

VAT in the Digital Age? Digital Reporting Requirements

171st mBank-CASE seminar

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Context

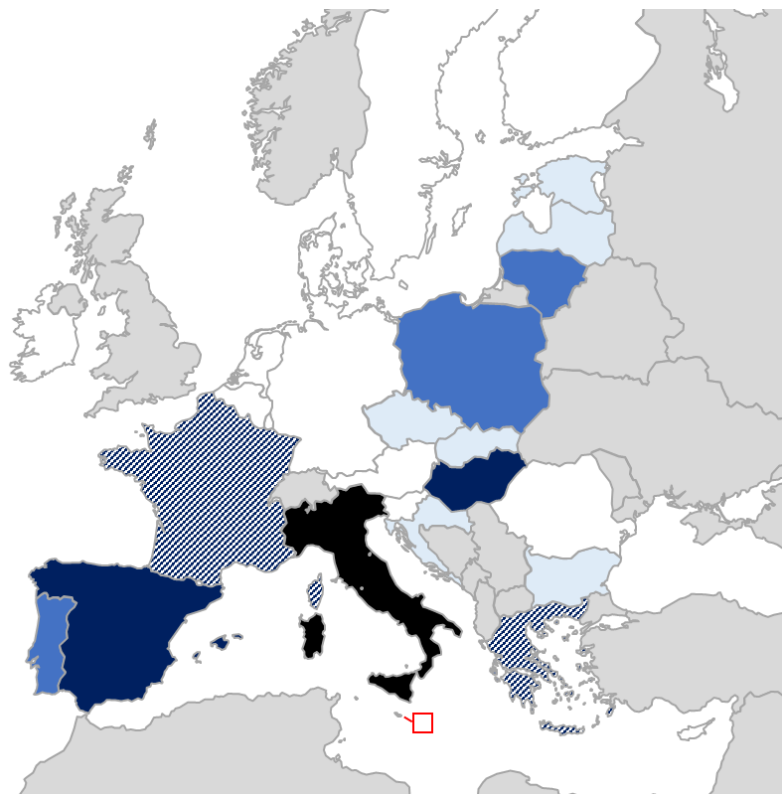
An increasing number of EU countries are implementing **digital reporting requirements** to obtain more detailed real-time information on VAT transactions.

- VAT Listing
- SAF-T
- Real-time
- E-invoicing

Digital reporting requirements

- Are aimed at **increasing VAT compliance** and reducing VAT frauds
- Can generate **costs** for businesses
- Introduced at **domestic level**

Context

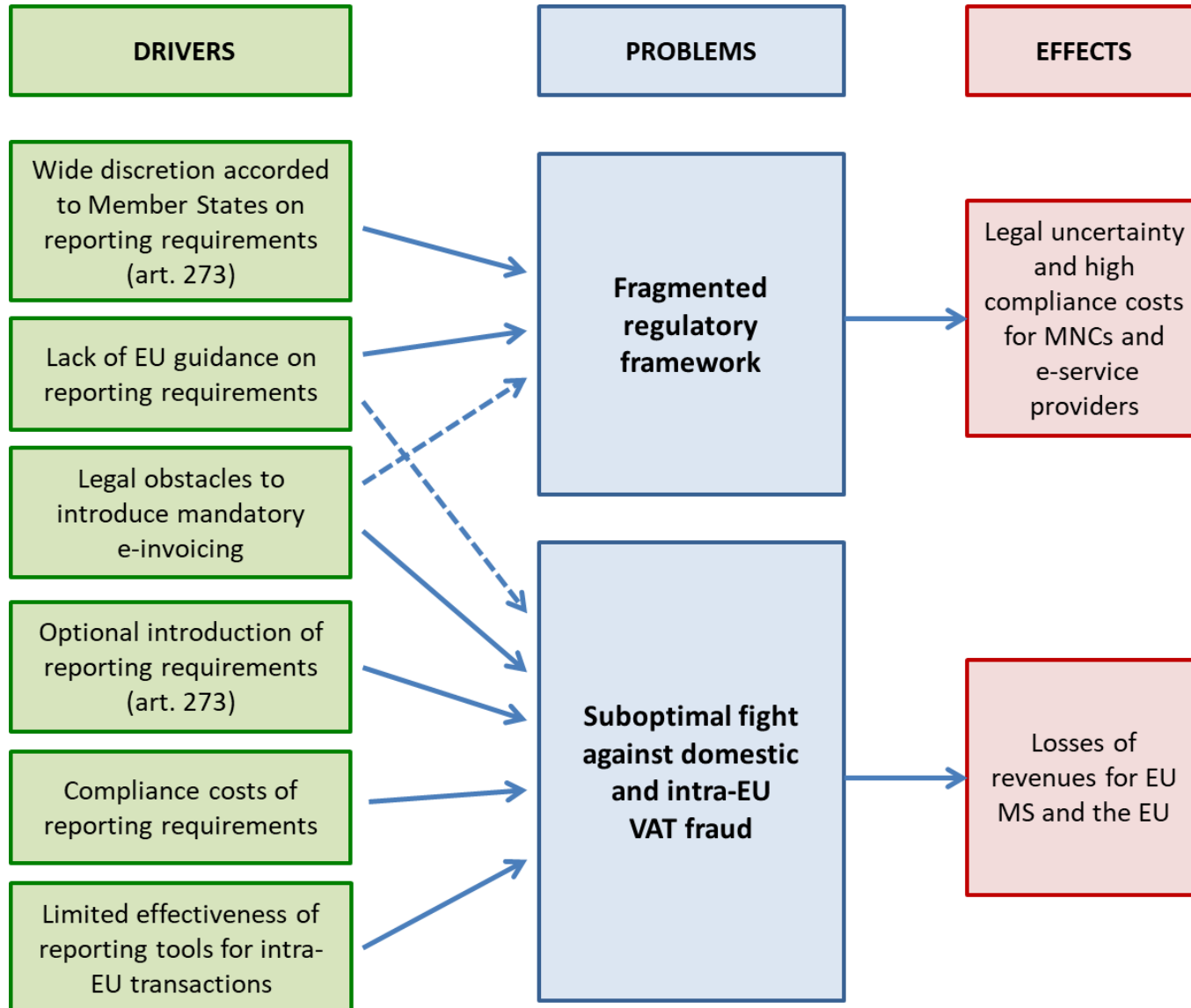


Legend:

Black	Mandatory clearance e-invoicing
Dark Blue	Real-time reporting
Medium Blue	SAF-T reporting
Light Blue	Transactional VAT listings
Hatched	Forthcoming reporting requirement
White	No reporting requirement
Grey	Non-EU countries

- Reporting / e-invoicing requirements are **in place in 12 Member States** (mostly introduced in the 2010's) and being adopted / discussed in many others
- **Regional pattern:** almost ubiquitous in Central-Eastern Europe, significant and growing in Southern Europe, still absent in North-Western Europe
- Main variations
 - **Frequency:** periodic vs. real-time
 - **Taxpayers:** turnover threshold, non-resident businesses
 - **Type of transactions,** market segment, geographical scope
 - **Data format and transmission method** (the big divergence)

The issue at stake



Problem: Suboptimal fight against VAT fraud

Causes

- **Compliance costs**
 - Reporting / e-invoicing mechanisms are costly for taxpayers
 - Since reporting / e-invoicing is optional, there is a trade-off between costs for businesses and the effective fight against VAT fraud
- The derogation for mandatory e-invoicing represents a **significant barrier towards the adoption of e-invoicing** and push towards other solutions
- **Limited effectiveness of recapitulative statements** to tackle intra-EU VAT fraud

Consequences

- The further introduction of **reporting / e-invoicing requirements** would
 - **Improve tax controls:** risk analysis
 - **Increase voluntary compliance:** deterrent effect
- The econometric analysis identifies a **significant positive effect of reporting / e-invoicing requirements on VAT revenue.**

Problem: Fragmented regulatory framework

Causes

- **The wide discretion accorded to Member States by the VAT Directive**
 - no guidelines on key features of reporting requirements, such as data content, scope of the mechanism, frequency
 - Several country-specific design factors: consistency with IT solutions already applied for B2G transactions, wider national reform packages to tackle VAT fraud
- **The lack of a consistent administrative and technological EU framework** on reporting mechanisms

Consequences

- For domestic companies, **not much**
- For multinational companies, **significant costs of fragmentation** due to the need to comply with different reporting / e-invoicing requirements

Possible policy interventions

1. Do nothing

- No measure to harmonise reporting / e-invoicing requirements
- Mandatory e-invoicing remains subject to the derogation
- Recapitulative statements are not modified

2. Recommendation and removal

- Reporting / e-invoicing requirements remain optional
- Non-binding recommendation on reporting mechanisms (e.g. scope, frequency, data format and transmission)
- The derogation for introducing mandatory e-invoicing is removed

3. Keep the data with the taxpayers

- No reporting / e-invoicing mechanism is imposed at EU level
- A new provision in the VAT Directive requiring taxpayers to record transactional data according to a pre-determined format; tax authorities could access such records upon request

Possible policy interventions

4. Introduction of an EU reporting mechanism / mandatory B2B e-invoicing

- **Partial harmonisation**
 - EU reporting mechanism OR e-invoicing requirement for intra-EU transactions, replacing recapitulative statements.
 - Reporting mechanisms for domestic transactions remain optional
 - Existing domestic systems should converge in the medium-term. New domestic systems should conform to the EU system.
- **Full harmonisation**
 - An EU reporting mechanism OR e-invoicing requirement for both intra-EU and domestic transactions (replacing the recapitulative statements).
 - Existing domestic systems should converge in the medium-term.

	Partial harmonisation	Full Harmonisation
Domestic transactions	Optional, non-harmonised reporting / e-invoicing	Mandatory, harmonised reporting / e-invoicing
Intra-EU transactions	Mandatory, harmonised reporting / e-invoicing	Mandatory, harmonised reporting / e-invoicing

Possible policy interventions

- **Introduction of an EU reporting mechanism / mandatory B2B e-invoicing.** Yes, but which one?
 - Reporting or e-invoicing?
 - Which reporting (VAT listing, SAF-T, real-time)?
 - Clearance or no-clearance e-invoicing?
 - Role of the customer (none, submit data, confirm data, accept e-invoices)?
 - Frequency?
 - Taxpayers scope / threshold?
 - B2B, B2G, B2C transactions?
 - Additional services (e.g. pre-filled VAT return)?

Assessment of policy interventions

Interventions assessed against the following impacts

■ Costs

- Compliance costs for businesses
- Implementation costs for tax authorities
- Costs of fragmentation for cross-border companies

■ Benefits

- VAT revenue
- Compliance savings for businesses (e.g. removal of other obligations, pre-filled VAT return)
- Tax control improvements
- Environmental benefits
- Business automation
- Data confidentiality

Conclusions

- Digital reporting requirements and e-invoicing are a **growing global trend**
 - EU and many EU countries as laggards
 - More and more EU countries announced the adoption of some form of reporting requirements (latest: Germany)
 - More and more EU countries announced the introduction of mandatory e-invoicing (Poland), which is already widespread in other parts of the world
 - No EU action will lead to further fragmentation
- The Commission announced the adoption of a **proposal on VAT in the Digital Age** in 2022
 - It will possibly include new rules for digital reporting requirements
- Time is ripe, but **political landscape possibly complex**
 - Possible resistance from non-adopters
 - What to do with existing / forthcoming / soon-to-be-updated domestic systems?
- How to make sure that rules are **future-proof**?
- How to limit costs / deliver benefits to **businesses**, and in particular micro companies?
- How to make sure that **tax authorities** can exploit the new data?

Thank you for your attention

CONTACTS

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