

**VAT in the Digital Age – Digital Reporting
Requirements: early thoughts and cautions**

The extension of OECD Tax Administration 3.0
into VAT mandatory e-invoicing

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VAT in the Digital Age – Digital Reporting Requirements: early thoughts and cautions

The extension of OECD Tax Administration 3.0 into VAT mandatory e-invoicing

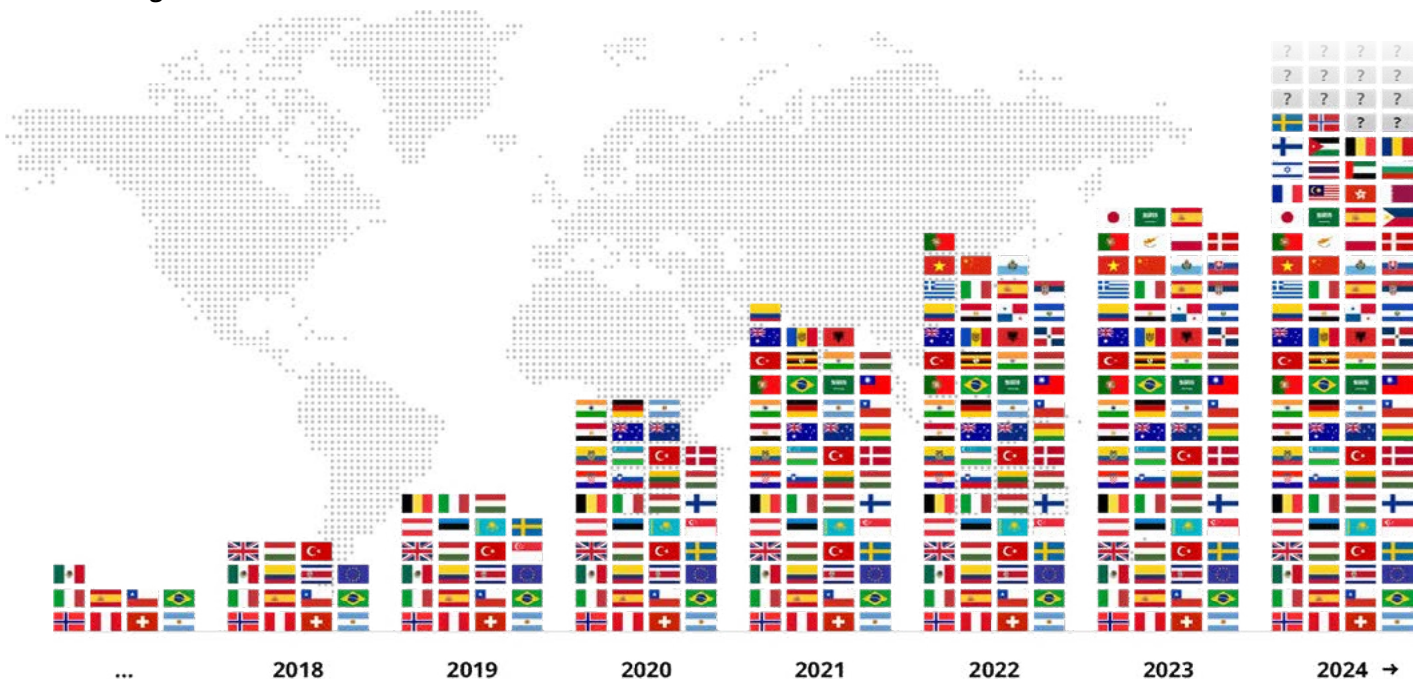
On 8 December 2022, the European Commission published its proposals in the context of the VAT in the Digital Age (ViDA) project. As part of that an important first step will be taken toward harmonization and an EU standard for Digital Reporting Requirements (DRR) for cross border transactions. Most EU member states that have kept mandatory DRR outside their doors such as The Netherlands will have to start moving in this direction similar to what Italy, Poland, Spain have done and

France and Germany are also moving towards now. The publication was expected on 16 November 2022 but has been delayed twice. Since then more details of what to expect have seen the light. Here below you will find a summary of the proposal in general and we will specifically zoom in to the DRR part and some other considerations around Continuous Transaction Control and experiences in other surrounding countries in what seems to be a global trend.

As part of the VAT in the Digital Age project we can find useful indications in the final reports published by the European Commission on 21 July 2022 (find the executive summary [here](#)), and we will help you to understand the impact of the expected content of the new anticipated changes and the obligations that have to be fulfilled in this article here below.

Today & Beyond

The rise of digital mandates







Background

The origin of the VAT in the Digital Age initiative can be found in the publication of the European Commission in its 2021 [Work Program](#) on 19 October 2021. From a VAT perspective, the main initiative is “VAT in the digital age” (ViDA). It originates from the Commission’s [action plan](#) for fair and simple taxation, focusing on fighting tax fraud by, amongst others, introduction of digital reporting solutions as preventive and continuous controls that published on 15 July 2020.

The European Commission decided to announce its proposals with recommendations for its “VAT in the Digital Age” initiative (ViDA) on 8 December 2022 instead of 16 November 2022. The supposed reason for the delay is administrative issues ([link](#)).

There are in essence three distinct but interrelated areas of VAT policy in the above proposal to look out for, namely

- 01 Digital Reporting Requirements (DRR);
- 02 The VAT Treatment of the Platform Economy; and
- 03 The Single VAT Registration and Import One Stop Shop (IOSS).

With the VAT in the Digital Age proposal of 8 December the commission has made a definitive move to real-time digital reporting based on e-invoicing for businesses that operate cross-border in the EU and a harmonised framework for domestic transactions: The new system introduces **real-time, transaction-based digital reporting for VAT purposes, based on e-invoicing**. Once operational, the system will give Member States valuable information they need to control cross-border transactions and step up the fight against cross-border VAT fraud, while reducing administrative and compliance costs for businesses.

To make the best use of this data for VAT control and anti-fraud purposes, Member States will also be equipped with the appropriate administrative cooperation tools. The move to e-invoicing will help reduce VAT fraud by up to €11 billion a year and at the same time it will give tax administrations a necessary push and step up to a more digitized and robust tax reporting system. The updated framework will allow all Member States to introduce mandatory e-invoicing for domestic business to business transactions as well, if they so wish, provided that the same European standard is made available to businesses. Currently, Member States need to seek and be granted a derogation from the current VAT Directive in order to allow this.

Below we will focus on this first part of the ViDA proposals being DRR which will have quite some impact especially for countries like The Netherlands where mandatory e-invoicing is not yet common and business and the Tax Authorities need to adapt to this new digital Tax reality.

Tax administration 3.0 & VAT in the Digital Age EU DRR standard

Tax Administration 3.0 to guidelines from the OECD and proposals from the EU Commission (VAT in the digital age)



A lot of countries have postponed their choice for a final model of e-invoicing or real time reporting efforts waiting for the VAT in the Digital age final report (now 7 December 2022). The German government has recently asked the European Commission for a derogation in order to introduce mandatory e-invoicing. This request is in line with the requirements per the draft directive (VAT in the Digital Age) based on the [EN-16931 e-invoicing standard](#). No confirmation of dates for the introduction in Germany yet but expected in 2024-2025.



DRR



The Digital Reporting Requirements part is aimed at harmonizing the reporting of VAT transactions across the EU. This may mean introducing Continuous Transaction Controls (CTC), e-invoicing, live reporting or even Periodic Transaction Controls (PTC), and whether these measures should be introduced at a country or EU-wide level. The overall aim is modernizing VAT reporting obligations and facilitating a more modern and robust system around mandatory e-invoicing with some form of verification/clearance either directly with or via intermediaries towards the government/tax authorities.

The proposal suggests that e-invoicing with a government verification model will be mandated across EU for all B2B intra-Community supplies. Under the draft Directive all businesses, without any thresholds, so including micro-businesses, will be covered by this new reporting requirement and will need to issue and receive e-invoices for cross-border supplies of goods and services. These e-invoices will not be submitted to the national tax authorities (i.e. no-pre-clearance) but instead a sub-set of this invoice data will be reported close to real time (i.e. days) by both the supplier and the customer to the relevant national tax authorities. Tax authorities will then share data with other Member States by reporting it to the European Commission's new central database.

E-invoices will need to meet the existing EN16931 European e-invoicing standard and in practice reference is also made to Peppol BIS Billing 3.0 (OpenPeppol's CIUS - Core Invoice Usage Specification - with also EN16931 as the underlying specification). Work has already started on updating this standard and in due time this standard also needs to be applied in The Netherlands.

The European Commission was not able to prevail over the Member States with regard to a comprehensive e-invoicing system. This means the European Commission's EU DRR will only eventually become the standard and that national reporting systems must first be interoperable with EU standards. Individual Member States can choose whether to implement digital reporting for domestic transactions as well, but this will not be mandatory under the draft Directive. However, if Member States are introducing new digital reporting requirements domestically, they will need to conform to the new DRR. In other words, if a Member State decides to introduce a domestic DRR, it will also need to mandate domestic e-invoicing, with a subset of the e-invoice data reported by businesses.

Existing digital reporting and e-reporting requirements for example, Spain (SII) and Hungary (RITR) must ensure interoperability with the new EU DRRs in the short-term, before fully converging in the medium-term to the full EU DRR requirements.

What is also relevant for cross border transactions is that EC Sales Lists or recapulative statements will be removed and replaced by a new EU tax return for intra-EU transactions, a new DRR listing. The existing periodic summary of intra-EU sales will be replaced with (close to) real-time transactional level digital reporting by both parties.



By ensuring that the Member States concerned have real-time digital reporting information on cross border transactions of goods and services, they will be in a much better position to crack down more quickly and to address missing trader VAT fraud, abuse and evasion. The analysis of the European Commission suggests that the introduction of e-reporting systems and deployment of better digitized controls will allow Member States to recoup 11 billion euros more every year over the next ten years in currently uncollected VAT revenues. This direct effect of reducing VAT losses should be seen parallel to a stimulus of the Digital Tax authorities improving speed and efficiency that goes parallel with a more digitized way of reporting.



From DRR to CTC: where do they overlap and where is the difference?

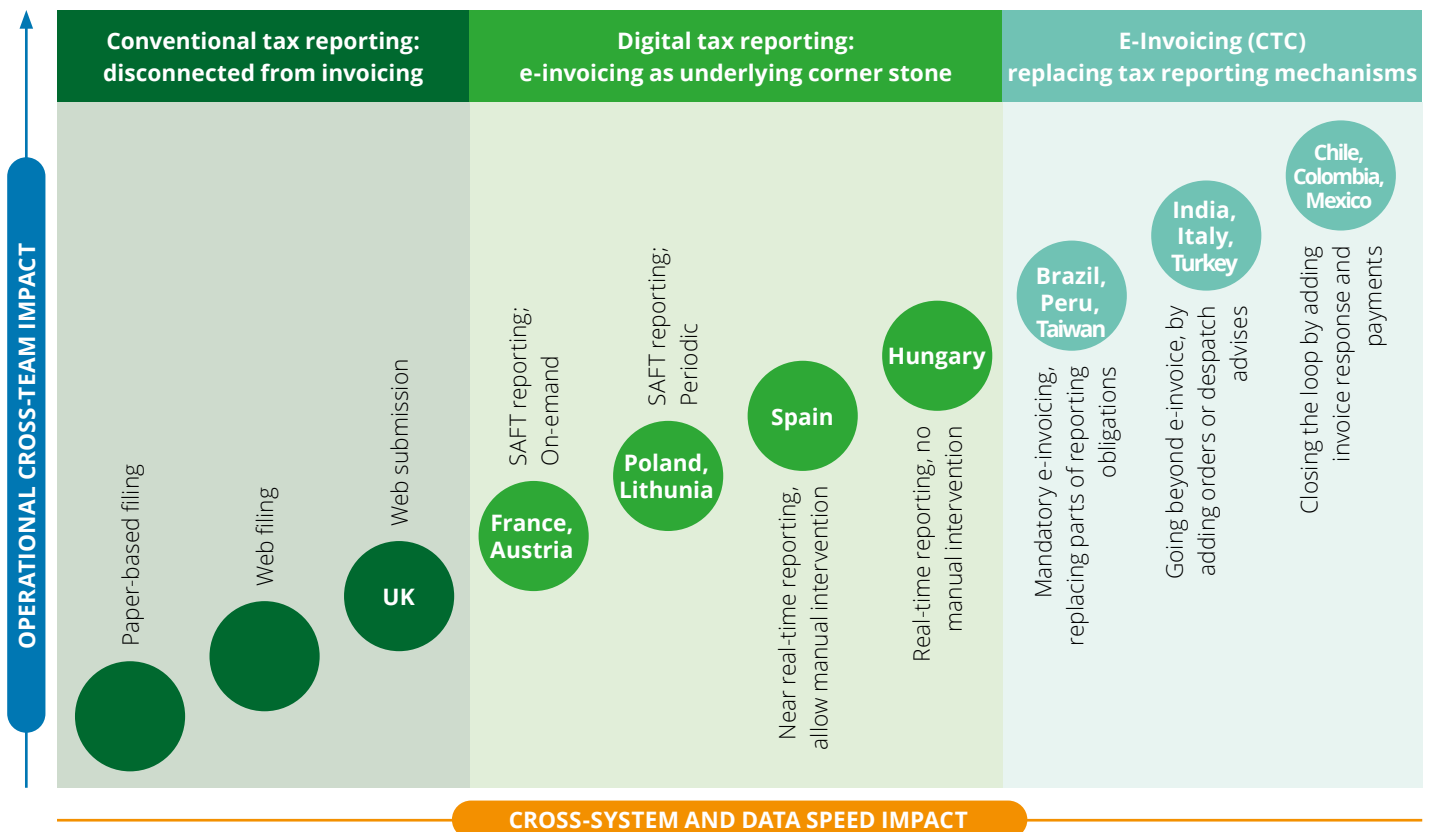


The below graphic depicts the evolution of conventional (usually paper) based filing of VAT returns towards digital reporting and eventually a maturity into e-invoicing with some form of pre-clearance via government/tax authorities portals. The last stage where there is some form of clearance required without manual intervention is referred to as CTC. The trend we see globally is that most countries are moving towards the right into CTC. Some countries would immediately move towards a CTC model like KSA, India and Mexico have done.

Currently, there is no pan-European model for CTC. Instead, individual Member States are free to design and implement their own systems. They may also choose not to engage in VAT digitization at all such as The Netherlands currently. The European Commission wishes to harmonize digital tax reporting processes across the EU and the VAT in the Digital Age proposal is an important first step in this process (at least for cross-border transactions already). The benefits of standardized digital VAT reporting are clear. It makes it much easier for tax authorities to “follow the money”, to perform digitized checks and a gap analysis and to prevent cross-border money laundering which is where the primary focus of many Member States is. Further, adopting a standardized approach would enable frictionless trade across Europe—reducing the administrative burden and bureaucracy for multinational businesses and would also push digitization altogether.

Perhaps more crucially, it also would make the EU a more attractive trading partner for other global economies, such as the US, China, and the UK, by removing unnecessary complexity involved in the import/export process and make it more robust. A more digital, efficient, faster and more fraud proof collection system of tax authorities in the area would be an obvious positive side effect as Italy and Spain have experienced.

Standardization might not be welcomed by all parties. Many Member States, such as Poland, Italy and Hungary, already have invested heavily in their own systems and may be reluctant to make yet more changes to bring them in line with their neighbours' systems. Hence, surprisingly perhaps such Member States are allowed to keep their current systems but gradually have to move towards the EU DRR model (also part of the proposal).



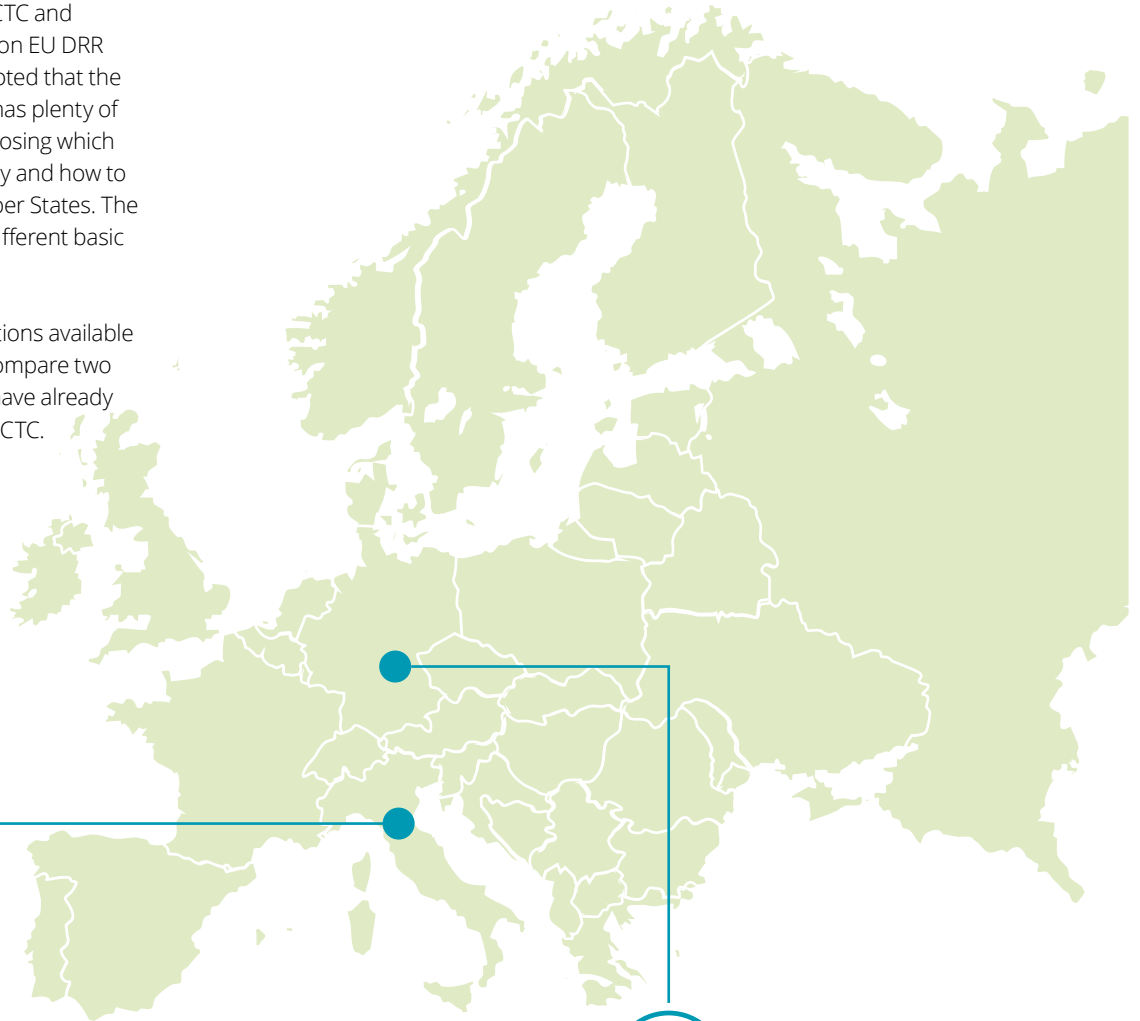




What CTC Models could work and which direction are other countries taking?

The case for standardizing CTC and harmonization into a common EU DRR is clear. But it needs to be noted that the European Commission still has plenty of decisions to make while choosing which model to embrace eventually and how to deploy it across all 27 Member States. The below graphic depicts the different basic models around the world.

To understand the basic options available in the EU better, we could compare two major Member States that have already implemented some form of CTC.



Italy was one of the first and an EU pioneer with e-invoicing. Italy was the first Member State to introduce a pre-clearance e-invoicing model in 2014. It first started B2G e-invoicing, and later extending its mandatory CTC system to B2B invoices and some B2C transactions in 2019. Since then, the system has been almost fully adopted and supported in a significant increase in VAT revenues and further close of the VAT gap in several billions.



France started its CTC journey relatively recently. B2G invoicing is already mandatory in France, such as in The Netherlands. However, from July 2024 to January 2026, France will also start implement mandatory B2B e-invoicing. All domestic B2B invoices and invoice lifecycle status updates will be transmitted through a central platform or via connected and certified agents/service providers. As an extension and to combat fraud, data not received as part of the mandatory e-invoicing process will be subject to obligatory e-reporting—including B2C invoices and cross-border B2B invoices. Rather than following Italy's model (straight forward direct government clearance via its portal), French legislators looked further to Latam and Mexico (see figure above: who have a clearance variation model with approval of transactions pre-issuance and validation post-receipt with agents) in particular as a model for their CTC system. They also looked at models to encourage interoperability among service providers in public procurement for more complex invoice flows.

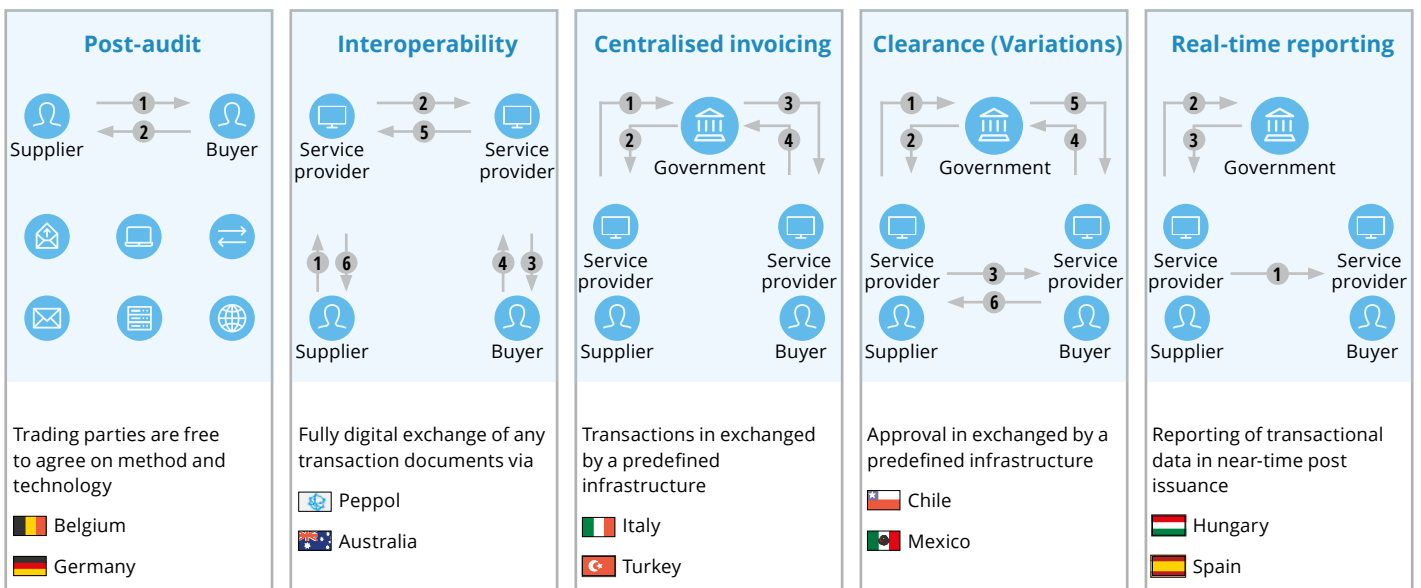


Both models have their pros and cons. It is generally agreed that the French system is more likely to detect fraud effectively at an early stage, as it demands more granular data. At the same time, others have favoured Italy's decision to opt for a single central e-invoicing platform (the Sistema di Interscambio, SDI), which it offers to businesses free of charge and have really catered businesses in the transformation. In contrast, in France, a public platform will coexist with certified private service providers that may be chosen by businesses that need more flexibility. This complexity was designed to balance free e-invoicing for

small companies with the need for larger ones to customize their processes—whether this strikes the right balance only the future will show. The European Commission's [VAT in the Digital Age](#) report also cited Italy as a proven case study for adopting CTC. The French approach of combining mandatory e-invoicing with a complementary e-reporting obligation certainly looks fit for purpose for closing the EU's VAT gap.

We therefore take the view and have an expectation that more will follow France its model and also the EU Commission seems to favor this model. It should also be noted that countries all over the EU, including Spain, Belgium, and Poland, are all in the process of introducing slightly different flavours of e-invoicing or transactional reporting for VAT purposes. Whichever route the European Commission eventually chooses as extension to their current efforts into an overall CTC approach, it is likely to act quickly to establish some clarity and reach its harmonization goals to avoid further divergence between Member States.

Tax enabled e-invoicing







Direction of travel and impact for The Netherlands

Though the direction of travel is clear, and the introduction of EU wide mandatory e-invoicing for cross border transactions will be a first step in a definitive move towards digitization of tax authorities. It is also vital to understand how this would work in terms of standardization and IT set up of e-invoicing—a topic discussed recently by the EU Commission at the OpenPeppol general meeting in Brussels—and e-reporting requirements.

Now that the European Commission published its proposals on VAT in the Digital Age on 8 December 2022, this is an important date and clear starting point for many Member States and multinational businesses in the EU to look at the IT and practical implementation the sooner the better. We are aware that the proposal and background will lean heavily on and is should eventually include a proposal for a harmonized common standard for e-invoicing across the EU and on DRR. Therefore, for The Netherlands this is a clear sign that the legislator needs to wake up from sleeping and to move in this direction. It will have no choice but to gradually introduce some form of (at least cross-border) e-invoicing. Something

every multinational business established in the Netherlands and in the EU therefore needs to take into account when it will be confronted with its digital tax set up, reporting and e-invoicing. This means that the Dutch and all EU tax authorities will be obliged to implement this at some stage soon (and can no longer postpone for several years): it is anticipated that in 2028 this needs to be up and running!

For businesses that rely on certainty to thrive, the best way to ensure resilience is to start looking at how to digitize internal processes around tax compliance and reporting as soon as possible. Also multinational businesses should learn and already look at the set-up of the foreign businesses in jurisdictions where mandatory e-invoicing is already applicable (e.g. Italy, India, KSA and the anticipated French model) as leading examples and possible blue prints for things to come. Also, it means that centralized efforts to manage e-invoicing and differences per country would become key.

Despite most Member States adjacent to The Netherlands are moving towards mandatory DRR, such as e-invoicing, there

limited movements or preparations so it seems in The Netherlands currently. Apart from B2G e-invoicing, which has been mandatory since 2020, The Netherlands seems relatively unprepared and the issue will be new to Dutch businesses and the Tax authorities. Earlier this year, we pleaded for tax digitization efforts in the Netherlands as we have been broadly lagging behind for years. We may very well see the EU DRR for cross-border transactions at least to become obligatory as from 2025 and the question is whether businesses and the tax authorities should start looking at models and solutions to tackle this kind of DRR within soon. In Dutch parliament some questions have recently been raised whether The Netherlands is preparing some plans to implement digital reporting requirements similar to other EU countries like Germany, France or Italy.

As mentioned, Germany, which has been in quite a similar position as The Netherlands, has already decided to apply for temporary departure from Articles 218 and 232 of VAT Directive to impose mandatory electronic invoicing on certain B2B transactions. No implementation date has been set but they are definitely preparing and anticipating this. Ostensibly, this is because the German Ministry of Finance (BMF) wishes to have more details of the EU e-invoicing plans to ensure the interoperability of a possible German reporting system. Gaining permission can take up to one year. As the likely date for the implementation and adoption of the new EU e-invoicing rules is 1 January 2025. The system changes required for the new DRR need more time to implement and go-live. The likely date is set for 1 January 2028 but that also means that in any case we would have roughly five years at most to get things up and running.

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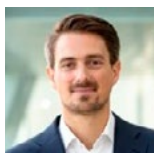
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