

Commission Tabled VAT Reform Package

Thomas Wahl



News

On 8 December 2022, the Commission tabled a comprehensive [legislative package for a reform of the EU's value added tax \(VAT\) system](#). The aim is to make the EU more resilient to VAT fraud, improve revenue in VAT, and keep pace with technological advances, the digital economy changes in business models and globalisation. The proposals will entail amendments to three pieces of EU legislation: the VAT Directive ([2006/112/EC](#)), Council Implementing Regulation (EU [282/2011](#)) and the Council Regulation on Administrative Cooperation (EU [904/2010](#)).

At the same day, the Commission also released [new figures on the so-called "VAT Gap"](#), i.e. the difference between expected VAT revenues and those actually collected. Accordingly, the VAT Gap is estimated at €93 billion in the EU in 2020. This means that €3000 of VAT revenue is lost every second in the EU. Conservative estimates submit that one quarter of this figure can be directly attributed to VAT fraud linked to EU trade. VAT fraud or missing trader fraud/carousel fraud remains a major problem in the EU.

According to the Commission's proposal, the main measure to better combat VAT fraud would be a move to real-time digital reporting based on e-invoicing for businesses that operate cross-border in the EU. This new system would enable Member State authorities to quickly receive the necessary information in order to check cross-border transactions. At the same time, this measure would reduce administrative and compliance costs. The Commission expects that the move to e-invoicing will help reduce VAT fraud by up to €11 million per year.

Further measures of the reform package include adjustments of VAT rules for online platforms in the areas of passenger transport and short-term rental of accommodation. In order to improve the level playing field between online services and conventional accommodation/transport services, the platform operators themselves will be made responsible for the collection and payment of VAT, if this is not done by the individual service providers (e.g. because an individual person as supplier is not aware of his/her VAT liability or a small business is usually not required to register for VAT). The Commission expects that this change can bring in up to €6.6. billion per year in additional VAT revenues for Member States.

The third pillar of the reform is an extension of the "One Stop Shop" model. In the future, traders who operate cross-border can opt to register in only one Member State for their sales to consumers across the EU and for their transfers of goods for storage in other Member States. As a result, the trader would be enabled to fulfil his/her VAT obligations via a single online portal in one single language, even though sales are EU-wide. This will end the current practice that businesses need to register for VAT separately in other Member States. The proposal also makes it mandatory for online platforms to register for the Import One Stop Shop, which will further improve VAT compliance.

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Furthermore, the Commission proposed targeted simplifications that would reduce burdens for SMEs and improve exchanges of information between tax and customs authorities.

It is now up to the Council to debate the proposals and to reach agreement. The European Parliament and the Economic and Social Committee are consulted.

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