

VIDA Reform Will Reshape The Digital Economy Landscape

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In this article, Lanotte explains the European Commission's VAT in the Digital Age reform for updating VAT regulations and modernizing VAT rules in light of rapid digitalization and increasing cross-border commerce.

Introduction

The VAT in the Digital Age (VIDA) reform package is an ambitious initiative designed by the European Commission to modernize the EU VAT system and address the complexities and inefficiencies that have emerged from digitalization. Introduced in December 2022, VIDA focuses on three main pillars,¹ each enhancing the VAT framework to improve compliance, facilitate cross-border commerce, and address VAT fraud.

¹The council reached an agreement on a package of legislation on VAT in the Digital Age. The package consists of three proposals that set out to tackle VAT fraud, support businesses, and promote digitalization. Economic and Financial Affairs Council, "VAT in the Digital Age" (Nov. 5, 2024).

Digital Reporting and E-Invoicing

This pillar introduces mandatory electronic invoicing for business-to-business (B2B) cross-border transactions within the EU to standardize invoicing across member states. The system also implements near-real-time digital reporting requirements, enabling tax authorities to monitor transactions more closely and to combat VAT fraud effectively. Businesses will need to upgrade their digital infrastructure to meet these near-real-time reporting standards, which represent a significant shift from periodic VAT filings.

Platform Economy

New deemed supplier rules² will make online platforms that facilitate short-term rentals and passenger transport responsible for collecting VAT on behalf of service providers that are not already VAT-registered. This measure targets online platforms providing services, like vacation rentals and ride-sharing, that are historically challenging for VAT collection. Initially, this pillar faced resistance, particularly from Estonia, which opposed the deemed supplier model because of concerns about its effect on small, local service providers. However, the model has now been agreed upon, marking a significant step in addressing VAT compliance within the platform economy.

Single VAT Registration

This pillar focuses on simplifying VAT registration through expansions of the one-stop

²Under the new rules, platform economy operators will be responsible for collecting and remitting VAT in cases in which their service providers do not pay VAT themselves (the deemed supplier model). The platform will collect the VAT directly from the customer and remit it to tax authorities. Council of the EU release, "Taxation: Council Agrees on VAT in the Digital Age Package" (Nov. 5, 2024).

shop (OSS)³ system, which already allows businesses to register for VAT once and for multiple EU member states. The new reforms include a special scheme for transfers of own goods and a mandatory reverse charge mechanism to reduce the administrative burden and curb fraud. By reducing the need for businesses to maintain multiple VAT registrations, this change is expected to streamline compliance, especially for companies operating across several EU markets.

The first and third pillars — digital reporting and e-invoicing, and single VAT registration — were agreed to in May, following a compromise prepared by Belgium's EU Council presidency. However, adoption of the second pillar, which focuses on the platform economy, initially faced delays because of Estonian opposition. This postponement has led to a revised timeline for implementation, extending it significantly from the original 2024-2028 window. The full implementation of VIDA is now anticipated to occur between 2025 and 2035. For businesses, especially those operating cross-border within the EU or managing online platforms, this phased timeline provides additional time to adapt billing, reporting, and compliance systems to the new requirements. Nonetheless, the extensive scope of VIDA means that companies should start preparing early to ensure a smooth transition.

Digital Reporting and E-Invoicing Pillar

The mandatory e-invoicing and digital reporting requirements set by the VIDA reform mark a transformative shift for VAT compliance across the EU, with implications for all businesses involved in cross-border EU transactions. Starting July 1, 2030, the new rules will standardize e-invoicing for B2B cross-border sales across EU member states, setting a common compliance framework with specific deadlines and reporting obligations. Although mandatory e-invoicing for intra-EU cross-border transactions will take effect on July 1, 2030, the VIDA reform includes short-term measures that encourage EU member states

to move more swiftly toward e-invoicing for domestic transactions.

The short-term measures signal the EU's commitment to digital VAT reporting and e-invoicing, not just for cross-border transactions but as a standard for all VAT-related transactions within the single market. Early adoption at the domestic level is expected to streamline the shift to a fully digital VAT compliance system by 2030, reducing VAT gaps, enhancing efficiency, and creating a more harmonized digital economy across the EU.

Starting July 1, 2030, VIDA reforms will require businesses to include more detailed information on e-invoices for cross-border B2B transactions within the EU. The additional requirements will increase transparency of VAT-related transactions and ensure that tax authorities have access to comprehensive data for tracking VAT obligations. For example, each e-invoice will be required to include the supplier's bank account number to which the payment is to be made. This measure enhances transparency, allowing tax authorities to trace financial transactions related to invoiced amounts. Including bank account details could help reduce instances of VAT fraud by enabling authorities to verify that payments correspond to the invoiced entity, making it harder for fraudulent entities to misappropriate VAT funds.

In cases in which a correction or adjustment is made to a previously issued invoice, the e-invoice must include a reference to the original. This requirement is important for businesses that issue corrective or credit invoices (for example, to reflect returns, price adjustments, or corrections). It ensures that there's a clear link between the original transaction and any subsequent corrections. E-invoices will also need to indicate whether cash accounting applies to the transaction. Under cash accounting schemes, VAT becomes due when payment is received rather than when the invoice is issued. This option is often beneficial for smaller businesses because it allows them to manage cash flow more effectively.

By marking invoices where cash accounting applies, businesses provide tax authorities with essential information to correctly interpret VAT due dates, aiding in more accurate VAT reporting and oversight. Businesses will need to ensure that

³The one-stop shop (OSS) is a system established by the EU to simplify the process of VAT compliance for businesses selling goods or services online to customers in EU member states.

their invoicing systems are equipped to capture and include additional information like bank account numbers, references to original invoices for corrections, and cash accounting indicators. This may necessitate updates to existing billing and accounting software. Including these additional details on e-invoices will help prevent errors in VAT reporting and facilitate more effective auditing and monitoring by tax authorities.

To accommodate EU member states that already have their own domestic e-reporting systems, VIDA allows these countries to continue using their current systems. This compromise addresses national interests but introduces complexities for businesses operating across multiple EU countries.

VAT Rules for Certain Platforms and Marketplaces

VIDA reform's second pillar introduces substantial changes to VAT rules for platforms and marketplaces that facilitate short-term accommodation rentals and road passenger transport. Beginning July 1, 2028 (and by January 1, 2030, at the latest), these platforms will assume the role of deemed supplier for VAT purposes. This new requirement will capture VAT from transactions in which VAT might otherwise go uncollected, such as when services are provided by individuals or small operators typically exempt from VAT or those not required to register.

Platforms facilitating short-term rentals (30 nights or less) and road passenger transport will be classified as the deemed supplier and thus responsible for collecting and remitting VAT on these transactions. This rule applies to all platforms, regardless of their location — even platforms based outside the EU will be subject to VAT obligations if they facilitate these types of services within the EU. The deemed supplier rule represents a significant shift in VAT responsibilities, placing platforms at the center of VAT compliance for specific services. These changes are expected to increase VAT compliance across the EU, reduce VAT leakage, and level the playing field between registered businesses and unregistered providers.

However, platforms will need to adapt their compliance infrastructure to manage these requirements effectively, especially in light of member states' decision to exempt small and medium-size enterprises from these obligations. The VIDA reforms aim to streamline VAT collection for platform-facilitated services like short-term accommodation rentals and road passenger transport but do allow member states some flexibility in implementation. The flexibility might create inconsistent VAT requirements across the EU, which could lead to a more fragmented compliance landscape for platforms operating in multiple countries, particularly those based outside the EU.

VIDA Clarifies Platform Facilitation Services

The VIDA reform provides clarity on the VAT treatment of platform facilitation services. Specifically, VIDA clarifies that short-term accommodation rentals or road transport services provided to private individuals will be treated as intermediary services, with VAT due in the country in which the transaction occurs (location of the rental property or the transport service). This ensures consistency in VAT application across EU member states and reduces potential confusion for platforms operating in multiple countries. Under the current VAT rules, platforms face ambiguity in how they should classify their service fees — as either digital services or intermediary services.⁴

This distinction significantly affects VAT obligations for business-to-consumer (B2C) transactions, because VAT may be due in different jurisdictions depending on the classification. If a platform classifies its fees as digital services, VAT must be collected in the customer's location. For B2C transactions, this means the platform must determine and apply the VAT rate based on the customer's country. This classification aligns with the EU's place-of-supply rules for digital services, which dictate that VAT for digital services provided to consumers within the EU is due in the

⁴ On December 8, 2022, the European Commission proposed a series of measures to modernize the EU's VAT system. The new measures will introduce a more level playing field between online and traditional short-term accommodation services. European Commission, "VAT for the Platform Economy."

customer's country, ensuring the tax reflects local rates and that revenue goes to the appropriate EU member state. If platform fees are instead classified as intermediary services, VAT is instead due in the country in which the rental property is located. This approach treats the platform's fee as a service directly linked to the physical property's location, and therefore the VAT is collected at the local rate of the property's EU location, not the customer's.

The difference in VAT location between digital and intermediary services can significantly affect compliance processes and VAT rates applied to platform fees in B2C transactions. For example, a platform that treats its service fees as digital would have to adapt its systems to determine each customer's location and apply the correct VAT rate accordingly. If classified as intermediary, the platform only needs to reference the rental property's location for VAT determination. For B2B transactions, this classification is less consequential because, under EU VAT rules, VAT on B2B services is always due in the customer's country of establishment.

In these cases, regardless of whether the service is classified as digital or intermediary, the VAT location remains the same. For B2B transactions, reverse charge rules often apply, in which the business customer (rather than the platform) self-accounts for VAT, further reducing the effect of the distinction. The VIDA reforms clarify that platform facilitation services for private individuals will be treated as intermediary services, ensuring VAT is due in the country in which the transaction occurs. This aligns with existing VAT principles and provides greater clarity and consistency for platform operators across the EU.

Under the deemed supplier model, the facilitation fee will be included in the total transaction price, simplifying VAT calculations and reporting. As a result, platforms must adapt their billing and compliance systems to integrate these changes, ensuring accurate VAT collection and reporting across all EU transactions.

The EU OSS System

Under the VIDA reforms, the OSS system will be expanded to further simplify VAT compliance for cross-border businesses, particularly those

selling B2C goods within the EU. The existing OSS schemes — union, nonunion, and import — are designed to simplify VAT reporting for different types of transactions involving private individuals within the EU. The VIDA reforms introduce new scenarios and expanded OSS coverage, providing flexibility and opportunities for businesses.

Under the VIDA reforms, the union OSS will expand to simplify VAT compliance for businesses selling goods to B2C within the EU. These changes are designed to reduce administrative burdens and allow businesses to report VAT for multiple sales across EU countries through a single VAT return. Domestic sales will now be covered by the union OSS, allowing businesses to report sales within a single EU country through the OSS. For example, if a U.S. business is selling goods from a warehouse in Germany to a German private individual, this sale will now be eligible to be reported through the union OSS, even though it is a domestic sale. This eliminates the need for the U.S. business to register for VAT in Germany, as long as the sale is reported through the OSS system. Under the VIDA reforms, the nonunion OSS will see a minor adjustment, but it will not be significantly expanded. The main change is that starting January 2027, non-EU businesses will be able to report services taxable in the EU through the nonunion OSS, regardless of whether the service recipient is based in the EU. This change will simplify VAT compliance for non-EU businesses providing services to EU customers, allowing them to handle all EU VAT reporting through a single system, rather than registering for VAT in each individual EU member state.

However, the more notable development under VIDA is the introduction of a new OSS scheme — the special scheme for transfers of own goods.⁵ It is specifically designed for businesses moving goods across EU borders and targets non-EU companies that store goods in one EU country and transfer them to another, a common practice for companies with multiple distribution

⁵ If a business transfers its own goods from one EU member state to another, it must report an intracommunity supply and an intracommunity acquisition in the member state of departure, which can give rise to a requirement for multiple VAT registrations.

hubs across Europe. These businesses will be able to report the transfers through the new OSS scheme. Businesses will no longer be required to register for VAT in both the origin and destination country, saving administrative burden and avoiding complex VAT filings.

However, some businesses will still face situations in which they are required to maintain multiple VAT registrations across different EU countries. This is primarily the case for businesses involved in the distribution of goods within the EU, particularly non-EU companies with warehouses in multiple EU member states.

The Reverse Charge Mechanism

The reverse charge mechanism⁶ is a VAT tool designed to shift the VAT liability from the supplier to the purchaser in B2B transactions. Under this system, the buyer accounts for the VAT on the transaction rather than the seller, simplifying VAT compliance in cross-border trade and avoiding the need for the supplier to register for VAT in the buyer's country. The reverse charge mechanism is mandatory for most intra-EU B2B services.

However, it is not applicable to all services in intra-EU B2B transactions. There are services to which member states can choose not to apply the reverse charge, often services in which it may be difficult or inappropriate to shift VAT liability to the purchaser.

Under the VIDA reforms, the reverse charge mechanism is set to significantly streamline VAT processes and reduce the administrative burden for businesses engaged in cross-border transactions within the EU. The reforms will extend the reverse charge to all B2B supplies of services by suppliers that are not established or registered in the member state in which VAT is due,⁷ as long as the customer is VAT-registered in the destination country.

⁶ The reverse charge mechanism is a VAT rule that shifts the liability to pay VAT from the supplier to the customer. It applies to situations in which the supplier is not established in the country in which the VAT is due, or if the transaction is prone to fraud or evasion.

⁷ The person liable to pay the VAT due on a transaction to the tax authorities is usually the supplier, but it may also be the customer. In the case of the customer, it is not only taxable persons (businesses) that may have to pay the tax (as in a reverse charge supply or on an intra-EU acquisition) but sometimes also a nontaxable legal entity. European Commission, "Person Liable to Tax."

Conclusions

The VIDA reform addresses critical challenges within an EU VAT system originally designed for a more traditional, predigital economy. The rapid digital expansion, growth of cross-border trade, and emergence of new business models has exposed weaknesses in the existing EU VAT framework. The gaps have allowed VAT fraud to proliferate, especially in online platforms, e-commerce, and cross-border services, making it necessary to better align VAT rules with the modern digital landscape.

A key issue is the exploitation of VAT exemptions in e-commerce and digital services, in which fraudsters exploit different VAT rates and jurisdictional gaps in VAT collection, often involving companies based outside the EU but selling to EU consumers. Missing trader fraud and carousel fraud are increasingly difficult to detect and address within the outdated framework.

Administrative burden is another issue of concern. Businesses may be required to register for VAT in each EU member state in which they do business. This creates significant costs and complexity for businesses selling goods or services across multiple EU member states facing multiple VAT compliance requirements. Each country has its own VAT rules, rates, and registration thresholds, making it challenging for businesses, especially small businesses, to navigate the multijurisdictional VAT system.

Online platforms facilitating services like short-term rentals and passenger transport create new challenges for VAT collection. Many of these platforms were not directly liable for VAT, leaving only the underlying suppliers (individuals renting out properties or offering rides) to charge and remit VAT, which they generally did not. This leads to significant VAT loss.

The VIDA reform addresses this gap by introducing the deemed supplier rule, which makes online platforms responsible for collecting and remitting VAT when the actual service provider avoids VAT obligations (private individuals or small businesses not registered for VAT). The reforms make VAT collection more efficient and fairer, ensuring that businesses are properly taxed in the countries in which their customers are located, and that tax evasion or

fraud is minimized. By simplifying and standardizing VAT reporting across the EU, VIDA reduces the administrative burden for businesses involved in cross-border trade.

This includes the introduction of OSS and expansion of its scope, allowing businesses to handle VAT for multiple countries through a single registration, rather than maintaining separate VAT registrations in each country. A core VIDA goal is reducing VAT fraud, which has worsened in the digital economy. By expanding digital reporting and e-invoicing, and requiring platforms to collect VAT in certain circumstances, the reforms can close gaps that fraudsters have used to evade taxes.

The VIDA reform is a necessary response to the rapid growth of the digital economy and the challenges it has posed to the EU VAT system. By addressing the loopholes that have allowed VAT fraud to thrive and by simplifying VAT compliance for cross-border trade, VIDA brings the VAT system into the 21st century. It makes VAT collection fairer and more efficient and fosters a consistent and transparent tax environment for businesses operating across the EU. For non-EU businesses without direct operations in the EU, VIDA may initially seem limited. However, as the EU's VAT system undergoes significant modernization, non-EU companies engaged in EU trade, particularly

those operating in the digital platform economy, will face important new compliance obligations. The changes are intended to modernize VAT reporting, improve tax collection, and simplify the compliance process, but will require substantial adjustments for businesses engaged in cross-border trade with the EU. Moves toward mandatory e-invoicing and near real-time reporting will require non-EU businesses to integrate systems that comply with these digital processes.⁸

This could involve software upgrades and training to ensure that invoices are issued in the correct format and promptly reported to tax authorities. While VIDA may not drastically affect non-EU businesses without operations in the EU, its effect on those involved in cross-border trade and the digital platform economy will be significant. The e-invoicing, platform VAT responsibilities, and expanded OSS will require companies to adjust their invoicing and VAT systems. Moreover, VIDA's approach to VAT modernization could influence tax systems worldwide, making it increasingly important for non-EU businesses to prepare for these global VAT reforms. ■

⁸ Antonio Lanotte, "Toward a Digital Supply Chain and a Digital Taxation," *Tax Notes Int'l*, Jan. 9, 2023, p. 239.