



“VAT AFTER VIDA” REFLECTIONS ON THE FUTURE OF VAT

VAT Expert Group (VEG) Report dated December 2nd, 2024



VEG Report “VAT after ViDA” - Reflections on the future of VAT

Table of Contents

| | |
|---|-----------|
| 1. EXECUTIVE SUMMARY..... | 3 |
| 1.1. Introduction..... | 3 |
| 1.2. Future VAT system. New approaches and design principles..... | 3 |
| 1.3. Current VAT system. Looking ahead building on ViDA..... | 4 |
| 1.4. Suggested deliverables for the EU Commission to consider..... | 6 |
| 1.5. Conclusion..... | 6 |
| 2. SUGGESTED DELIVERABLES FOR THE EU COMMISSION TO CONSIDER..... | 7 |
| 2.1. Road from 2025 to the Future VAT system in 2050 - suggested steps and time frame..... | 7 |
| 2.2. Long term - Future VAT system in place by 2050..... | 8 |
| 3. MAIN REPORT..... | 9 |
| 3.1. Background..... | 9 |
| 3.1.1. Purpose of the report..... | 9 |
| 3.1.2. Working process..... | 10 |
| 3.2. Introduction..... | 10 |
| 3.2.1. Taking stock of the EU VAT system in 2024..... | 10 |
| 3.2.2. Doing business today and in the future: commercial and technological landscape where EU VAT fits in..... | 11 |
| 3.2.3. The pressing demand of sustainability bringing new challenges for EU VAT..... | 11 |
| 3.3. Future VAT system: New ways of thinking about the VAT system of the future..... | 12 |
| 3.3.1. Design of the future VAT system..... | 13 |
| 3.3.2. How to fit the future VAT system into the EU context..... | 18 |
| 3.4. Current VAT system: Looking ahead from the current VAT system and ViDA..... | 22 |
| 3.4.1. Qualification of transactions for VAT..... | 23 |
| 3.4.2. Improvements on the right to deduct..... | 26 |
| 3.4.3. Modernization of VAT exemptions and special regimes..... | 27 |
| 3.4.4. VAT measures that can benefit sustainability policies..... | 28 |
| 3.5. Bridging the Gap from today to tomorrow..... | 29 |
| 3.6. Concluding remarks..... | 29 |
| 4. ANNEX ON ViDA IMPLEMENTATION..... | 30 |
| 4.1. The implementation of ViDA..... | 30 |
| 4.2. Key impacts of ViDA on the current VAT system..... | 30 |
| 4.3. Proposed build-on changes for a performant VAT system..... | 31 |
| 4.3.1. Rules of engagement between Business and Tax Authorities on transactional real-time reporting..... | 31 |
| 4.3.2. Ensuring taxpayer’s rights and facilitating compliance..... | 33 |

1. EXECUTIVE SUMMARY.

1.1. Introduction.

Future sustainable growth and competitiveness of the EU as referred to both in the Draghi and Letta report, is the foundation for future prosperity in the EU and beyond the EU, and crucial for the future welfare of all EU citizens, and the well-being of the population globally.

The engine that drives future growth and competitiveness of the EU is a well-functioning EU Single Market. This EU Single Market, however, needs a proper functioning and efficient EU VAT system that allows businesses to operate EU cross-border as simply and smoothly as they do domestically.

This paper was prepared by the VAT Expert Group (VEG) on request of the EU Commission on the “VAT after ViDA” initiative, addressing the future of VAT. It examines long-term and immediate strategies for modernizing the VAT system. It builds on past initiatives and aims to simplify, broaden, and ensure neutrality in VAT application across the EU, reducing burdens and supporting sustainable development goals.

This is a strategic report, and it aims to provide ideas to the EU Commission and interested stakeholders to further explore and research. It is not aimed at providing fully fledged solutions.

The report is structured according to the following sections:

1. Executive Summary
2. Suggested deliverables for the EU Commission to consider
3. Main Report
4. Annex on ViDA implementation

The document looks into the long term future of a possible EU VAT system, thinking about the future openly and freely, taking the original concept and structure of VAT and experiences from all over the world into consideration. It also reflects on the political and practical landscape in the EU, looking at current and possible further evolving technologies that could have impacts on a future VAT system. The report also considers that when looking into the long term future of an EU VAT system and its features, we need to start from today, reviewing the current VAT system with its shortcomings and analyzing what the implementation of ViDA means for it.

1.2. Future VAT system. New approaches and design principles.

Looking at things from where we stand today, we as VEG think that VAT is here to stay, at least for the foreseeable future, particularly keeping in mind that VAT is a growth friendly tax, one of the main revenue raisers for governments, and also a very reliable source of revenues with a stable tax base.

The VEG’s long-term vision (2050 and beyond) proposes a fundamentally restructured VAT system, addressing complexities and administrative burdens within the current framework. A future-oriented VAT system should focus on these main objectives: simplifying compliance, fostering neutrality across the EU, and safeguarding VAT revenues by enhancing administrative efficiency.

It needs to be flexible to new market models and developments we cannot foresee at this stage.

Some of the foundations upon which the future VAT system should be based, as outlined in this document, are listed below.

- **Neutrality and broadening the VAT base:** Neutrality is considered a cornerstone of any common VAT system, ensuring that VAT does not distort market competition. VEG members recommend reducing exemptions and special schemes to broaden the taxable base, making the VAT system fairer and easier to manage. By expanding the range of goods and services subject to VAT, complexities due to varying exemptions are minimized, while potential revenue increases could support a reduction in standard VAT rates across the EU.

VEG members propose a gradual reduction in the number of VAT rates within the EU, potentially converging toward a single rate per Member State, complemented by a zero rate for essential goods and services. This approach aims to reduce administrative complexity and align with the EU's goal of creating a single VAT area.

- **Aligning the VAT rules for goods and services and improving VAT collection based on technological advancements:** Given the transition to a destination-based place of supply system for services, the growing convergence of goods and services in the digital economy, and the forthcoming implementation of ViDA's real-time transaction monitoring, the VEG recommends exploring the alignment of place of supply rules for cross-border B2B goods and services within the EU. Inevitably connected with this is to further explore whether future VAT collection mechanisms would benefit significantly from the latest developments regarding digital reporting requirements (DRR). VEG members envision a system where the VAT collection on B2B transactions between entities with full deduction rights could be reconsidered, thereby enhancing cash flow for businesses and easing compliance burdens. For B2C transactions aspects like split payment but also the use of cash registers in B2C transactions could be further considered and analyzed.
- **Fitting the future VAT system into the EU context:** For a smooth functioning future EU VAT system, the VEG recommends transitioning from VAT Directives, which require national transpositions, to EU Regulations that are directly applicable, thereby reducing interpretation discrepancies across Member States. Moreover, the VEG also recommends revisiting the decision-making process within the EU Council to streamline VAT-related decisions, which currently require unanimous approval. Finally, to support uniform application and interpretation of VAT rules, the VEG suggests creating an EU VAT agency. This agency would act as a central coordinating body, potentially assisting Member States with VAT collection, resolving cross-border disputes, and promoting harmonization.

1.3. Current VAT system. Looking ahead building on ViDA.

The comprehensive ViDA package, recently politically adopted in the EU Council, with its three different and complex building blocks and its wide-ranging scope will have big impacts on the current EU VAT system. Therefore, implementing ViDA successfully will require attention and investment from all stakeholders between today and 2030. When thinking forward from the current VAT system, we have therefore started by drafting a number of recommendations surrounding the implementation of the ViDA Package. These recommendations have been brought together in a separate section 4 ("ViDA Implementation") annexed to our report.

Furthermore, it's essential to proactively address existing weaknesses that are causing friction in the EU VAT system - exploring potential solutions now could lead to tangible improvements for businesses, consumers, and tax authorities alike. Many of these will be facilitated by the improved control that will exist under real-time digital reporting requirements. Also, a number of these recommendations would be steps in the transition towards the future of VAT.

Some of the key challenges and complexities are listed below:

- **Qualification of transactions for VAT and operational challenges:** Digitalization has transformed business structures and also business product and service offerings, has increased cross-border transactions and has led to new challenges such as when it comes to the definition of taxpayer status, composite supplies, repairs, chain supplies, crypto assets and many others. Additionally, it has also further increased already existing challenges such as fixed establishments, discounts, VAT and TP adjustments, etc. VEG members propose updated definitions and clearer rules to address these challenges.
- **Improvements on the right to deduct:** CJEU jurisprudence has been helpful in ensuring VAT neutrality. However, the economic reality/business purpose acknowledged in view of VAT deduction/recovery, which is welcomed to ensure VAT neutrality, also creates some uncertainty in practice as the current wording in the VAT Directive is rather restrictive (direct vs indirect link)

- it would be helpful to update the legal text to create more certainty. Moreover, there are a number of remaining practical issues that affect neutrality, as well as certain rules from the legislation or case law that no longer lead to a fair taxation result in current times and that should be addressed such as bad debt relief, correction processes, corporate structures, streamlining VAT recovery for taxable persons using the OSS regime, etc. Additionally, VEG members propose to further simplify VAT refund processes for businesses. These measures would support VAT neutrality by ensuring that businesses can fully recover VAT on eligible expenses across the EU.

- **Modernization of VAT exemptions and special regimes:** Improving the functioning of those sectors/activities that are covered by the VAT exemptions in articles 132-135 of the VAT Directive is required, as the exemption conditions are increasing inequality affecting the level playing field, cost effectiveness and/or innovation in these sectors. Therefore, addressing exemptions in sectors like financial and insurance services, public interest services, etc. and also special regimes such as the Tour Operator Margin Scheme (TOMS) is highlighted in the report, with suggestions for eliminating “hidden” VAT costs that distort competition or impede efficiency.

In addition to the aspects mentioned under point 2 “Future System” and point 3 “Current System”, VEG members would like to put special emphasis on two important aspects that have impacts both on the current system and also on the future VAT system. These aspects are mentioned below:

- **Data:** There is no doubt that relevant and reliable data used in a purpose driven, proportionate and efficient way is of great help in many different areas of today's world such as for example in healthcare, in business, in our private lives and also in modern functioning tax administrations. However, the collection, use and storage of data also comes with a responsibility, and liability, particularly when it comes to data privacy and data security. All these aspects need to be carefully considered when looking into the area of VAT and its fundamental principles, such as neutrality and proportionality, but also when it comes to the fundamental rights of taxpayers. Collecting relevant data should help preserve the VAT system and its fundamental principles and should also strengthen the fundamental rights of taxpayers, it should not undermine any of these aspects. This is particularly important to consider given that AI is used more and more in VAT compliance.

In parallel to the implementation of ViDA we therefore would like to encourage the EU Commission to also develop a set of guiding principles on how transaction-based data should be properly collected, used and secured by Member States’ tax administrations based on the fundamental VAT principles and in conformity with the EU Charter of Fundamental Rights.

Moreover, we would also like to highlight the broader recent EU tax changes in respect of data reporting, both on indirect and direct tax levels (national DRR mandates, SAF-T, PCBC, TP documentation, DAC6, DAC7, CESOP, customs or environmental reporting, etc.). These changes have created multiple layers of bureaucracy for businesses and require thorough review and analysis by the EU Commission to identify and cut red tape by ensuring that the same data is only reported once.

- **Sustainability and green VAT policies:** As sustainability takes a central role in EU policy, the VEG underscores the importance of VAT measures that support circular economy models, such as second-hand goods schemes and eco-friendly construction practices. Considering the current climate crisis, the EU has ambitious goals with regard to sustainable development. Taxation in general, and VAT in particular, could play a role in achieving the EU’s goals in the area of sustainability. However, there are doubts whether the VAT system is effective in achieving such an objective and moreover whether it is the most efficient way, while such measures likely create exceptions to main rules making the VAT system more complex. Moreover, particularly when looking as well into aspects related to the circular economy, it is important to keep in mind that the VAT system was designed with a linear economy in mind.

Therefore, the wish to achieve a circular economy creates challenges in the area of VAT, which have to be carefully considered. As past experiences show, measures outside the VAT system will be more effective to drive sustainability in practice. This said, both the current and the future VAT system must be sustainable, therefore as a starting point any disincentives of the current VAT system in areas such as donations, destruction, second-hand goods, etc. should be removed.

Neutrality between consumer choices should also be enhanced through short to mid-term changes, whilst the future VAT system should be designed taking into account sustainability considerations to the maximum extent possible.

1.4. Suggested deliverables for the EU Commission to consider.

The report contains a series of suggested deliverables with a possible time frame prepared by the VEG for consideration by the EU Commission. These deliverables are outlined in further detail in a summary in section 2 of the report:

- **Long-term VAT system vision (2050):** The VEG proposes deliverables (see sections 3.3.1 – 3.3.2 of the main report) to be further explored aiming at setting up a long term future VAT system in order to boost future growth and the EU's economic competitiveness, goals outlined as well in the Draghi and Letta report. For this a smooth functioning of the EU Single Market based on an easy to operate and robust EU VAT system is crucial.
- **Current VAT system. Looking ahead building on ViDA (post 2024):** The report provides a path with recommendations (see sections 3.4.1.- 3.4.4 and sections 3.3.1 – 3.3.2 of the main report) on the road to a long term future VAT system. This includes, enhancing the ViDA framework to reduce administrative burdens and legal uncertainties whilst updating the current VAT system to better align with contemporary technology-driven business models and ensuring that sustainability goals are also achieved. It is also proposed to refresh some key initiatives that were put on hold like the reform of the VAT rules for financial and insurance services, and the VAT and the tourism package.

To achieve all of the above, the VEG proposes the suggested deliverables to be further explored and implemented gradually (2025-2045), allowing the proposed VAT system of the future to fit within the EU legal and administrative context.

1.5. Conclusion.

The VAT after ViDA report created by the VEG on request of the EU Commission presents a strategic roadmap to further explore - starting from today towards a long term and modernized future VAT system that leverages digitalization, simplifies compliance, safeguards VAT revenues and supports EU sustainability goals.

VEG's long-term vision emphasizes building an efficient, fair, and neutral VAT framework, which if adopted, would reduce administrative burdens for businesses, streamline the VAT system across Member States, and position VAT as a robust, future-ready tax structure promoting the EU's future economic competitiveness.

We, as VEG, will be delighted to actively contribute to this debate and to accompany the EU Commission, Member States and other relevant policy stakeholders on this important journey ahead.

We therefore think, that our VEG document provides a great opportunity for the Commission to set up a joint meeting between the VEG and GFV under the lead of the Commission, in which we can present our document to the GFV, and where we can start to brainstorm and reflect in further detail on the long term future of the EU VAT system, keeping in mind that our main focus in the next couple of years will be ensuring a successful implementation in practice of the comprehensive and complex ViDA package.

2. SUGGESTED DELIVERABLES FOR THE EU COMMISSION TO CONSIDER.

This summary has been prepared based on sections 3.3 and 3.4 of the main report and outlines suggested deliverables for the EU Commission to consider.

We looked at the suggested deliverables with the following timeframe in mind:

2.1. Road from 2025 to the Future VAT system in 2050 - suggested steps and time frame.

- **From 2025 onwards.**
 - EU wide implementation of ViDA (see Annex to the main report on ViDA implementation):
 - In parallel EU Commission to develop a set of guiding principles on how transaction-based data should be properly collected, used and secured by Member States' tax administrations based on the fundamental VAT principles and in conformity with the EU Charter of Fundamental Rights. This should be completed at an EU level by 2028 to allow Member States and businesses to implement these changes by 2030.
 - Review and analyze the broader recent EU tax changes in respect of tax data reporting, both on indirect and direct tax levels to identify and cut red tape for businesses by ensuring that the same data is only reported once (see Annex on ViDA Implementation in 4.2).
 - Taking a look into the future of VAT, critical path analysis based on detailed research to be carried out both on key and longer term aspects mentioned in this report (such as mentioned in 3.3.1 of the main report, for example broadening the base, aligning the VAT rules for goods and services or possible future VAT collection mechanisms) in order to align all stakeholders on the why and the what. Set up brainstorming event to bring VEG and GFV together.
 - Refresh initiatives of the current Commission's EU Action Plan on Tax that were put on hold (e.g., VAT rules for financial and insurance services, review of the VAT rules applicable to travel and tourism sector as mentioned in 3.4.3 of the main report).
 - Research and remove possible disincentives for environmental objectives out of the current EU VAT legislation (see also 3.4.4 of the main report such as donations, free of charge supplies, second-hand goods scheme, etc.). Directive level and possibly steering national legislation.
 - Review and improve:
 - Aspects mentioned under 3.4.1 of the main report, such as definition of taxpayer status, composite supplies, etc.
 - Aspects mentioned under 3.4.2 of the main report, such as bad debt relief, rectifications, etc.
 - EU and non-EU VAT refunds: easy and fast refund process, EU wide criteria for reciprocity as mentioned in 3.3.1 of the main report.
 - Enhance dispute resolution mechanism between Member States as mentioned in 3.3.2 of the main report.

- **From 2032 onwards.**
 - Launch a strategic initiative similar to the Green Paper initiative in 2010 regarding the future strategy for VAT in the EU based on further research by the EU Commission and based on the learnings of the first 2 years of experiences after the implementation of ViDA.
 - Steps facilitated or required by DRR implementation:
 - Rules of engagement between Business and Tax Authorities on transactional real-time reporting.
 - Ensuring taxpayer's rights and facilitating compliance.
 - Improvements on the right to deduct. Continuing to build a full OSS.
 - Start journey on points mentioned in 3.3.1 of the main report:
 - Broaden the VAT base (reduce the number of VAT exemptions and replace them with a zero-rate where required; elimination of derogations, options, and standstill clauses applied by the Member States; reduction of the number of special VAT schemes; amend the VAT rates structure).
 - Align the VAT rules for goods and services.
 - Future VAT collection mechanisms both B2B and B2C.
 - Recast of the EU VAT Directive and VAT implementing Regulation.
 - Change the EU VAT governance model (see 3.3.2 of the main report):
 - Legislation by way of Regulation.
 - Decision making process.
 - Creation of an EU VAT Agency.

2.2. Long term - Future VAT system in place by 2050.

- Key features to consider and work on.
 - Design of the future VAT system (see section 3.3.1 of main report):
 - Neutrality.
 - Broadening the base.
 - Aligning the VAT rules for goods and services.
 - VAT collection mechanism.
 - EU context (see section 3.3.2. of the main report):
 - Legislation by way of Regulation.
 - Decision making process.
 - EU VAT Agency.
- Key proposals to be published before 2040 and to be politically adopted in the EU Council by 2045 at the very latest, so that EU MS and businesses have sufficient lead time for these wide-ranging changes to be implemented by 2050.

We as VEG would be pleased to actively support the Commission on all these topics and have tried in our summary, as best as we can, to list the aspects according to their priority and a possible time frame.

3. MAIN REPORT.

3.1. Background.

In the VEG meeting on March 18th, 2024, the EU Commission presented its initiative called “VAT after ViDA” and asked the VEG to produce a report on this initiative by the end of November 2024.

The EU Commission shared some possible topics for reflection and invited interested VEG members through a call for participation to actively support this initiative by setting up an informal working group to prepare a report with suggestions for priority action areas to further modernize and simplify the VAT system, after the adoption of the VAT in the Digital Age (“ViDA”) proposals.

3.1.1. Purpose of the report.

This is a strategic report. It aims to provide ideas to the EU Commission and interested stakeholders to further explore and research. It is not aimed at providing fully fledged solutions.

The initiative “VAT after ViDA” is approached in this report from two angles:

- The first angle is a long-term vision, thinking outside the box, exploring freely how a possible future VAT system could look. It takes into account the original concept and structure of VAT as well as legal system design experiences from all over the world. It considers current and possible further evolving technologies that could have impacts on a possible future VAT system.
- The second angle is to start from the current (temporary) VAT system with its shortcomings and weaknesses, and to suggest improvements building on the achievements of ViDA which was recently politically adopted in the EU Council. This part will examine the implications of ViDA's implementation on the existing EU VAT system. It will explore how ViDA can serve as a catalyst for future developments, paving the way towards the potential VAT system envisioned under the first angle. In this part, we make suggestions and propose actions that would help the EU VAT system to get there over time.

The initiative “VAT after ViDA” does not stand in isolation but is closely linked to the objectives and the working program of the newly appointed European Commission. It draws on recent reports, notably the Draghi report on the future of European competitiveness and the Letta report on the future of the Single Market.

Reflecting on the future of VAT has been done at different junctures of ongoing VAT reforms of the last 15 years. Namely, through the Green Paper Initiative in 2010 on the future of VAT, the White Paper actions taken by the Commission in 2011 and 2012 (including the creation of the VAT Expert Group allowing a better integration of businesses in the EU VAT debate), the EU VAT Action Plan in 2016 and the 2020 EU Action Plan on Tax that contained a set of 25 initiatives (15 of which relating to VAT) to make taxation fairer, simpler and more adapted to modern technologies.

The current initiative comes at a defining moment for the EU VAT system, with the adoption of the ViDA proposals. We applaud the EU Commission's objective with ViDA to stop further fragmentation of national technological measures in relation to the reporting and collection of VAT and we hope that these measures can over time be channeled in a more EU wide consistent technological approach. There are big hopes and expectations on e-invoicing and digital reporting as a means to reduce VAT compliance burdens and increase transparency across the EU, however, technology alone can and will not be sufficient to ensure a fully functioning EU VAT system in the future.

We therefore think that after the ViDA implementation, a strategic initiative on the future of VAT in the EU - similar to the Green Paper initiative in 2010 - needs to be launched based on further research by the EU Commission, and also based on the learnings from the first years of experiences after the ViDA implementation (so around 2032).

3.1.2. Working process.

Following the call for participation, an informal VEG working group was established to support this initiative. After a virtual kick-off meeting at the end of April 2024 and an in-person meeting in Brussels in May 2024, it was agreed to put 2 sub-groups in place: one focused on the future VAT system “New ways of thinking/VAT system of the future” and one starting from the current VAT system “Current VAT system and its shortcomings/improvement needs & building on ViDA”. The wider VEG has been consulted on an ongoing basis and has been asked for input as the work advanced.

This report is not an end point, but rather aims to serve as a contribution to kickstart a broader long-term debate on the future of the EU VAT system, involving all relevant stakeholders.

3.2. Introduction.

3.2.1. Taking stock of the EU VAT system in 2024.

VAT is a European invention that has traveled successfully all over the world in the last 70+ years. It is now operational in over 170 countries globally – in many countries VAT is the main source of tax revenues.

The success of VAT around the world comes from the fact that it is easier to collect and to administer for governments than other taxes but most importantly, it is more growth friendly than other taxes. Looking at the future and the needs of governments from a budgetary perspective, the international importance of VAT will inevitably grow further in the future.

VAT is conceptually and systematically a transaction-based tax levied on the supply of goods and services, borne by the final consumer and neutral for businesses acting as tax collector. The effective functioning of the VAT system relies on a strong partnership between businesses (collecting the tax) and tax authorities (overseeing collection and administration of the tax), and also between tax authorities themselves, given the international dimension of VAT.

EU VAT is founded on a set of principles, with the neutrality principle and the destination principle at the core. The successful functioning of VAT requires that other principles are also taken into account such as a level playing field, equality, proportionality, legal certainty and simplicity which is key to drive the ability to automate, and more recently, sustainability. These principles need to be taken into account from the perspectives of governments, businesses and consumers.

Like other VAT systems around the world, the EU VAT system relies on a staged VAT collection process. This was a key design feature at the time the EU VAT system was introduced almost 60 years ago, when technology was less advanced, and invoice and payment flows were much less digitalized than today. The staged VAT collection is still a key design feature today, aiming at spreading the risk of revenue shortfall throughout the business supply chain. Over time this has led to challenges and complexities for both tax administrations and businesses and has become a gateway to fraudulent behavior.

Given the technological developments of the last decades, which the ViDA package aims to leverage, and the further developments that will come in the years ahead, it is important to keep an open mind and explore whether and which opportunities the future will bring to make VAT collection as secure as possible for governments and most efficient for businesses. Both these stakeholders have common objectives and shared responsibilities, which are interconnected, such as safeguarding VAT revenues and creating a level playing field for competition within the Single Market and beyond.

Despite the great efforts undertaken by the European Commission and the Member States to make the EU VAT system simpler and more robust, VAT has become an obstacle for the proper functioning of the Single Market, particularly for SMEs. The EU VAT system is still a temporary VAT system, highly fragmented, as often implemented and applied in 27 different ways across the EU

by national tax authorities. This creates a huge burden and cost for business and therefore impacts their ability to grow, particularly on the level of SMEs. Additionally, administrative cooperation and exchange of information is often not functioning as seamlessly as it should, due to a lack of trust between Member States. Without such collaboration and without the support of the business community, an effective and efficient fight against VAT fraud, which has an international dimension, will not be successful.

We will always need a sound, simple, robust, and consistently applied EU legal VAT framework, on which we can run modern technology in an efficient way. Therefore, in parallel to the implementation of ViDA, we need to start brainstorming on a long-term vision for the design and operation of a future EU VAT system taking the evolving technological and commercial developments into consideration.

3.2.2. Doing business today and in the future: commercial and technological landscape where EU VAT fits in.

The last strategic debate on the future of VAT led by the EU Commission, including a broad public consultation, happened almost 15 years ago with the Green Paper. Since then, a lot has happened both commercially and technology wise, with big impacts on the EU VAT system as such but also on the challenges and possibilities for VAT compliance and collection. The globalization and digitalization of the entire economy has had and will continue to have huge impacts on business models, go to market strategies, supply chains and consumption models, testing the adaptability of the EU VAT system.

These developments have required and still require changes to the VAT system, both when it comes to the place of taxation but also on the collection of VAT, particularly in a cross-border context. Being in between two worlds at the moment, the traditional economy, and the digital economy, we are seeing big commercial and technological developments around us, which do not only impact on traditional businesses but also on non-businesses (when does a C become a B?). Preserving neutrality of the VAT system and ensuring a level playing field for business and consumers today and in the future is of utmost importance to foster future growth, which is key for safeguarding VAT revenues.

In this dynamic and challenging context, VAT cannot be a distortive factor for businesses and should not drive commercial decisions, whether taken by businesses or by consumers. Therefore, a proper business and commercial understanding is key when designing the future of VAT, and an ongoing consultation with business is important in this respect.

The future VAT system needs to be flexible to new market models and developments we cannot foresee at this stage.

3.2.3. The pressing demand of sustainability bringing new challenges for EU VAT.

Considering the current climate crisis, the EU has ambitious goals with regard to sustainable development. Taxation in general could play a role in achieving the EU's goals in the area of sustainability and the challenge of greening the VAT system has become a short-term ambition for the European Commission. However, there are doubts whether a VAT system is effective in achieving environmental goals in the most efficient way, while such measures likely create exceptions to main rules making the VAT system more complex. Moreover, particularly when looking into aspects related to the circular economy, it is important to keep in mind that the VAT system was designed with a linear economy in mind. Therefore, the wish to achieve a circular economy creates challenges in the area of VAT, which have to be carefully considered. As past experiences show, measures outside the VAT system will be more effective to drive sustainability in practice. This said, both the current and the future VAT system must be sustainable, therefore as a starting point any disincentives in the current VAT system should be removed.

Our ideas on solutions and changes to address the way wherein VAT and sustainability goals interact will be explained in further sections of our report.

3.3. Future VAT system: New ways of thinking about the VAT system of the future.

The proposed measures aimed at setting up the future VAT system should focus on boosting EU economic competitiveness. These measures could take several forms, focusing on simplifying the VAT system in many ways, reducing the administrative burden for businesses, and fostering growth, innovation and sustainability which is key for a smooth functioning Single Market and crucial to achieve the goals outlined in the Draghi and Letta report. In the following points of this report, we describe what are the long-term measures and proposals that could be followed in order to support achieving these objectives.

Being already almost 60 years old, what has started off as a simple tax in a more domestic/local trade environment, is conceptually still a simple tax but in a different and complicated world today, leading in practice to complexities to apply the tax and making it vulnerable to fraud.

Therefore, thinking about the future of VAT we have seen questions coming up, such as:

Does VAT still have a future in the global tax arena as one of the main revenue raisers for governments or are there other future tax sources to raise the same or even a higher amount of tax revenues?

This is a valid question, which nobody has precise answers to at this moment, particularly given the times we are currently living in, not knowing where and how far future technological developments will take us.

Looking at things from where we stand today, we as VEG think that VAT is here to stay, at least for the foreseeable future, particularly keeping in mind that VAT is not only one of the main revenue raisers for governments, but it is also a reliable source of revenues with a stable tax base. It is the least distortive, and most growth friendly tax, a tax that facilitates international trade. However, due to certain complexities, there is a real risk that businesses cannot claim all their input VAT deduction, and are thereby burdened with VAT. There are also considerable compliance costs associated with VAT collection. All this implies decreasing the competitiveness of EU business to the detriment of the EU economy as a whole given the complexities around it. A rigorous legal system design and the use of modern technology would be a great opportunity to build a robust future VAT system over time, completely neutral for business and effectively borne by the final consumer.

During our work as VEG, we have constantly asked ourselves the following question:

What should the VAT system of the future look like?

After many brainstorming sessions and discussions, we can answer, in a short way, something that seems obvious but for multiple reasons has not been implemented over the years: it should be as simple as possible, taxing the consumption of goods and services, and preserving the neutrality for business as tax collectors so that VAT is ultimately borne exclusively by final consumers. At the same time, VAT should also be equitable and fair for these final consumers.

The simpler and more straightforward the VAT system of the future is, the better for business and tax administrations. To achieve this, the possibilities and risks that modern technology offers must be considered.

The above is a very brief summary of the deliberations we have had within the VEG on what the VAT system of the future should be like.

We believe that the VAT system of the future should be based on the following core design principles:

- All persons carrying out economic activities should be taxable.
- There should be no (or very few) exemptions.
- Align the rules applicable to the supply of goods and services (i.e., a full destination-based system).
- The system should have a very simple VAT rate structure.
- Derogations, standstill clauses and special schemes should be progressively removed.
- All measures proposed for the future VAT system must fully take into account the principle of sustainability. We are referring to environmental, social, and economic sustainability to ensure the system's long-term viability, fairness, and minimal harm to society and the planet. The future VAT system must be sustainable, so any disincentives in the current VAT system should be removed (please see more in section 4). Sustainability objectives should be considered when evaluating the long term changes proposed in this section.
- When designing the way in which the VAT system of the future will be operated, we must take advantage of the immense possibilities offered by technology. VAT collections and refund mechanisms should be modernized taking full advantage of the Digital Reporting Requirements (DRR).

Below we describe in greater detail what we think the future VAT system might look like. While we are aware that there is no perfect system, we believe that the VAT system described below may help to remove many of the weaknesses of our current VAT system and to enable all stakeholders to build a VAT system fit for the future. At the same time, it would be more connected to what happens in our world today, counting on the inevitable help of new technologies and avoiding fragmentation into multiple mini systems as a result of different interpretations in different Member States.

3.3.1. Design of the future VAT system.

A) Neutrality.

Neutrality should be the keystone of any common VAT system. Therefore, any measure proposed for the future must always have in mind the respect of this fundamental principle. A common VAT system that does not respect the principle of neutrality is an inefficient system, creates cost for business, is a source of significant litigation, and negatively impacts EU competitiveness in global markets.

Securing the neutrality of VAT entails a level playing field for all kinds of businesses big and small, domestic, and foreign - across all sectors, including those in the traditional and digital economies. This is essential for fair competition, which is key to fostering international trade and global growth and also essential for the efficient collection of VAT revenues.

The neutrality of the future VAT system can be achieved under different forms which may include the following:

- **Level playing field:** The future VAT system must guarantee equal treatment for domestic and foreign taxable persons and also for those operating in the traditional and the digital economies, i.e., all should be subject to the same VAT rules preventing competitive disadvantages. The same fact patterns have to be treated in the same way for VAT purposes. VAT should not have any influence on and should not drive business decisions.

The above will help to eliminate VAT distortions, i.e., Tax authorities of the Member States should make efforts to eliminate those VAT rules creating distortions between equivalent situations like, for example, the traditional and digital economies.

- **Equal VAT treatment of similar activities:** Equitable treatment of similar economic activities (e.g., digital vs traditional economy) should be ensured.

Regarding VAT rates, the same VAT rates should apply to both traditional and digital business models within the same sectors of activity, ensuring that businesses compete fairly, and consumer preferences are not distorted (more on VAT rates under 3.1.B).

- **Fundamental right to deduction / recovery of input VAT:** Input VAT deduction has to be based on the economic reality/business purpose. Therefore, looking at the business purpose and the clear business “intention” of transactions is highly important. This must include VAT on all types of business expenditure (i.e., incurred by anyone not acting as a private consumer), as well as items that are currently not fully allowed in many Member States today, even if they are used with a business aim. Businesses should be able to claim input VAT credits for VAT paid on their purchases in similar manners and conditions irrespective of whether they operate in the digital or traditional economy and in different EU Member States (whether they are established locally or abroad).
- **Simple VAT compliance and administration:** Neutrality is also achieved by simple VAT compliance procedures reducing the administrative burden on businesses, especially SMEs and by adapting the VAT system to new business models flourishing under the umbrella of the digital economy. This includes the need and further consideration for a future alignment of procedural laws in the EU.

B) Broadening the taxable base.

Broadening the taxable base implies, among other measures, expanding the range of goods and services subject to and not exempt from VAT. This would simplify VAT management by eliminating exemptions and exceptions that in many cases have proven to be inefficient, have given rise to planning opportunities, and have additionally been burdensome to comply with in practice. Broadening the VAT base may also create room for reducing the standard VAT rate, which is proven to be economically beneficial.

Another important topic to consider when broadening the VAT taxable base is that the economy is “alive,” it moves at breakneck speed and activities that years ago were unimaginable, are now common in many cases thanks to the use of technology, digital platforms and the expansion of the sharing economy. The VAT system of the future must have mechanisms that are agile enough to bring all of these activities within its scope, making sure that they are properly taxed in order to create a level playing field and ensuring that compliance is kept simple.

The benefits of broadening the taxable base are significant as they imply an increase in VAT revenues and also the enhancement of VAT neutrality, and possible ease of compliance in practice. However, we cannot forget that broadening the VAT base could have a negative effect by making the tax more regressive. Therefore, broadening the VAT base should be done in a thoughtful way, considering any possible regressive effect which, we believe, should be compensated directly by governments with measures outside the VAT system. This compensation should, in any case, be carried out through targeted refund procedures or transfer payments rather than by way of substantive VAT provisions.

Broadening the taxable base requires a series of actions. We can say that it is a kind of “package of measures” involving various steps such as eliminating exemptions and special regimes as well as simplifying the structure of VAT rates.

Below we develop in greater detail how we consider that these actions should be implemented.

- **VAT exemptions:** Broadening the taxable base could involve reducing the number of exempt supplies of goods and services. In the current VAT system, a large number of exemptions exist as exceptions to the general rule. These exceptions make VAT difficult to manage. Moreover, some of these exemptions might be more difficult to justify in the modern world e.g., insurance and financial activities. In this sense, any proposed measure should be examined holistically with all taxes or levies on the financial and insurance sectors being considered together and not just VAT on its own.

In an ideal VAT system, there should no longer be any VAT exemptions. In this sense, we consider that in the VAT system of the future, the VAT exemptions as they are known today must be eliminated. As a general rule, all economic transactions should be generally taxed with VAT as the single consumption tax applied on the supply of goods and services.

For those activities that cover existential needs and are of general interest, the current VAT exemption could be replaced by a zero rate, with the right to exercise the deduction of the input VAT incurred.

The scope of VAT and any retained exemptions must be determined exclusively at EU level.

- **Derogations, options, and standstill clauses applied by the Member States:** Something similar to the VAT exemption issues above occurs with the possibility that exists in the current EU VAT system where Member States can apply exceptions to the general rules governing the common VAT system. They are even allowed to continue to apply old standstill clauses that in some cases are difficult to justify today.

The EU VAT system of the future must be a real "common system" so this type of exception should be reduced to the minimum possible and, ultimately, completely eliminated. Temporary national pilot projects could be admitted allowing testing of new regulatory approaches. These temporary derogations should always be very well defined and limited in terms of their content, and most importantly, in terms of their duration, which must always be restricted.

- **Special VAT schemes:** Special VAT schemes are an exception to the general functioning of the common VAT system. Some of these special regimes were justified in the past, some may even have a theoretical justification still today but in practice in many cases they are tremendously difficult to manage.

We as VEG consider that the future VAT system should be free of special schemes that are mainly based on historical justifications.

Special schemes should only be maintained in order to safeguard the key principles of the future VAT system. In this case, we would refer, for example, to a special scheme for second-hand goods that is adapted to the needs of the circular economy.

Unlike the traditional linear economy, the circular economy aims to create a closed-loop system, reducing environmental impact and promoting sustainability. This model is increasingly relevant today as businesses and governments adopt it to address climate change and resource scarcity. VEG members believe that the future VAT system must take this circumstance into account, and it seems reasonable to establish a new special system for second-hand goods that will help to boost this circular economy.

- **VAT rate structure:** With the adoption of Directive 2022/542, the way in which VAT rates work at the EU level was modified, thus closing a long debate between two opposing positions: more uniformity applying VAT rates across all Member States, or providing more freedom for Member States, the latter position being the winner which currently allows Member States to maintain several VAT rates. If we add to this the exceptions and derogations existing in most of the Member States, we can say that in practice, hundreds of different VAT rates are currently applied within the EU, making it very difficult for businesses to operate cross-border, particularly

SMEs. Even more so, there is no database available with all these different VAT rates which is up to date, reliable and legally binding for Member States.

In this sense, one of the first things that should be available in the VAT system of the future is an accurate and constantly updated list of VAT rates applicable throughout the EU territory (Taxes in Europe database – TEDB). This update should be simple and quick to implement thanks to the use of technology, giving legal certainty to taxable persons.

The VEG members believe that the current rates structure is difficult to manage for businesses and tax authorities and clashes with two principles that we consider should govern the operation of the future VAT system: neutrality and uniformity.

We, therefore, as VEG suggest undoing the path over time that has been taken. We propose that the VAT system of the future applies a simple VAT rate structure.

In this sense, what the VEG is proposing is to follow a phased approach starting with only one standard rate for each Member State, combined with a single reduced rate. This could be the first step towards an ideal VAT rate structure with the aim of a potential future single VAT rate applicable in the whole EU territory as long as economic and political conditions allow it. We are conscious of the implications and difficulties that this entails as it affects the sovereignty of Member States as each Member State has its own economic priorities and needs to control tax revenues.

It must be considered that lowering the standard VAT rate can stimulate economic growth by increasing consumer spending and enhancing business competitiveness. However, it may also pose challenges for government revenues and will depend on how businesses and consumers react to the tax change.

We are aware of the effect that a uniform VAT rate can have on low-income consumers and the potential regressive effect which, as mentioned above, we believe, should be compensated directly by the governments with measures outside the VAT system. This compensation should, in any case, be carried out through targeted refund procedures or transfer payments rather than by way of substantive VAT provisions.

The above must coexist with the possibility of applying a zero VAT rate to those activities that cover existential needs and are of general interest, as described in the paragraphs above.

In summary, what the VEG is proposing is a phased approach where at an early stage there will be two VAT rates (one standard rate and one reduced rate) per Member State which should eventually become a single VAT rate at EU level (if circumstances allow it). This single VAT rate could be combined with a zero rate for certain activities that cover existential needs and are of general interest as explained in the above paragraphs.

C) Aligning the VAT rules for goods and services.

Since the beginning of this century, the EU VAT system has been moving towards a destination principle of taxation as regards the supply of services. Given current and future developments based on the digitalization of the economy, the question comes up whether it would not make sense to explore if the successful path found for services could also be applied to the place of supply of EU cross-border B2B supplies of goods ensuring that business is not burdened with any disproportionate compliance requirements.

This would mean moving away from following the flow of goods for the determination of the place of taxation for EU cross-border B2B supplies of goods (current system) to a true destination principle, i.e. following the B2B cross-border services and distance sales of goods rule to charge VAT where the customer is established (future VAT system).

The above will bring challenges, such as how to deal with the exempt sectors (which should be an exception in the future VAT system), or non-EU businesses involved in the flow of goods within the EU. A study was carried out for the Commission in 2012 - TAXUD/2011/DE/304, Final Report 8 February 2012, which examined this topic and although it highlighted some challenges, this area could be further explored, since none of the challenges raised in the report seemed to be insurmountable.

The above is inevitably connected with collection and reporting mechanisms (OSS, reverse charge system, digital reporting, real time reporting etc.). In order to make this destination principle for cross-border B2B supplies of goods workable (and to limit the fraud risk), both things should be considered together. The risk and challenges that this proposed measure may entail as regards, for example, controlling cross-border supplies of goods treated in the same way as supplies of services, should be manageable due to the implementation of DRR which will provide extensive and timely information to the Authorities enabling them to react swiftly and effectively when necessary.

In this context the question comes up whether the fractionated payment system in VAT is still fit for the next decades. Administrative cooperation is also very important in this respect, and how it can be made to ensure that VAT is collected from foreign businesses.

VAT collection mechanisms are considered under section D), below.

D) VAT collection mechanism.

One of the issues that we have discussed as VEG is the collection mechanism of the future VAT system.

The fractionated payment system of VAT in the EU, where each business in the supply chain pays VAT on their sales and claims a refund for the VAT paid on their purchases, has certain weaknesses despite its benefits. It is true that it helps to minimize the risks of VAT evasion and encourages compliance, but it has significant weaknesses. These include administrative complexity and cash flow burdens for businesses.

Once the ViDA proposals are transposed, with all Member States considering the introduction of DRR, a pertinent question arises: given current and future technological developments, will the future VAT system still require charging and collecting VAT on B2B transactions between taxable persons that have unrestricted VAT deduction rights. In these situations, VAT then becomes, in essence, a mere matter of reporting.

Through DRR, tax administrations will have immense amounts of information available to them in very short timeframes. Taking this into consideration, perhaps it is time to consider options to minimize the friction for businesses caused by the mechanism of having to charge, collect, and pay VAT, while the recipient of the goods or service will deduct it.

Taking advantage of the benefits offered by technology, reflected in the uniform use of DRRs and also of mandatory electronic invoicing, VEG members suggest exploring alternative VAT collection mechanisms that are less burdensome (aiming to reduce the impact on the cash flow of taxable persons). Reducing any negative financial impact of VAT on taxable persons will result in an enhancement of the principle of VAT neutrality.

The above refers exclusively to B2B transactions. However, we cannot overlook B2C transactions. We believe that the VAT collection system on B2C activities can and should be closely examined to improve it as much as possible. Any proposed measure must take into account the possibilities offered by technology and, in any case, should be harmonized and agreed upon by the Member States. Aspects like split payment in the area of B2C but also when it comes to the use of cash registers in B2C transactions (due to huge technological development, cash registers are more accessible than ever) could be further considered and analyzed.

E) VAT refunds.

How to make the refund process easy and efficient?

The fundamental right to recover input VAT and the process around it should be the same whether a business is locally established or established outside of the Member State where the VAT was due, and it should be an easy and efficient process for both locally established and foreign businesses.

Making the VAT refund process easy and efficient is of paramount importance to preserving the principle of VAT neutrality. It is not sufficient that businesses have the right to recover their VAT - it also needs to be recovered quickly and efficiently. A delayed VAT refund is not a fair refund and should have no place in the future VAT system.

Regarding VAT refunds, progress has been made in this area, e.g., Directive 2008/9/EC compared to the previous 8th VAT Directive and many Member States have introduced their own technology driven solutions to effectively manage the 13th VAT Directive provisions. Further streamlining would render the process more effective and efficient.

EU wide criteria of reciprocity.

An important aspect to consider when it comes to EU VAT refunds to non-EU businesses is the criterion of reciprocity for the purposes of applying the refund process provided for in Directive 86/560 (*Member States may make the refunds referred to in paragraph 1 conditional upon the granting by third States of comparable advantages regarding turnover taxes*).

In the future VAT system, we propose that there should be a single criterion of reciprocity, applied in an identical manner in all Member States.

Future OSS concept.

A far away future VAT system, both looking at it from a legal system design perspective and also a collection mechanism perspective, might have impacts as well on the future concept of the OSS. Operating in a true Single Market with a true Single VAT area could reduce the instances for the OSS to be used.

However, until then, which might be decades away, in a continuous and step by step manner we have to build on the innovative concept of the OSS, making its foundations more solid and efficient, and transforming it from a pay-only VAT regime into a robust and secure full VAT regime. This means that the OSS concept also needs to cater for recovering input VAT, allowing businesses that use the OSS to offset the input VAT incurred in a certain EU Member State with the output VAT that they have to pay to another Member State.

VEG members believe that the future OSS return should allow the offset of VAT payable in one Member State against the VAT incurred in another Member State and pay the tax administration the resulting net amount. This should be the ultimate goal of a truly comprehensive OSS declaration, and it would reflect the reality that businesses are indeed operating within a genuine EU single VAT market.

3.3.2. How to fit the future VAT system into the EU context.

Firstly, we would like to highlight that a seamlessly functioning EU Single Market requires also a seamlessly functioning EU Single VAT area. This is even more important, looking into the future in order to promote future growth in the EU.

In section 3.1 of this report, we have explained the design that the VAT system of the future could have. It is also important to establish how this VAT system of the future might fit into the EU political

and regulatory environment. In the opinion of the VEG members some aspects to consider could be the following.

A) EU VAT rules directly applicable in all the Member States. VAT Regulations instead of VAT Directives.

One of the aspects to consider when fitting the future VAT system into the complex mechanisms that exist today in the EU is the way in which the different VAT rules are applied in the Member States.

We currently have a VAT Directive that must be transposed into the internal legislative framework of each Member State. This transposition causes problems in many cases. This is due to various reasons such as, vague political agreements in the Council based on its decision-making process which we will further deal with under point C below, and the inefficiencies in the transposition processes. These processes are not identical in all Member States, and it is during these processes that inefficiencies and complexities sometimes occur.

In this sense, it would be extremely positive for the smooth functioning of the EU's VAT system if the officials representing Member States in the Council discussions were, where possible, also involved in the process of implementing the EU VAT Directives in the national laws in the Member States. This would prevent the loss of valuable information and ensure the political agreements reached in the EU Council are implemented domestically in a consistent way.

Perhaps it is time to think about simplifying this entire complex regulatory system and reducing the number of rules that govern the common VAT system of the future as much as possible. VAT rules should be directly applicable in the different Member States, without having to go through the cumbersome process of transposition into the internal regulations of each Member State. The VEG members consider that this would be achieved, to a large extent, with a system based on a supreme VAT standard (legal norm) that should be an EU Regulation.

EU regulations have direct application in Member States, meaning that once a regulation is adopted at the EU level, it becomes immediately enforceable as law in all EU Member States without needing to be transposed into domestic legislation.

The above secures the following:

- **Direct application:** Regulations are entirely binding and directly applicable in all Member States. This is not the case with Directives.
- **Uniformity:** Regulations apply uniformly across all Member States and, therefore, they ensure consistency in the application of EU law (such as VAT law). This uniformity is crucial for the functioning of the single market, specifically, in VAT.
- **Legal precedence:** EU regulations take precedence over national laws. If there is a conflict between an EU regulation and a national law, the former prevails over the latter.

The direct application of EU regulations ensures that they are uniformly and immediately enforceable across all Member States, playing a crucial role in maintaining consistency and legal certainty within the EU - something which is certainly relevant for the proper functioning of a common VAT system.

B) Decision making process.

An important question is what the EU will look like in another 10 to 15 years. It is to be expected that the number of Member States will have increased. There are already a few countries in the waiting room and maybe there are more to follow. With this in mind, a fair question that comes up is what does this mean for running the EU properly and efficiently in future including the decision-

making processes in the EU? Can things continue as they started when the EU (EEC) was founded? There is no doubt that the admission of more Member States will affect the effectiveness of the EU Commission as a policy maker, especially in the case where unanimity is required for the adoption of any VAT proposal.

In an ideal situation, all Member States would have to agree on a VAT proposal unanimously, as is currently the case. However, as we have seen in the past, this is often a challenge for various reasons.

Considering all the above and thinking about the future EU VAT system in which a much larger number of Member States will participate than now, the VEG considers that perhaps it is time to question and freshly consider whether unanimity is the right decision-making process for all types of VAT decisions in the EU. We consider it could be time to explore other ways of making decisions in the area of VAT for the benefit of all stakeholders, and for a seamlessly functioning EU Single Market in an EU Single VAT area to operate.

We are aware that moving from unanimity to some form of majority vote requires strengthening the democratic legitimacy of the EU decision making process in VAT.

C) Functioning of the VAT Committee.

The VAT Committee plays a crucial role in supporting the Commission in ensuring the uniform application and interpretation of VAT rules across the EU. All those who are dedicated to VAT carefully read and pay close attention to the guidelines of the VAT Committee. These guidelines, now published in full, are essential to have a wide understanding of the common VAT system. Whilst these guidelines are not considered as binding, they are used more and more as reference points by Courts such as the CJEU but also by businesses when it comes to the uniform interpretation of EU VAT law in practice.

However, the VAT Committee is currently an advisory committee made up of representatives of the Member States and of the EU Commission without any competence in the adoption of implementing measures.

At the VEG we believe that the role that the VAT Committee should play in the future VAT system must be of greater relevance.

There are topics on which the VAT Committee can and should make decisions for Member states when it comes to practical interpretation, implementation, and application aspects of EU VAT law in order to ensure consistency and legal certainty across the EU, which is of utmost importance both for businesses and Member States.

We are aware that under the current EU treaties, a committee of representatives of the administration of Member States such as the VAT Committee cannot make binding decisions. But it may function as a comitology committee that needs to be consulted, and has a veto right, with respect to implementing acts that the EU Commission seeks to adopt. Therefore, it could be the EU Commission that makes the binding decisions, supported by an enhanced VAT Committee.

The VEG would be pleased to support the EU Commission and the VAT Committee with practical information from a business perspective in order to ensure that the decisions that are made by the VAT Committee are grounded on a proper understanding of the commercial reality and the consequences that these decisions will have on businesses in practice.

D) Same interpretation of basic VAT concepts.

Ensuring the same interpretation of basic VAT concepts across EU Member States is vital for the uniform application of EU VAT legislation and legal certainty.

We currently have various mechanisms to ensure this uniformity. We have, for example, decisions of the CJEU, we also have guidelines and explanatory notes on the most diverse aspects. Explanatory notes for example are not considered to be binding but are a useful reference point, which the CJEU and also national courts are increasingly taking into consideration, which is helpful for business when it comes to ensuring a consistent implementation and application of EU VAT rules in practice. However this said, the role of this soft law is not entirely clear and often it is not known for sure to what extent it can be relied upon. This is particularly the case for small businesses but also for advisors that do not regularly deal with VAT internationally.

As far as the decisions of the CJEU are concerned, it should not be necessary to go to Court in order to obtain answers to VAT questions and to ensure that taxable persons' legitimate rights are protected.

We believe that in the future VAT system, a mechanism should be devised whereby taxable persons can find this uniformity of interpretation without having to depend on the decision of a national court that may or may not refer a request for a preliminary ruling to the CJEU. Taxable persons are therefore exposed to the decisions of national courts which, in many cases, are not experts in VAT. This should not be the case in the future VAT system.

This mechanism can be articulated through a body that could be the VAT Committee with the new role that is assigned in the future VAT system, or any other body created for this purpose, for example, the EU VAT agency to which we refer below. This might be the same body leading with cross-border dispute resolutions in the future VAT system (see section F), below)

Additionally, VEG members believe that in the VAT system of the future there must be a 100% uniform definition and interpretation of basic VAT concepts across all Member States. We are referring to traditional concepts such as taxable persons, economic activity, intermediaries, or fixed establishments, but also to other concepts that will undoubtedly play an important role in the VAT system of the future but also to concepts such as digital platform or interface, digital services, digital assets or cryptocurrencies.

Although the current VAT system has some mechanisms trying to ensure the same interpretation of basic concepts across Member States, these systems must be improved in the VAT system of the future, they must be faster and more accessible and they must be agile enough to constantly incorporate new concepts that, undoubtedly, will appear with the development of new ways of doing business.

Perhaps these uniform definitions and interpretations can be partly achieved through the directly applicable EU regulations to which we have referred above.

E) Dispute resolution between Member States.

In our current system there are certainly some mechanisms that help to resolve disputes that exist between different Member States when applying VAT regulations, but the truth is that these mechanisms have not been very efficient over the years, either because they have not been used on a regular basis or because they are ultimately not effective as they do not provide for legal certainty.

We are referring, among others, to cross border rulings (the EU Commission's CBR pilot project initiative), Solvit or Dialogue between tax authorities encouraged by Council Regulation (EU) No 904/2010.

The future VAT system must count on a real (easily accessible, fast, and effective) system of dispute resolution between Member States that provides legal certainty.

The above may be achieved by the following:

- Enhancing and fostering the current cross - border ruling program by providing legal certainty and encouraging and even obliging all Member States to participate in the program.
- Binding tax rulings to be issued by the VAT Committee or possibly by another body expressly created for these purposes (perhaps the EU VAT agency referred to below).

The aim is for decisions taken in one Member State within the framework of these decision-making committees to be certain, and binding, without the possibility of being challenged by the Authorities of another Member State. This will give taxable persons the required legal certainty in cases of cross-border transactions.

We must, therefore, insist on the principle of legal certainty because it is essential for the correct application of VAT. Taxable persons must have reliable mechanisms in place to resolve their cross-border VAT disputes without the need to wait long periods of time to do so. VEG members propose creating a body managing this type of cross-border dispute which could be the VAT Committee with the new role that is assigned to it in the future VAT system or even the EU VAT agency to which we refer later in this report.

The foregoing is not intended to diminish the powers of the General Court which shall continue with its role and competences.

F) The creation of an “EU VAT agency” supervising the work of national Administrations.

The creation of an EU VAT agency would be a landmark development in European integration, aimed at enhancing economic cooperation, fairness, and efficiency within the EU. While the challenges are substantial, the potential benefits could be enormous.

Notwithstanding, we as VEG members, are aware of the fiscal sovereignty of the Member States and the full competence they have when it comes to collecting their taxes. However, we consider that this is not completely incompatible with the creation of an EU VAT agency that will serve to supervise the correct functioning of the VAT of the future and the correct application of this system.

At an initial stage it could be a body that both Member State’s administrations and citizens can approach to obtain information on everything indicated in this document (EU regulations, dispute resolution mechanisms, applicable VAT rates, etc.) in such a way that could be a global point of contact between VAT stakeholders and lawmakers. Ultimately it will help to facilitate sharing of tax information among Member States to enhance transparency and enforcement.

Over time and as long as political conditions allow it, the functions of such a VAT Agency could be nurtured and increased in such a way that it becomes a useful body for taxable persons and Member States. In an ideal future VAT system, the EU VAT agency could help ensure the harmonization of VAT policies, to facilitate an efficient VAT collection, to help to solve cross-border disputes and to reduce VAT evasion and fraud.

3.4. Current VAT system: Looking ahead from the current VAT system and ViDA.

The comprehensive ViDA package with its three different and complex building blocks and its wide-ranging scope will have big impacts on the current EU VAT system. It has a lot to offer but there are also challenges out there which we will all have to overcome together through active and close cooperation between tax authorities, businesses and key stakeholders on an EU and Member State level.

Once implemented, ViDA will result in key changes to the EU VAT system that create opportunities for further improvements to the functioning of VAT for tax authorities and businesses, but also present new challenges in the way VAT is administered. Implementing ViDA successfully will be a change trajectory that will require attention and investment from all stakeholders between today and 2030. The efforts required to build the necessary systems and to find scalable solutions to new

challenges will need to be considered when thinking about the future of VAT as they may limit the capacity for further short to medium term changes at the level of tax authorities and businesses.

When thinking forward from the current VAT system, we have therefore started by drafting a number of recommendations regarding the implementation of the ViDA Package, which is an area where a collaborative approach bringing together all stakeholders (as already initiated by the European Commission) is in our view the key to a successful transformation of the VAT system. These recommendations have been brought together in a separate section 4 “ViDA Implementation” annexed to our report.

Furthermore, it's essential to proactively address existing weaknesses that are causing friction in the EU VAT system - exploring potential solutions now could lead to tangible improvements for businesses, consumers, and tax authorities alike. Many of these will be facilitated by the improved control that will exist under real-time digital reporting requirements. Also, a number of these recommendations would be steps in the transition towards the future of VAT.

3.4.1. Qualification of transactions for VAT.

The digital revolution has changed business models and, as a result, the way consumption takes place in today's world. Challenges to the qualification of transactions under (existing) VAT law are the logical consequence. Underscored by terms such as the 'sharing economy' and 'anything as a service' (XaaS), the importance of ownership is declining, leading to a rise of the service industry. In the "old" days, people might have spent their money on buying a car, for example, but now sharing concepts for vehicles such as cars, bicycles and scooters (especially in cities) have replaced ownership. The same is true for the entertainment and software industry, where rental and the limited right to use (e.g., via subscriptions) have replaced the sale of hardware (e.g. CD/DVD). This development raises a number of qualification questions and neutrality issues.

In an increasing number of cases, the sale of a tangible item is also combined with an intangible element, which blurs the elements and the distinction between goods and services. Examples include the sale of equipment with built-in software that needs to be updated in return for consideration to function, 3D printing, or the e-charging of vehicles which is usually combined with substantial digital services. For these complex supplies, the distinction between single and multiple supplies and the predominant element of a complex supply becomes crucial and determines the applicable VAT regime and burden. The concept of the “average consumer/customer” established by the Court as the decisive element in this assessment creates uncertainty for businesses, tax authorities and national courts and may lead to diverging views and fragmentation of the internal market. In addition, entirely new (consumer) products are emerging in the digital domain which are not easy to classify under existing VAT rules (e.g. different forms of crypto assets).

Digitalization and globalization have also led to changes and a significant increase in cross-border supply chains. Also, the role and activities of intermediaries are evolving. The increasing number of global shipments has led to new concepts of logistic centers and to the outsourcing of certain services to other members of a group or to third parties. Recent legislation has focused on online platforms. However, the qualification of the contractual arrangements (including the possible need to re-qualify them for VAT purposes), the infrastructure used (as a fixed establishment) and the intermediaries (as “normal” suppliers in the chain, undisclosed agents, or disclosed agents) is also subject to legal uncertainty in other sectors, including B2B supply chains.

Also, the way consumers interact with service providers has changed significantly, more activities are based on multi-sided business models where business value is generated by the use of data generated by the consumer cohort rather than through actual payment for services provided. In addition, payments are also moving to the digital world, for example using cryptocurrencies.

Finally, changes in business models are also being driven by the increasing focus on sustainability and the fight against climate change. The most prominent and relevant example is the mobility

sector, where sharing concepts and e-mobility have had a huge impact. Other areas are repair services and donations.

Despite these substantial shifts in business models, the general definitions of taxable supplies of goods and services in Articles 2 et seq. of the VAT Directive 2006/112/EC have remained essentially the same. In some cases, new rules have been overlaid on top of the existing ones (without altering them). Examples are the special rules for electronically supplied services, for vouchers (Articles 30a-30b), for chain transactions (Article 36a), for intermediaries in the platform economy (Article 9a Implementing Regulation, Article 14a EU VAT Directive, Article 28a and 46a ViDA proposal), and, finally, for online events (Articles 53 and 54). The new rules address the challenges faced by businesses and tax administrations in specific industries and have generally been welcomed by the relevant sector. However, the interaction of these new rules with the existing rules and the overall concept of the EU VAT Directive has led to some legal uncertainty. This legal uncertainty (in some cases) has also been fostered by CJEU judgments which were handed down in relation to very specific fact patterns.

Now that the changes embedding the destination principle into the EU VAT system have been completed, it may be a good time to review and assess the interaction and effectiveness of these new specific rules, in particular with the overall approach of the EU VAT Directive, and to consider areas where further clarification and/or modernization on the qualification of transactions for VAT purposes may be helpful in achieving a simpler VAT system.

The VEG has identified in particular the following areas where further discussion on a potential reform or implementing rules could ease life for businesses and tax administrations:

- **Definition of taxpayer status:** There is increased participation of individuals in the economy, through a variety of developments such as the growth of the platform economy, circular supply chains or auto-production of energy. This creates uncertainty on the demarcation line where taxable person status begins, bringing complexity for businesses active in this domain to distinguish C2C/C2B from B2B/B2C/B2G scenarios. Particularly in view of the increased digital exchange between and with taxpayers, clear rules should be developed to regulate the status of occasional traders. EU level tax systems should allow the automated verification of taxable status by businesses, for example based on eIDAS, to determine the correct VAT treatment of transactions in real time and limit the liability of taxpayers making use of such systems.
- **Composite supplies:** Due to the increasing integration and combination of tangible and intangible elements, and the existence of VAT exemptions and the increasing number of reduced rates for specific (sub)categories of goods and services (permissible since the tax rates reform in 2022), the question of whether a complex set of goods and services constitutes a single supply with a predominant element or several separate supplies is becoming more relevant and, at the same time, more difficult to determine. This qualification issue seems to be accelerated by the CJEU concept of the "average consumer/customer", which is difficult to apply in practice. Exploring further whether the VAT rules for goods and services can be aligned, as suggested in point 3.3.1 C, might be a possible way to stop qualification issues from arising.
- **Electricity and e-mobility:** Based on Arts 15 and 39 of the VAT Directive the sale of electricity is to be treated as a supply of goods taxable at the place where the consumer "effectively uses and consumes" the electricity. This rule seems to reflect a time when e-mobility did not exist; the vague proxy of the place of effective use can lead to qualification conflicts resulting in double (non-) taxation.
- **Repairs:** repairs are considered to qualify as services or supplies of goods based on diverging criteria in different Member States, leading to uncertainty for taxpayers and mismatches triggering double or non-taxation in cross border situations. This could best be solved by addressing the root cause, the distinction between supplies of goods vs. services, and considering whether this should still be a key feature of the future EU VAT system (see also point 3.3.1 C).

- **Crypto assets (crypto currencies and different forms of tokens):** Even though efforts have already been made to agree on guidelines, the work by the Commission and the VAT Committee has proven that there still seems to be some inconsistency in the qualification of transactions related to crypto assets in different Member States. The future reporting of crypto exchanges under DAC8 will allow us to better deal with anonymity within this sector and the increased transparency should allow for more informed policy decisions in this field.
- **Vouchers:** The new provisions in Articles 30a and 30b have tried to increase legal certainty. However, the definition of vouchers and the treatment of longer supply chains involving vouchers is causing conflict. As long as there is no mechanism that ensures that Member States agree on what is an SPV or an MPV, and they can take different views in relation to the same voucher, this can lead to double or non-taxation. The new rules should be evaluated promptly and adjusted as needed to ensure equitable VAT collection.
- **Chain supplies:** CJEU case law on chain transactions and the qualification of intermediaries (as suppliers of goods or intermediaries as service providers) is very case-specific. Also, the scope of the commissionaire/undisclosed agent rules in Articles 14(2)(c) and 28 of the VAT Directive is subject to legal uncertainty due to a lack of clear case law, lack of implementing legislation, and different national practices. The coherence of the rules seems to have been complicated by the more specific deemed supplier rules for platforms in Articles 14a and 28a of the VAT Directive and Article 9a of the Implementing Regulation (implemented in the last decade), which - although following a similar concept to Articles 14(2)(c) and 28 of the VAT Directive - lay down different conditions in detail. Businesses find it difficult to extract general criteria for the VAT qualification of intermediaries from the legal basis and case law that can be applied on a day-to-day basis. Moreover, the new rule for chain transactions of goods in Art 36a is – based on its wording – only applicable to intra-Community supplies, but not for chain transactions involving third countries (imports or exports of goods). This has led to divergent implementation by Member States.
- **Transfer pricing (TP) adjustments:** The application of VAT rules on TP adjustments remains an area of concern for businesses, even after the VEG’s Working Paper 071 REV2. Diverse positions of tax authorities in different Member States are currently giving rise to case law in this field, which will likely increase the uncertainty. Typically, a TP adjustment has no VAT consequences if there is no consideration between both parties in a B2B context. In the case of the existence of consideration, there is an adjustment of the taxable amount if there is a “direct and immediate link” with the initial supply. Most businesses operating in an international context are not able to link the TP adjustment with the initial transaction. In that case, is the TP adjustment still the consideration for a taxable transaction (supply of goods), or should it be treated as a standalone supply of services or as a payment outside of the scope of VAT?
- **Discounts:** A related issue is found in relation to discounts and commercial incentives which are often not linked to a specific underlying transaction and create confusion in respect of the way VAT invoicing and reporting of such amounts must be handled. Also here, EU level guidance will be increasingly useful in a digital environment where mismatches in reporting will lead to process disruptions.
- **Fixed establishment:** The extensive case law on the concept of fixed establishment, particularly in respect of the creation of such establishment through affiliated entities in the taxing jurisdiction, has brought uncertainty for groups setting up global operations in a performant and efficient manner. To prevent disputes on this topic in the future, translating the key findings in the CJEU rulings into workable practical requirements that are binding for tax authorities and businesses may be required. Where multiple taxpayers are involved, precedence should be given to respecting the VAT consequences of the legal and contractual arrangements set up by the taxpayers unless there is abuse or evasion. Retrospective adjustments whereby a taxpayer incurs penalties and or interest charges despite the fact that no VAT was lost by the tax authorities, would be eliminated. A reflection on the fixed

establishment concept should also aim to clarify the interaction with art 192a of the VAT Directive, harmonizing “intervention” rules in a pragmatic way for businesses to set up their financial processes.

- **Free of charge supplies:** For VAT, the variety of cases where goods or services are supplied free of charge both in B2B and B2C scenarios are governed by the business gifts and samples concepts originating from the Sixth VAT Directive. An update of the legislation or EU level guidance to current day commercial practice is necessary to reduce VAT leakages.
- **Data as consideration:** In the light of the growing number of business models relying on data, customer attention or engagement as a source of value, there is a question as to whether this constitutes a transaction for VAT purposes, and if yes, what should be the qualification of these (barter) transactions for VAT purposes and the potential valuation of the data. A thorough analysis is required keeping in mind the potential far-reaching consequences and burdens which will arise for businesses and tax authorities, if these transactions are seen as in scope of VAT (with also a potential further impact towards Digital Services Taxes where this takes place in the platform economy).

3.4.2. Improvements on the right to deduct.

Over the past years, CJEU jurisprudence has been helpful in ensuring that neutrality is respected on the level of the right to deduct VAT for taxpayers. The economic reality/business purpose acknowledged in view of VAT deduction/recovery, which is welcomed to ensure VAT neutrality, also creates some uncertainty in practice as the current wording in the VAT Directive is rather restrictive (direct vs indirect link). These provisions on the general right to deduct/the need for corrections (deemed supplies) should be revisited in view of the fact that also an indirect link with VAT taxable business transactions suffices for a right to deduct/recovery.

Moreover, there are a number of remaining practical issues that affect neutrality, as well as certain rules from the legislation or case law that no longer lead to a fair taxation result in current times and that should be addressed:

- **Bad debt relief:** The recovery of VAT under bad debt relief rules is not harmonized between the Member States and the practical implementation leads to an incomplete VAT recovery for many businesses when they are affected by irrecoverable business debts. A simplified framework that Member States should adhere to may result in a more efficient business environment.
- **Rectifications:** Where errors are made in respect of the application of VAT on business transactions, either within one company or in the exchange between businesses, issues often arise with respect to the VAT deduction side of the rectification of the taxpayer’s position. The principle of neutrality of VAT must be guaranteed in such situations by setting a rule that allows the VAT deduction in a way that overrules time barring rules.
- **One Stop Shop interaction:** A side effect of the extension of One Stop Shop regimes as part of the Single VAT Registration regime will be that businesses will increasingly incur input VAT in Member States where they are not VAT registered. Input VAT recovery for such OSS registrants should be improved, whether by allowing the offset of input VAT within the OSS return or simplifying VAT refund processes by leveraging the data that is already available on the activities of the taxpayer through the OSS. The linking of the VAT refund portal and OSS mechanisms will bring more efficiency and transparency for both tax authorities and businesses.
- **Corporate structures:** A specific concern for groups of companies active on national or international levels and irrespective of the nature of their activities, is the characterization of their activity of participating in the equity of group entities as an outside scope activity akin to a private individual investing in capital markets. This topic has been the subject of many CJEU

cases over the past decades resulting in continued uncertainty in respect of VAT costs of corporate structures, reorganizations, share disposals, etc.

- **Exclusions from the right to deduct:** An area that also has not seen any harmonization or modernization since the inception of the EU VAT system concerns the exclusions from the right to deduct input VAT. A progressive removal of these rules that serve as a proxy for non-professional or private use should be put on the agenda to improve VAT neutrality.
- **Adjustments for destruction, loss, theft:** modernization of the rules governing the VAT consequences of goods leaving the business is needed to tackle uncertainty and VAT leakages for businesses, inter alia in view of new requirements imposed on environmental level.

3.4.3. Modernization of VAT exemptions and special regimes.

The complexity of the EU VAT system, resulting in distortions of competition, high compliance costs and not insignificant legal uncertainty, arise to a high extent in relation to VAT exempt transactions. By widening the VAT base, a more manageable system would in the longer term be achieved with positive effects for consumers, business and the state.

Blocked input (hidden) VAT occurs when suppliers that carry out exempt transactions cannot deduct VAT on their costs. For society, hidden VAT causes several problems, e.g., preschools and elderly care providers find it difficult to acquire suitable premises, in some countries housing construction is disadvantaged compared to offices, companies are excluded from benefiting from specialization and economies of scale through outsourcing as the cost benefits are outweighed by the additional VAT cost, and investments are pushed into the future. This puts companies that have to apply the exemptions in a worse position than competitors in other countries that do not suffer the corresponding distorting effects. Consumers are also affected in the form of hidden double taxation. The blocked input (hidden) VAT that currently burdens companies could instead be used for investment, increased accessibility and lower thresholds for entry into markets.

There is a need for a political discussion about the exemptions and the effects of blocked input VAT and cumulative effects as a result of the EU VAT base not being fully utilized. Despite the fact that VAT is in principle harmonized in the EU, there are numerous national deviations also in terms of the scope of the VAT base. Thus, there are possibilities to unilaterally broaden, or reduce, the VAT base. The exempted areas differ between Member States in both design and size.

Looking at a future simple and robust EU VAT system we have also addressed the need in 3.1 B of our report that the VAT exemptions as they are known today must be eliminated.

In the short to medium term, initiatives will be required to improve the functioning of those sectors/activities that are covered by the VAT exemptions in articles 132-135 of the VAT Directive, as the exemption conditions are increasing inequality affecting the level playing field, cost effectiveness and/or innovation in these sectors.

- **Financial services and insurance:** The VEG has taken note of the renewed initiative of the Commission relaunching the study on the taxation of the financial sector, including the application of VAT on financial services and insurance. We are keen on contributing to this work and the further steps in defining the reform options for this crucial sector. A key priority is to tackle the above-described negative cumulative effects of the current system, by facilitating the option to tax for businesses and/or moving to zero rating of certain activities within the financial sector.
- **Travel sector taxation:** The VEG also supports further legislative initiatives to improve the EU VAT system for the travel industry, which has been waiting for a long time for a modernized VAT regime. This should focus on addressing the distortions caused by the current TOMS regime, in particular in the B2B and MICE sectors, and should be led by the ambition to use the VAT system to encourage in-bound EU travel as a driver of European growth.

- **Public interest exemptions:** Also, for the exemptions for activities in the public interest, a broad reflection to update and improve these regimes must be considered. Certain exemptions such as those applicable to professional bodies or trade unions may not be aligned anymore with the organizational models of these activities and may create unnecessary cumulative effects and hidden VAT for their beneficiaries. At the level of the medical or educational exemptions, the conditions that providers are required to fulfil should also be revised in order to allow more flexibility, so as to ensure that the benefits of digitization are fully captured and the societal cost of providing these essential services is kept to a minimum.
- **Public sector:** Next to these specific exemption regimes, a further revision of the VAT rules applicable to public sector engagement in the economy should be placed on the agenda as well, particularly in the context of the Next Generation EU recovery and resilience programs.
- **VAT groups, inter branch transactions etc.:** The functioning of the internal market, particularly in sectors under a VAT exemption status, would also be advanced through the creation of a more beneficial regime for (cross border) VAT groups, head office to branch transactions, cost sharing mechanisms, etc., to minimize the VAT cost of collaboration and outsourcing. The combined effect of European case law and lack of progress in legislative initiatives has led to a much worsened, complex and uncertain environment for businesses to operate in.

3.4.4. VAT measures that can benefit sustainability policies.

While European policymakers have made historic progress over the last years in setting our climate ambitions, making Europe climate-resilient will require significant work in the next years and decades.

Changes to the VAT system to support the environmental transition have been limited so far and mainly concerned the allowance to place certain environmentally friendly products under a reduced VAT rate to keep up with the evolution of buying behavior.

As discussed under points 1.3 and 3.2.3, the use of the VAT system to stimulate sustainable development comes with challenges and risks that should be well evaluated and monitored in order to ensure that the principles that support a performant VAT system are respected. As past experiences show, measures outside the VAT system will be more effective to drive sustainability in practice. However, there are a number of areas that can be addressed in the short to medium term to make sure that the VAT system does not hinder the achievement of sustainable development goals or produces effects that go against sustainable policy measures in other domains.

A telling illustration of this was the recent Finanzamt X case (C-207/23), which dealt with a company that provides excess heat to two businesses for free. This results in a deemed supply of goods and the obligation to pay VAT, while no VAT would be due if the excess heat were to be discharged into the air (the latter being of course the less desirable option from a sustainability perspective). Similar to this, the VAT treatment of donations, which is already on the agenda of the European Commission and was mentioned in the Letta report, requires a European response to put in place a solution that does not financially disadvantage the desirable option from a sustainability perspective.

It is also important to note that the wish to achieve a circular economy creates challenges in the area of VAT, considering that the VAT system was designed with a linear economy in mind. Different options should be investigated to ensure that the new lifecycle of both industrial and consumer products does not trigger VAT leakages that would make a full circular model less financially attractive. The scheme for second-hand goods should in this context be reassessed and reformed. In particular, it needs to be assessed in the short to medium term whether the scheme can be used for raw materials and new goods that are made using second-hand materials which

results in the creation of an article that did not previously exist. Applying distance selling rules to goods within scope of the second-hand good scheme, which was dropped within ViDA, needs to be addressed ensuring that in a market where more second-hand goods are traded the neutrality within the internal market is ensured.

These interventions, however, do not address the fact that goods purchased from consumers are treated differently compared to goods bought from businesses. In the latter case where VAT is charged it will be immediately deductible, whereas in the former case the 'hidden' VAT is not recoverable (only after the goods are supplied and VAT is calculated on the profit margin). To address this the system should in the view of the VEG be revisited, especially a flat rate deduction of (hidden) input tax at the reseller level as applied in certain non-EU VAT regimes.

At the level of VAT rates, neutrality between consumer choices can be enhanced by aligning the rates applicable to interchangeable supplies of goods and services, to put ownership and usage on the same footing.

When it comes to real estate, the VAT regimes are typically strongly influenced by country specific housing and building policies as well as interaction with other taxes and incentives. Aligning these regimes with sustainability goals defined at the EU level is however a must and requires that the direction is set from the EU level, with best practices to achieve this. Issues to be addressed to ensure the neutrality of the VAT system, include a modern and broader interpretation of the concept of immovable property, reconsidering the distinction between new and existing buildings that defines the VAT treatment and of the characteristics used in this respect, and re-assessing the length of input tax adjustment periods for immovable property.

3.5. Bridging the Gap from today to tomorrow.

Based on sections 3.3 and 3.4 of this document, we have set out suggested deliverables in a summary in section 2 of the report, which might be helpful for the EU Commission to consider.

Clearly, one cannot expect the Commission to look at all these different aspects at the same time, so it is very important to prioritize and adopt a phased approach. Additionally, it is important to consider that some aspects are also highly politically driven, which in itself means they need to be looked at with a much longer time frame in mind.

We as VEG would be pleased to actively support the Commission on all these topics and have tried in our summary, as best as we can, to list the aspects according to their priority and a possible time frame.

3.6. Concluding remarks.

We would like to thank the Commission for giving the VEG the opportunity to give input into the VAT after ViDA initiative, which we do highly appreciate.

We as the VEG would be pleased to actively support the Commission on the future work considering the suggested deliverables for the benefit of the Commission, Member States, business and all other stakeholders.

We think that our VEG document provides a great opportunity for the Commission to set up a joint meeting between the VEG and GFV. With the Commission's active leadership, we can use our document as a starting point to further discuss and reflect in further detail on the long term future of the EU VAT system with the relevant stakeholders from the Member States and the Commission. This collaborative approach would emphasize the necessity of ongoing, transparent, and constructive cooperation to enhance the current EU VAT system. Simultaneously, we can develop a long term vision that integrates technological advancements with a sound, simple, robust and consistently applied EU VAT legal framework. This would ensure that the future system's design and operation achieves two key objectives: simplification for businesses and tax authorities, and the safeguarding of VAT revenues.

4. ANNEX ON ViDA IMPLEMENTATION.

When thinking forward on the EU VAT system taking the adoption of ViDA as a starting point, it is important to define the key opportunities and challenges that will be created through ViDA and the immediate changes that ViDA requires to contribute to a performant VAT system that supports competitiveness of the European economy and a flourishing Single Market for businesses, particularly SMEs, and consumers.

We hereafter briefly set out the main attention points and impacts ViDA will have on the EU VAT system, followed by our recommendations for a successful implementation.

4.1. The implementation of ViDA.

ViDA will only achieve its objectives if the package is implemented successfully in practice in the years to come, which we as VEG are very keen to support. This is particularly the case, since not every detail of ViDA is and can be discussed during the technical and political negotiations within the EU Council process. It is also the natural consequence of the objective to achieve convergence of national digital reporting systems that continued detailed technical work will need to be done on a European level. Therefore, ongoing consultation with business, development of clear and timely guidance and appropriate implementation lead times are key factors to ensure a successful implementation process that will deliver a positive impact of the changes for all stakeholders.

We as VEG, with our technical and practical experience, but also the entire business community are keen to actively participate in the implementation process of the ViDA package. We call for the EU Commission to organize in-person Fiscalis seminars including the VEG, the GFV and relevant business stakeholders, to further explore, discuss and find solutions in order to guarantee a smooth and successful implementation of ViDA. The in-person Fiscalis seminars have proven to be of utmost importance in the past to achieve a smooth and uniform implementation across the EU, for which the development of explanatory notes with all relevant stakeholders involved, have been a key factor too.

We therefore think that the key next step for all stakeholders - the EU Commission, Member States and businesses – in the months and years ahead is to actively and jointly work together to ensure that the implementation of the ViDA package is a step in modernizing the EU VAT system to make it fit for the future.

4.2. Key impacts of ViDA on the current VAT system.

Once implemented, ViDA will result in key changes to the EU VAT system that create opportunities for further improvements to the functioning of VAT for tax authorities and businesses, but also present new challenges in the way VAT is administered.

The DRR element of ViDA (mandatory e-invoicing and EU digital reporting) will provide tax authorities with real time transactional data on almost all B2B supplies of goods and services between taxpayers established in different EU Member States. The biggest driver for the EU Commission and Member States, has been the fight against VAT fraud. We condemn VAT fraud, and we support the fight against VAT fraud, since it creates an unlevel playing field and distorts competition for business. What hurts us most is that funds are stolen from our societies which could be used to guarantee greater social welfare across the 27 EU Member States. The major step to real time transactional and digital reporting does also change the way tax authorities will interact with bona fide businesses. The newly gained information must be used responsibly by Member States' tax authorities, particularly towards legitimate businesses, keeping in mind, and acting on the key principles inherent in the EU VAT system – neutrality, proportionality and administrability.

The Single VAT registration element of ViDA is highly welcomed and will provide businesses that are active across borders with an opportunity to reduce their VAT registration footprint:

- Retail businesses in goods and services can report all sales across the EU in an OSS format.
- The cross-border movement of own goods in the EU can also be reported via the OSS, which is a big simplification for different types and sizes of businesses.
- The extension of the reverse charge regime can also bring further benefits for business, but to fully deliver simplification, VAT refund processes in the 27 Member States must work smoothly and efficiently, so that businesses can manage their cash flow position in an effective way.

The platform economy element of ViDA, which would further extend the deemed supplier regime to short term accommodation rentals and the passenger transport sector, has a more uncertain outlook. Whether it will prove to be a useful building block in further modernizing the EU VAT system will become clear once the regime is applied in practice.

Outside of the ViDA package, the changes considered as part of the proposed EU Commission's Customs Reform Proposal will also impact the EU VAT regime in the coming years. The Import One Stop Shop regime for (low value) consumer imports, which has been introduced as a simplification measure, needs to be further analyzed and improved. Before this regime is further developed from a customs perspective, it is particularly important to find out whether there is a misuse of IOSS numbers, and if yes, what the scale and the fact pattern of the problem is. This is the basis for exploring and developing possible solutions that work for businesses and tax administrations alike.

Finally, the changes that will result from ViDA, cannot be seen independently from broader recent EU tax changes in respect of tax data reporting, both on indirect and direct tax levels (national DRR mandates, SAF-T, PCBC, TP documentation, DAC6, Pillar 1 and 2, customs or environmental reporting, etc.). These changes have created multiple layers of bureaucracy for European businesses – first of all to report the data to the tax authorities and then secondly to handle all the requests from the tax authorities on the reported data, which is collected from a wide variety of sources and is difficult to reconcile/match. This situation is also causing increased concerns in the platform economy as digital intermediaries are more involved in the tax collection and control process (Deemed Reseller, Platforms, CESOP, DAC7).

4.3. Proposed build-on changes for a performant VAT system.

4.3.1. Rules of engagement between Business and Tax Authorities on transactional real-time reporting.

It is important to understand that through data and technology alone, fighting VAT fraud will not be possible in a target-oriented and efficient way. Data and technology must be embedded into an overall cooperative compliance process, based on trust between the underlying business and the tax authorities, which starts with understanding the underlying business, its activities, its systems and processes, and the people in the business who deal with all of this, since only then risks can be managed efficiently and successfully.

Moreover, we would also like to stress that in today's world – in between the traditional (physical) and the future digital (virtual) world - we still have some time ahead of us before we arrive in the real time economy, where things will run seamlessly and in an automated way. It is therefore important to keep in mind that in today's world and in the foreseeable future, there are still many manual and non-automated processes existing, which means that matching supplier and customer data will lead to gaps, that have nothing to do with VAT fraud, and which can be explained but to do so a lot of work is required.

We therefore would like to encourage the EU Commission to develop a set of guiding principles on how transaction-based data should be properly collected, used and secured by Member States' tax administrations in order to ensure that honest businesses are protected and treated in a fair and

respectful manner based on the fundamental principles inherent in the EU VAT system and in conformity with the EU Charter.

This should in our view include arrangements on the following points:

A. Transmission protocols, formats and scope: drive market convergence.

The DRR legislation within ViDA contains only limited detail on the requirements for data transmission by taxpayers to national tax authorities, which next to format requirements will also set transmission protocols and technical specifications. Uniformity in approach in setting the requirements for the sharing of data will help achieve the goal of simplicity which is proven to encourage tax compliance and reduce the VAT Gap. This will be needed on a short-term horizon, as a significant number of Member States plan to introduce DRR in the next 3 to 5 years, anticipating the introduction of an intra-EU DRR.

We recommend that the Commission in consultation with the business community promotes convergence of domestic e-invoicing and/or e-reporting regimes. This can be done by developing a limited set of possible approaches that are viable for businesses and are aligned to the core design principles required under EU legislation. Examples include the Peppol CTC model (decentralized real-time reporting model with regulated exchange). For e-invoicing, EDI has for many years been a well-accepted e-invoicing format for B2B transactions. It is still a question whether EDI will be a structured electronic invoicing format compatible with the EN16931 norm. If EDI would no longer be an acceptable format, it may have a huge impact on businesses currently using EDI, not only for e-invoicing, but as part of their E2E supply chain process.

Convergence can also be increased through the introduction of a notification obligation whereunder Member States must inform the European Commission of draft technical regulations taken in respect of DRR before their adoption, allowing for a standstill period during which the Commission and other Member States examine the proposed regulations and respond (similar to what exists in other EU legislative domains, e.g. for technical regulations for products and information society services – Directive 2015/1535).

The scope of mandatory domestic B2B e-invoicing is also different by country. Typically, non-established entities are not in scope of the e-invoicing mandate for domestic transactions, unless they have a fixed establishment. This may lead, amongst other issues, to discussions between supplier and customers. Another unclear point in respect of the extent to which B2B e-invoicing processes will need to be adhered to, concerns business related expenses (typically travel expenses) that are reported within companies via an expense report. While e-invoicing may provide businesses with the necessary data to improve VAT deductibility on such costs, combining mandatory e-invoicing with existing expense processes may lead to administrative complexity and the risk of double payment of the expenses.

B. Design VAT audit processes of DRR data.

Overwhelming honest businesses with large numbers of requests to clarify gaps between data reported by suppliers and customers or between DRR data and VAT reporting data, will paralyze them and hinder their daily business. In contrast this may inadvertently allow fraudsters to act with less scrutiny as tax authorities become busier than ever managing data issues and enquiries from legitimate businesses. Therefore, we need to strike the right balance here to ensure that things are handled in practice responsibly and in a proportionate way, otherwise this will have big impacts on our future economic growth and our future welfare in the EU.

There is a global trend to introduce the concept of portal markets whereby the customer needs to report the e-invoice on a government portal. Some countries applying such regimes have introduced an additional condition to deduct VAT: the customer only has the right to deduct VAT where the supplier has posted the invoice on the portal. This not only leads to an additional burden

for taxpayers exercising their VAT deduction rights, but also undermines the neutrality of VAT for honest businesses.

Based on data reported on the portal, the authorities may prepare a pre-filled VAT return, also based on customs data, SAF-T, etc. Despite the apparent simplification this may provide to certain taxpayers in fulfilling their VAT reporting obligations, experience shows that this development can create significant additional burdens as taxpayers will need to reconcile the data on the pre-filled VAT return vs. the data in their business systems. Besides the complexity of the reconciliation, reporting different numbers in the VAT return vs. the pre-filled VAT return may lead to deferral of (eventual) VAT refunds. A deeper analysis should be made on the way standard business systems can be used in achieving better cooperative compliance.

C. Impact of data and consequences in practice - use of data, data security, data privacy.

It is important for tax administrations to keep in mind that requesting transaction-based data comes with both a responsibility and a liability, to handle the data with care and to ensure that data privacy and data security obligations are met. Using and holding commercially sensitive business data in an incorrect and insecure way can have devastating effects on businesses both financially and reputationally and can lead to new types of fraud or unjust enrichments – this is a no-go and should be avoided.

There is a pressing need to start a reflection on the need to preserve information security and the EU's economic sovereignty: the extensive data currently reported to (and exchanged between) Member States' tax authorities through the DACs, as well as through the upcoming e-invoicing and digital reporting requirements in the VAT in the Digital Age proposal, will enable the mapping of EU-wide commercial flows.

This development raises fundamental questions that must be addressed regarding confidentiality, business secrecy, data security, the use of data for purposes other than taxation, cross-referencing invoicing data with other economic data, economic intelligence scrutiny, cyber-security, economic competition and the management of economic policies.

It is crucial to establish a monitoring process at EU level to ensure the proper functioning of the rules and the security of all the data collected from businesses within the EU.

4.3.2. Ensuring taxpayer's rights and facilitating compliance.

The implementation of DRR will trigger a massive investment for businesses and tax authorities. To capture the benefits of reaching a more accurate and correct reporting of transactions in real time and "first time right," tools will need to be developed that will support taxpayers in having access to the correct data to drive their tax compliance.

E-invoicing and e-reporting require that businesses can have real time certainty on the taxpayer status of their trade partners. Existing tools and initiatives such as EU eIDAS and the VIES-on-web expansion would be instrumental in facilitating counterparty identity verification in a real-time reporting world, reducing risk for bona fide taxpayers as well as administrative work for tax authorities and taxpayers by preventing post-transaction corrections. The administrative cooperation framework provides a basis for EU action in this field but should be improved to also provide better data to businesses, with EU managed databases that serve as a single source of truth. This data as well as the legal decisions based on EU law must have binding authority towards EU Member States' tax authorities.

It is also important that taxpayers can access data related to them that are included in the real time e-reporting that will become the basis for VAT compliance both on intra-EU and domestic levels. Taxpayers should be provided with information on transactions that counterparts and intermediaries report in relation to them and there should be a process to safeguard their right to amend the data reported.

The introduction of DRR, with its primary objective to provide tax authorities with data that allows them to tackle VAT fraud in real time, cannot lead to a degradation of the fundamental right for taxpayers to deduct VAT incurred in their business activities. The impact on VAT neutrality that would result from the denial of input VAT deduction for materially correct transactions where formal or IT technical failures have occurred in the transactional reporting, must at all times be avoided. From a practical perspective, if a customer can only recover VAT when the supplier has correctly reported the output transaction, then the customer would end up having no other choice than “policing” the suppliers (i.e. chasing them via multiple follow ups or refusing payment to the supplier which might create commercial law issues). Policing taxpayers that are not fully compliant should not be the role of businesses, but of the tax administration.

As mentioned earlier, it is also crucial that any initiatives toward pre-filled VAT returns requiring a reconciliation with business records, does not lead to a delayed or more cumbersome execution of a business’ right to deduct VAT and to recover excess VAT credits.

On the contrary, the availability of transactional data in a uniform digital format for tax authorities should trigger a reflection on simplifying obligations currently imposed on taxpayers, with a more ambitious agenda than merely the abolition of periodical data reports such as the European Sales Lists (or similar national obligations). Areas to explore on a European and national level would in the VEG’s opinion include:

- The obligation to evidence (cross border) goods movement for VAT, and the way the tax authorities control this, could be facilitated based on the availability of invoice data. Taking into account the increasingly blurred lines between supplies of goods vs. services, relying on invoice data to verify the correct reporting of most transactions may be sufficient for control purposes.
- Member States should be invited to consider how their model VAT returns could be simplified, given the availability of transactional data at tax authority level.
- The collection of statistical data by national authorities should be reviewed in view of possible double reporting with intra-EU DRR on goods and services.
- The current VAT collection as part of the border import process could be removed by making the import VAT reverse charge process an EU standard and ensuring import VAT deduction for B2B transactions based on invoice reporting, without regard to the ownership status of the imported goods.