). *NB: can be implemented on its own or in combination with IOSS Option 2, as well as any selection of OSS options*	None

Source. Authors' own elaboration.

Importantly, the **policy options can be combined to form several distinct, fully fledged policy choices**:

- **Options related to the OSS**: the key parameter is the scope of transactions covered. Option 2 consists of only a narrow intervention that would expand the OSS to domestic supplies of goods B2C by non-established suppliers. Options 3 and 4 both encapsulate Option 2, while furthering the intervention to also cover B2B transactions. This can be done either via the OSS, as per Option 3, or by expanding the scope of the reverse charge mechanism (Option 4). Option 3a can be combined with any of Options 3b, 3c or 4 in order to ensure coverage of all relevant B2B transactions.

- **Options related to the IOSS**: two ways of increasing its scope and / or use have been assessed, namely removing the current EUR 150 threshold for use of the IOSS (IOSS Option 2) and making the IOSS mandatory (IOSS Option 3).

IOSS Option 2 and IOSS Option 3a, 3b or 3c could be pursued on their own or together, and / or be combined with any of the OSS options.

4.5. Assessment and comparison of the policy options

As mentioned, the timing of the study complicated the analysis, because the OSS and IOSS and the other changes to the VAT rules described above came into force only on 1 July 2021, after the targeted consultations took place, while no data on uptake or results was available at the time of the research. This made it difficult to assess the status quo with the new rules, especially on the issue of fraud, which several changes were implemented expressly to combat. In general, but particularly regarding the IOSS, stakeholders were reluctant to voice strong views before the new mechanisms had been tested and evaluated. Overall, these limitations mean that the assessment, in particular of the IOSS options, entails more uncertainty, and is more theoretical, than would typically be desired.

Caveats aside, some fairly clear patterns emerged. First, VAT registration relates more directly to **the issue of 'high administrative and compliance costs'** than to the other consequences of fraud / non-compliance and distorted functioning of the Single Market. In general – to a degree that depends on which transactions they cover – the policy options thus provide opportunities to reduce administrative and compliance costs, whereas the likely impacts on fraud reduction and on the functioning of the Single Market are more modest.

Second, most of the policy options differ in terms of the scope of the situations currently triggering multiple VAT registrations that would be addressed. It follows that **the most significant expected benefits are from the options which cover the greatest proportion of these situations**. Other things being equal, this speaks for the 'maximalist' options, namely some combination of Options 3 and 4. Moreover, combined options that cover more types of transactions are likely to have an impact that is 'greater than the sum of their parts'. This is because for a business to benefit from any change to the status quo, it would need to avoid all situations that still require additional VAT registrations. In other words: even if 99% of the transactions of a business currently requiring VAT registration could be dealt with using the OSS or via the reverse charge, it would still need to VAT register for the remaining 1%, meaning that the availability of the OSS would hardly affect its administrative burdens.

Third, the **impact analysis showed that the features of the mechanisms would also be likely to play an important role** in determining the effectiveness of given policy options. With this in mind, Option 3a was rated especially highly for allowing the OSS to cover the B2B2C transactions that have become increasingly widespread in e-commerce, while avoiding the complexity for tax authorities that would result from extending it to other B2B transactions. In contrast, the expected benefits of Option 3b (on expanding the OSS to cover the 'domestic' B2B transactions that currently require VAT registration) were found to be marginal because – without a mechanism to deduct input VAT – businesses largely felt that this option would be insufficiently attractive due to the negative impacts on cash flow and the possible difficulties and delays in having to utilise the VAT refund procedure(s). Businesses opting for the OSS are obliged to use it for all eligible transactions, which no interviewees expressed a willingness to do under the conditions of Option 3b. Option 3c includes such a deduction mechanism, making it more attractive for business, but caused concern among tax authorities, who worried it would not be feasible for the Member State of establishment to decide on the quantum of the deductible VAT incurred in another Member State. Meanwhile, Option 4 expands on the reverse charge mechanism and was favoured as a relatively simple way to avoid VAT registration for non-established suppliers, though it would not deal with issues about the recovery of input VAT incurred in other Member States. While Option 4 would not on its own allow VAT registration to be avoided for B2B2C transactions, it could be combined with Option 3a for this purpose.

Overall, assuming that any (inevitable) teething problems with the OSS are solved and that the mechanism works as planned, **the assessment provides some indications on the way forward**. If only minimal action is palatable, Option 2 seems superior to the status quo, since it could be implemented relatively easily, generating small but meaningful benefits in specific market segments. Option 3a was found likely to generate more substantial benefits, because it addresses specific types of transactions (namely the first leg of B2B2C transactions taking place in e-commerce business models) that increasingly oblige (often small) businesses to VAT register in multiple Member States, without fundamentally altering the nature of the OSS mechanism, which currently focuses on B2C transactions.

The **more difficult question concerns the remaining B2B transactions** where the reverse charge does not already apply. This represents a sizeable problem, particularly in the Member States where – due to the optional character and diverse implementation of Article 194 – the use of this reverse charge mechanism for non-established suppliers is either non-existent or strictly limited. Options 3b and 3c provide a means to cover these transactions through the OSS but seem unlikely to gain traction for the time being. Option 4, by relying on the reverse charge mechanism, came across as a more realistic approach if such action is indeed deemed viable.

Finally, with regard to the IOSS, **the very recent launch of the mechanism makes it especially challenging to establish a baseline against which future changes could be compared**. Before the introduction of the deemed supplier rule and import threshold, non-compliance and fraud on distance sales of goods from third countries were considered a significant and growing problem. Early, anecdotal evidence suggests that the new rules, combined with the IOSS, are generating some benefits in terms of reducing fraud while keeping administrative burden for suppliers lower than they would be had the new rules been introduced on their own. With this in mind, it seems likely that the options to increase its scope (IOSS Option 2, which would eliminate the EUR 150 threshold) and / or use (IOSS Option 3, which would make the IOSS mandatory) would generate at least some additional benefits. The table below summarises the impacts of the fully-fledged policy options, with a focus on presenting the impacts for combined options, and on providing a brief summary of the transactions covered and reasoning behind the estimated impacts.

A **scoring system** is also used to denote the nature and scale of impacts in comparison to the continuation of the status quo. A score of 0 indicates no or only marginal change. The scale ranges in principle from 'much worse' (-----) to 'much better' (+++++). None of the policy options, aside from the continuation of the status quo, were actually found to make the situation worse. When reading the table, it should be noted that all options deviating from the status quo would entail certain one-off costs to administrations for familiarisation, training and/or process adaptation, as well as some transitory uncertainty. While stakeholders could not put concrete figures to these costs, they were considered fairly easily absorbed, as long as meaningful benefits could be expected. Certain options would also require more substantial costs, particularly for IT development, which are highlighted where relevant.

Table 8. Summary and comparison of the impacts

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
Option 1: Continuation of the status quo, both in terms of the OSS and IOSS *Additional transactions covered: N/A*	Given that key sectors facing VAT registration problems – particularly e-commerce – are growing quickly, the existing problems (and additional costs) are expected to gradually worsen if the status quo remains in place.		N/A	
Option 2: extension of the OSS to domestic supplies of goods B2C by non-established businesses *Additional transactions covered (compared to status quo):* • #3 Domestic supplies of B2C goods	This option would address the problem of multiple VAT registrations, but only in a limited number of market segments, particularly electric vehicle charging, passenger transport and for certain companies operating in border regions. For this reason, only minor benefits are expected in terms of reduced administrative burdens and functioning of the Single Market, while likely impacts on non-compliance and fraud are assessed as marginal.	+	0	+
Option 3a: extension of the OSS to intra-EU supplies and intra-EU acquisitions in the frame of B2B2C transactions common in e-commerce *Additional transactions covered (in addition to status quo):* • #1a Transfers of goods cross border (when part of a B2B2C transaction or similar B2B2B transaction) • #1c B2B2C sale of goods first acquired in a MS where the supplier is not established • #3 Domestic supplies of B2C goods	This option would generate significant benefits by almost completely eliminating the need to VAT register for distance sellers, and for many businesses outside the e-commerce sector. This would reduce administrative burdens significantly, as well as reducing distortions to the functioning of the Single Market. By making compliance easier for SMEs, it would also reduce non-compliance, albeit to a limited extent in line with the relatively small size of the problem. Depending on the precise modalities chosen to implement this option, considerable IT development costs may be incurred by the Commission and / or Member State's administrations that would need to be assessed in detail before deciding to move forward.	++	+	++
Option 3b: extension of the OSS to all B2B supplies not covered in Option 3a, but while leaving current VAT refund mechanisms in place *Additional transactions covered (in addition to status quo):* • #1a Transfer of own goods cross-border (when not part of a B2B2C transaction • #1b Chain transactions • #2 Domestic supply of goods B2B where the reverse charge does not apply • #3 Domestic supplies of B2C goods	Due to the lack of a mechanism in the OSS for dealing with input VAT incurred in Member States where businesses are not established, it seemed very unlikely that B2B suppliers would take up this option, meaning benefits would remain the same as for Option 2 on its own. Implementation would also likely require considerable IT development costs.	0/+	0	0/+
Option 3c: same coverage as Option 3b with the inclusion of a mechanism to deduct input VAT via the OSS	This option would be expected to add value for certain businesses, particularly in Member States where the reverse charge (Article 194) is not (widely) available for B2B transactions. However, uptake would be limited	++	+	++

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
Additional transactions covered (in addition to status quo): • #1a Transfer of own goods cross-border (when not part of a B2B2C transaction) • #1b Chain transactions • #2 Domestic supply of goods B2B where the reverse charge does not apply • #3 Domestic supplies of B2C goods	by the obligation for businesses to use the OSS for all eligible transactions, since certain businesses may wish to maintain VAT registrations in some cases for operational reasons (e.g. input VAT deductions). Stakeholders also expressed uncertainty and scepticism about whether there would be sufficient collaboration between Member States to make this work in practice. Implementation would also likely require considerable IT development costs.			
Option 3a + Option 3b *Additional transactions covered (in addition to status quo):* • #1a Transfers of goods cross border • #1b Chain transactions • #1c B2B2C sale of goods first acquired in a MS where the supplier is not established • #2 Domestic supply of goods B2B where the reverse charge does not apply • #3 Domestic supplies of B2C goods	While this would generate the important benefits described under Option 3a above, the additional impact from including Option 3b would be very marginal (because the impact of Option 3b largely derives from Option 2, which is included in Option 3a by default).	++/+++	+	+/++
Option 3a + Option 3c *Additional transactions covered (in addition to status quo):* • #1a Transfers of goods cross border • #1b Chain transactions • #1c B2B2C sale of goods first acquired in a MS where the supplier is not established • #2 Domestic supply of goods B2B where the reverse charge does not apply • #3 Domestic supplies of B2C goods	By integrating transfers of own goods, chain transactions and wider B2B transactions into the OSS, along with an input tax deduction mechanism, this option would provide a way to eliminate multiple VAT registrations for most businesses. Its main limitations relate to the potential issues with uptake and feasibility described above.	++++	++	++++
Option 4: includes Option 2, and introduces the mandatory reverse charge for B2B supplies by non-established suppliers *Additional transactions covered (in addition to status quo):* • #1b Chain transactions	Making the reverse charge available for all B2B supplies was found to be a practical way to generate significant positive impacts, especially for businesses operating where there is currently no access to Article 194. However, many tax authorities felt the rules, as to its application, would have to be harmonised and streamlined, with increased coordination between MS, in order to make this option workable and to avoid risks of fraud. If digital reporting requirements are implemented (as explored in Part 1 of the study), this could facilitate the necessary trust by making it	++	+	++

Policy option	Overview	Administrative burdens	VAT fraud and compliance levels	Functioning of the Single Market
• #2 Domestic supply of goods B2B where the reverse charge does not apply • #3 Domestic supplies of B2C goods	easier for the tax authority in the destination MS to verify the details of a transaction.			
Option 3a + 4 *Additional transactions covered (in addition to Option 2):* • #1a Transfers of goods cross border (when part of a B2B2C transaction) • #1c B2B2C sale of goods first acquired in a MS where the supplier is not established • #2 Domestic supply of goods B2B where the reverse charge does not apply • #3 Domestic supplies of B2C goods	Combining Option 4 with 3a would maximise the likely positive impacts, by (i) extending the OSS to particularly important B2B2C transactions, and (ii) relying pragmatically on the reverse charge for wider B2B transactions.	++++	++	++++
IOSS Option 2: removal of the EUR 150 threshold for use of the IOSS and / or extension to excise goods *Additional transactions covered (in addition to status quo):* • #4 B2C distance sales of goods imported by the supplier from a third country/territory with an intrinsic value exceeding EUR 150 and / or excise goods	This option could be combined with any of the above-mentioned options. While consignments with a value of over EUR 150 are subject to full customs formalities, minor benefits could still be expected for businesses that would be able to use the IOSS to avoid VAT registration. Some reduction in fraud risks and levelling of the playing field in the Single Market could be expected by allowing, via the IOSS, suppliers to import in any Member State. Similar impacts could be expected with regard to excise goods, which currently represent a relatively small market and are subject to numerous and varied national restrictions that would remain in place.	Added impact when combined with any other option: +	Added impact when combined with any other option: 0/+	Added impact when combined with any other option: 0/+
IOSS Option 3: IOSS made mandatory, either for deemed suppliers (3a), or taxable persons distance-selling over a certain threshold indicatively set at EUR 10 000 (3b), or all taxable persons making eligible distance sales into the EU (3c) *Additional transactions covered (in addition to status quo): None*	Minor benefits are expected on administrative burdens for certain actors, such as postal operators and express carriers, for whom this option would obviate the need to distinguish between different suppliers. In contrast, to the extent that the IOSS reduces burdens for other taxable persons, they could be expected to take advantage of the voluntary scheme. The IOSS is also likely to help the authorities identify fraud, increase compliance and, as a knock-on effect, improve the level playing field. While the three sub-options work differently, similar impacts would be expected, meaning that the scores are only noted once in the table.	Added impact when combined with any other option: 0/+	Added impact when combined with any other option: +	Added impact when combined with any other option: +

Source. Authors' own elaboration.

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