



VAT in the Digital Age

FINAL REPORT

VOLUME 2

THE VAT TREATMENT OF THE PLATFORM ECONOMY

ECONOMISTI ASSOCIATI
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CASE – Centrum Analiz Społeczno-Ekonomicznych
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DI URBINO
CARLO BO

PREPARED BY: Economisti Associati, Oxford Research, CASE, Wavestone, Hédeos, Mazars, Desmeytere Services and Università di Urbino.

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European Commission, B-1049 Brussels
Directorate-General for Taxation and Customs Union
Directorate C – Indirect Taxation and Tax Administration
Unit C.1 – Value Added Tax
Contact: Maria del Carmen Muniz Sanchez (Ms)
E-mail: maria-del-carmen.muniz-sanchez@ec.europa.eu

*European Commission
B-1049 Brussels*

Authors:

Giacomo Luchetta (Team leader – Economisti Associati)
Enrico Giannotti (Deputy Team Leader for DRRs – Economisti Associati)
Grzegorz Poniatoski (Deputy Team Leader for the Platform Economy - CASE)
Bradford Rohmer (Deputy Team Leader for the SVR and IOSS - Oxford Research)
Stephen Dale (Hedeos société d'avocats)

Supported by:

The network of local practitioners of Mazars N.V. / Mazars Group led by Bert Laman
Maximilian Freudenthaler (Economisti Associati)
Nicole Genovese (Economisti Associati)
Isabelle Desmeytere (Desmeytere services)
Prof. Stefano Ferretti (Università di Urbino)
Adam Śmietanka (CASE)
Mehmet Burak Turgut (CASE)
Tomasz Tratkiewicz (CASE)
Agnieszka Pechcińska (CASE)
Stanislav Bieliei (CASE)
Florian Poli (Oxford Research)
Stella Pipping (Oxford Research)
Alessandro Zamboni (Wavestone)
Débora Di Giacomo (Wavestone)
Inês da Costa (Wavestone)
Solène Drugeot (Wavestone)
Thiago Barbizan (Wavestone)

EUROPEAN COMMISSION

VAT in the digital age

Final Report

Volume 2

The VAT Treatment of the Platform Economy

Directorate-General for Taxation and Customs Union

2022

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Abbreviations and acronyms

B&B	Bed and Breakfast
B2B	Business-to-Business
B2B2B	Business-to-Business-to-Business
B2B2C	Business-to-Business-to-Consumer
B2C	Business-to-Consumer
CBA	Cost-Benefit Analysis
C2B	Consumer-to-Business
C2B2B	Consumer-to-Business-to-Business
C2B2C	Consumer-to-Business-to-Consumer
C2C	Consumer-to-Consumer
CJEU	Court of Justice of the European Union
COLLEEM	Collaborative Economy
CPA	Classification of Products by Activity
DAC7	Revised Directive on Administrative Cooperation (Council Directive 2011/16/EU)
DG EMPL	Directorate General for Employment, Social Affairs and Inclusion
DG TAXUD	Directorate General for Taxation and Customs Union
DLP	Digital Labour Platform
DRRs	Digital Reporting Requirements
EC	European Commission
ESS	Electronically Supplied Service
EU	European Union
EU27	European Union without the United Kingdom
FTE	Full-time Equivalent
GDP	Gross Domestic Product
GFV	Group on the Future of VAT
GST	Goods and Services Tax
G20	Group of Twenty
HQ	Headquarter
IA	Impact Assessment
IOSS	Import-One-Stop Shop
MOSS	Mini One Stop Shop
MS	Member States
NACE	<i>fr. Nomenclature statistique des activités économiques dans la Communauté Européenne</i>
NPV	Net Present Value
OECD	Organization for Economic Co-operation and Development
OSS	One Stop Shop
SBS	Structural Business Statistics
SCM	Standard Cost Model
SME	Small and Medium-sized Enterprise(s)
SUT	Supply and Use Tables
TBE	Telecommunications, Broadcasting and Electronic
TIN	Tax Identification Number
ToR	Terms of Reference
TOMS	Tour Operators Margin Scheme
VAT	Value-Added Tax
VEG	VAT Expert Group
WOLS	Weighted Ordinary Least Squares

Abstract

This part of the Study on *VAT in the Digital Age*, prepared for the European Commission, Directorate General for Taxation and Customs Union (DG TAXUD), focuses on the VAT treatment of the platform economy. It aims to: (i) provide an estimate of the size of the platform economy in the EU, (ii) analyse the VAT aspects related thereto, including an evaluation of the impact of the differences between the national VAT measures and guidelines, and (iii) conduct the analysis of costs, benefits, opportunities and risks in respect of possible future changes, including the underlying problem definition and identification of policy options.

The Study finds that there were over 1,500 digital platforms with a significant presence in the EU27 in 2019, generating about EUR 67 billion of revenue. The scale of the platform economy has increased at a very fast pace for the last years. The growing scale, multi-sided nature, complexity and variation of business models within the platform economy create challenges for VAT rules, which are insufficiently clear and harmonized. Moreover, by bringing new economic operators into the tax systems, the growth of the platform economy hinders the enforcement of VAT compliance.

The Study assesses a number of policy options encompassing: (i) the clarification of VAT rules regarding the nature of the platform's facilitation and the providers' status; (ii) the streamlining of record-keeping obligations; and (iii) a structural change to the VAT treatment, consisting in the introduction of a deemed supplier role for digital platforms. The simplifications and streamlining of VAT procedures would have a clear positive impact on economic operators by reducing administrative burdens, legal uncertainties and regulatory fragmentation. The introduction of the deemed supplier role would, on top of that, increase VAT revenue, both directly via an increase in the effective rate, and indirectly – via an increase in compliance. A deemed supplier role tailored to specific services that are often provided by non-taxable persons or SMEs in the accommodation and transportation sectors would have low administrative costs, while increasing VAT revenue. The deemed supplier rule would also rebalance the competition conditions between traditional and platform-based distribution channels, by eliminating the tax-induced advantage for occasional and very small suppliers operating via platforms. The broadest scope of the deemed supplier regime, including sectors other than transport and accommodation, would bring significant increase in VAT revenue. This increase in revenue would however be cushioned, as a broad regime would also create distortions and disincentivise the use of platforms in certain sectors, i.e. where the deemed supplier regime would result in the higher VAT costs for transactions carried out by small-scale and occasional providers.

Zusammenfassung

Dieser Teil der Studie über die Mehrwertsteuer im digitalen Zeitalter, die für die Europäische Kommission, Generaldirektion Steuern und Zollunion (GD TAXUD), erstellt wurde, konzentriert sich auf die mehrwertsteuerliche Behandlung der Plattformökonomie. Ziel dieses Teils ist es: (i) eine Schätzung des Umfangs der Plattformwirtschaft in der EU vorzunehmen, (ii) die damit zusammenhängenden Mehrwertsteueraspekte zu analysieren, einschließlich einer Bewertung der Auswirkungen der Unterschiede zwischen den nationalen Mehrwertsteuermaßnahmen und -leitlinien, und (iii) die Analyse von Kosten, Nutzen, Chancen und Risiken im Hinblick auf mögliche künftige Änderungen vorzunehmen, einschließlich der zugrunde liegenden Problemdefinition und der Identifizierung von politischen Optionen.

Die Studie kommt zu dem Ergebnis, dass es im Jahr 2019 über 1.500 digitale Plattformen mit einer signifikanten Präsenz in der EU27 gab, die einen Umsatz von rund 67 Mrd. EUR generierten. Das Ausmaß der Plattformökonomie hat in den letzten Jahren sehr schnell zugenommen. Der wachsende Umfang, die Vielseitigkeit, die Komplexität und die

Verschiedenartigkeit der Geschäftsmodelle innerhalb der Plattformwirtschaft stellen eine Herausforderung für die MwSt-Vorschriften dar, die nicht ausreichend klar und harmonisiert sind. Darüber hinaus behindert das Wachstum der Plattformwirtschaft die Durchsetzung der MwSt-Vorschriften, da neue Wirtschaftsbeteiligte in die Steuersysteme einbezogen werden.

Die Studie bewertet eine Reihe von politischen Optionen, die Folgendes umfassen: (i) die Klärung der Mehrwertsteuervorschriften in Bezug auf die Art der Plattformvermittlung und den Status des Anbieters; (ii) die Straffung der Aufzeichnungspflichten; und (iii) eine strukturelle Änderung der mehrwertsteuerlichen Behandlung, die in der Einführung einer "deemed supplier"-Funktion (Übergang der Steuerschuld auf die Plattform/den Marktplatz zur Erfüllung der Verpflichtungen gemäß der Sonderregelung des Import-One-Stop-Shop) für digitale Plattformen besteht. Die Vereinfachung und Straffung der MwSt-Verfahren würde sich eindeutig positiv auf die Wirtschaftsbeteiligten auswirken, da der Verwaltungsaufwand, die Rechtsunsicherheiten und die Rechtszersplitterung verringert würden. Die Einführung der Rolle des "deemed supplier" würde darüber hinaus die Mehrwertsteuereinnahmen erhöhen, sowohl direkt durch eine Erhöhung des effektiven Steuersatzes als auch indirekt durch eine bessere Einhaltung der Vorschriften. Eine Regelung, die auf bestimmte Dienstleistungen zugeschnitten ist, die häufig von Nichtsteuerpflichtigen oder KMU im Beherbergungs- und Beförderungsgewerbe erbracht werden, wäre mit geringen Verwaltungskosten verbunden und würde gleichzeitig die Mehrwertsteuereinnahmen erhöhen. Die Regel des "deemed supplier" würde auch die Wettbewerbsbedingungen zwischen traditionellen und plattformbasierten Vertriebskanälen wieder ins Gleichgewicht bringen, indem der steuerlich bedingte Vorteil für gelegentliche und sehr kleine Anbieter, die über Plattformen tätig sind, beseitigt wird. Ein möglichst breiter Anwendungsbereich der Regelung für "deemed suppliers", der auch andere Sektoren als den Transport- und Beherbergungssektor einschließt, würde zu erheblichen Mehreinnahmen bei der Mehrwertsteuer führen. Diese Mehreinnahmen würden jedoch abgefedert, da eine breit angelegte Regelung auch zu Verzerrungen führen und die Nutzung von Plattformen in bestimmten Sektoren verhindern würde, d. h. in den Fällen, in denen die Regelung für "deemed supplier" zu höheren MwSt-Kosten für Umsätze kleiner und gelegentlicher Anbieter führen würde.

Abstrait

Cette partie de l'étude sur la TVA à l'heure de la numérisation, préparé pour la Commission Européenne, direction générale de la fiscalité et des douanes (DG TAXUD), se concentre sur le traitement de la TVA de l'économie de plateforme. Il vise à : (i) fournir une estimation de la taille de l'économie de plateforme dans l'UE ; (ii) analyser les éléments de TVA s'y rapportant, incluant une évaluation de l'impact lié aux différences entre les mesures et les orientations nationales de TVA ; et (iii) conduire une analyse des coûts, bénéfiques, opportunités et risques en prenant en considération des futurs changements, incluant le problème sous-jacent de la définition et de l'identification des options de politique publique.

L'étude montre qu'il y avait environ 1,500 plateformes numériques en 2019 et qu'elles étaient présente de manière importante dans l'Union des 27. Elles ont généré environ 67 milliards d'euro de recette. L'échelle de cette économie de plateforme s'est accrue à un rythme très soutenu ces dernières années. L'échelle croissante, la nature multiforme, la complexité et la variation des « business models » à l'intérieur de l'économie de plateforme créés de multiples défis concernant les règles de TVA, qui sont insuffisamment claires et harmonisées. De plus, en apportant des opérateurs économiques dans les systèmes de taxation, la croissance de l'économie de plateforme gêne l'application de la mise en conformité de la TVA.

L'étude évalue un certain nombre de politiques publiques possibles comprenant : (i) l'éclaircissement des règles de TVA concernant la nature de la facilitation de la plateforme

et des statuts des fournisseurs ; (ii) la rationalisation des obligations de tenue de registres, et (iii) un changement structurel dans le traitement de la TVA, consistant en l'introduction d'un rôle de fournisseur présumé pour les plateformes numériques. Les simplifications et l'harmonisation des procédures de TVA pourraient avoir une influence positive claire sur les opérateurs économiques en réduisant les charges administratives, l'incertitude juridique et la fragmentation réglementaire. Pour couronner le tout, l'introduction d'un rôle de fournisseur présumé accroîtrait les recettes de TVA à la fois par une augmentation du taux effectif, mais aussi indirectement par une hausse de la conformité. Un rôle de fournisseur présumé personnalisé à des services spécifiques qui sont souvent fournis par des personnes non taxables ou des PME dans les secteurs du logement et des transports, aurait de faibles coûts administratifs tout en augmentant les recettes de TVA.

Le régime de fournisseur présumé pourrait aussi rééquilibrer les règles compétitives entre les traditionnelles chaînes de distribution et celles implantées sur des plateformes, en éliminant l'avantage de l'origine fiscale des petits et occasionnels fournisseurs opérant par ces plateformes. Un élargissement du régime de fournisseur présumé, incluant d'autres secteurs que ceux du transport et du logement, apporterait une hausse significative des recettes de TVA. Cette hausse dans les recettes pourrait cependant être amortie, car un régime large créerait également des distorsions et découragerait l'utilisation de plateformes dans certains secteurs. Par exemple, le régime du fournisseur présumé entraînerait des coûts de TVA plus élevés pour les transactions effectuées par des fournisseurs de petite dimension ou occasionnels.

1. INTRODUCTION

1.1. Purpose of the Report

This Draft Final Report (the Report) was prepared within the framework of the study on **VAT in the Digital Age**.¹ It is submitted to the European Commission, Directorate General for Taxation and Customs Union (DG TAXUD), by a grouping of consulting firms and research institutions led by Economisti Associati Srl and including Oxford Research AB, the Center for Social and Economic Research (CASE), Wavestone S.A., Mazars N.V., Hedeos société d'avocats, Desmeyere Services, and Università di Urbino. The Report was prepared based on the indications provided in the Terms of Reference (ToR) for the Assignment, supplemented by the Technical Proposal.

The Report covers three distinct but interrelated areas of VAT policy:

- 1) **Digital Reporting Requirements (DRRs)** (in Volume 1);
- 2) **The VAT Treatment of the Platform Economy** (in the present Volume); and
- 3) **The Single Place of VAT Registration and Import One Stop Shop (IOSS)** (in Volume 3).

The above volumes are then complemented by Volume 4, providing a summary of consultation activities.

The purpose of the Report is two-fold: (i) **to assess the current situation** with regard to the three domains listed above; and (ii) **to assess the impacts of a number of possible policy initiatives in these areas**. The Report is then intended to feed into the preparation of an Impact Assessment (IA) by the European Commission to accompany possible legislative or non-legislative initiatives.

A draft version of this Report has been discussed with the Client at the Final Meeting on 13 October 2021; its findings have also been presented to the members of the VAT Expert Group and of the Group on the Future of VAT, and to selected stakeholders at a Fiscalis Event on 27-29 October 2021. The Report has been revised to take account of the feedback received. The Study will be completed by a final version of Volume 4, due in spring 2022, which will include the synopsis report of the forthcoming Public Consultation.

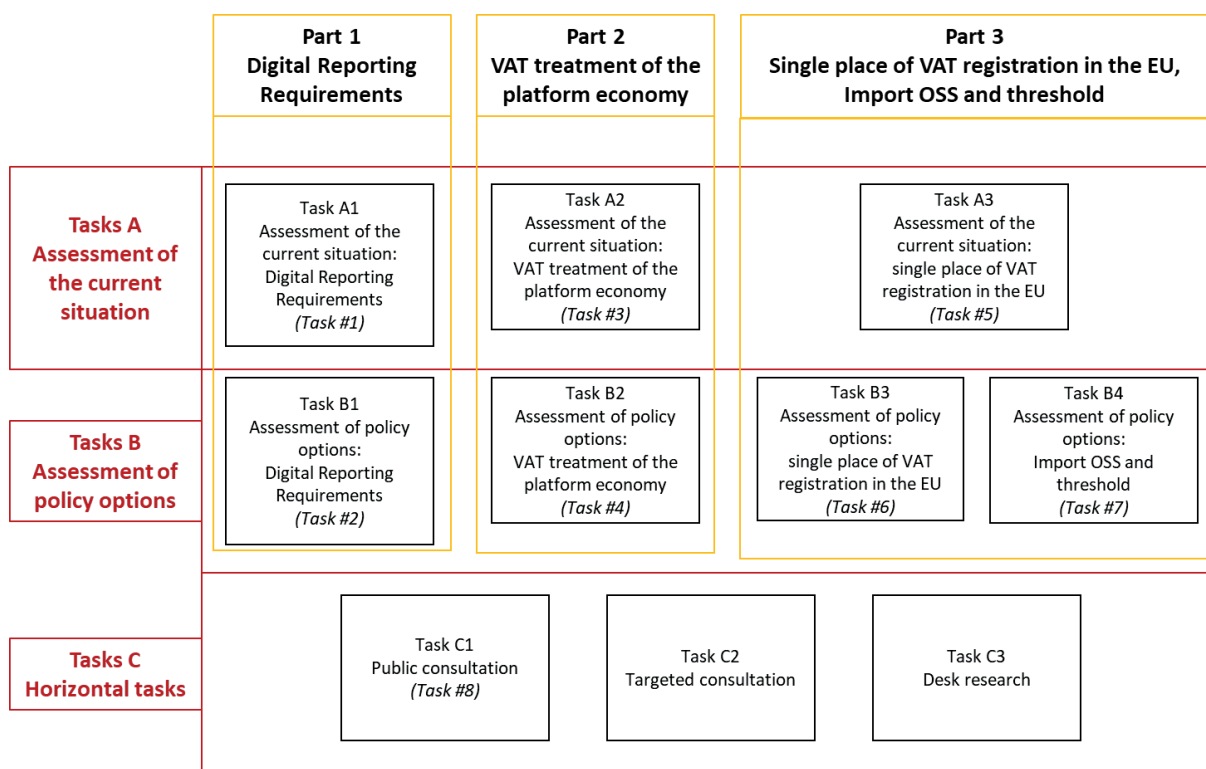
1.2. Recap of the tasks and methodology

As mentioned above, the Assignment requires an **assessment of the current situation** and the **likely impacts of a number of policy options** with regard to three topics related to VAT and evolving technologies, digitalisation and innovative business models, i.e. DRRs, the platform economy, and VAT registration and the IOSS. To consistently complete the tasks required by the Terms of Reference, a matrix approach, per topic and per type of tasks, has been followed, as represented in Figure 1 below. The columns identify the various Parts of the Study, while the rows identify the three types of tasks, namely:

- 1) Tasks A, i.e. the **assessment of the current situation**;
- 2) Tasks B, i.e. the **assessment of the policy options and their impacts**; and
- 3) Tasks C, i.e. **the horizontal tasks for data collection and retrieval of information**.

1 Based on the contract No. TAXUD/2020/DE/317 signed on October 2020.

Figure 1. Overview of the services requested



Note. In brackets: task numbering as per the Terms of Reference. Source. Authors' own elaboration.

The findings from Tasks A have been compiled in a policy-oriented '**problem definition**', in which the problems, together with their drivers and consequences, have been identified and assessed, whenever possible also providing a quantitative estimation of their magnitude. This section also includes a problem tree through which the causal relations between problems, drivers and consequences are graphically depicted.

Subsequently, the **policy objectives** of the initiatives are presented, together with a list of **policy options** to reach them (including those discarded at an early stage). The policy options have been defined in agreement with the Client and considering the feedback received from the Group on the Future of VAT and the VAT Expert Group, including their joint Sub-group 'VAT aspects of the platform economy'. This is then followed by the **analysis of the impacts** generated by the retained policy options (Tasks B).

The methodologies used for the various tasks are tailored to the issues at hand, and involved the use of techniques, analyses and data processing targeted to each Part of the Study. This goes especially for Tasks A, while a more closely-knit approach has been used for the identification of the relevant impacts and the comparison of options carried out within Tasks B. More details on the methodology employed are provided in each Volume.

Finally, given the nature of the Assignment, data collection and information retrieval activities have been carried out horizontally across the three tasks, in particular the public and targeted consultations (see Volume 4).

1.3. Structure of Volume 2 – The VAT Treatment of the Platform Economy

Volume 2 is structured as follows:

- Part A includes the findings from the assessment of the current situation, and namely:

- In Chapter 2, the scope of the platform economy and classification of platforms and platform economy providers;
- In Chapter 3, the results of the sectoral analysis: the number of platforms in the EU, revenue of digital platforms and the entire ecosystem, direct and indirect employment, number of users, cross-border trade and VAT revenue broken by Member State and sector of economic activity;
- In Chapter 4, the results of the legal analysis of the current legal framework for the VAT treatment of the platform economy in the sample of 12 selected Member States and the analysis of relevant EU measures. It also includes the gap analysis of deemed supplier provisions as well as reporting and record-keeping obligations of platforms.
- Part B presents the results of the analysis of possible interventions, and namely the problem definition (in Chapter 5), the definition of policy objectives and options (in Chapter 6), and the impact analysis and comparison of options (in Chapter 7).

The Report is then complemented by a series of Annexes including: (A) the description of the data sources used, (B) the methodological framework for estimating the scale of the platform economy, (C) the presentation of the VAT liability simulation model, (D) the assumptions taken to forecast the scale of the platform economy in the future, and (E) a complete set of obtained results.

PART A
ASSESSMENT OF THE CURRENT
SITUATION

2. SCOPE OF THE PLATFORM ECONOMY

2.1. Introduction

The steep rise in the numbers and varieties of new digital business models is one of the core ongoing innovations triggered by the increasing levels of digitalisation and the development of the Internet and web technology. The rapid spread of these technologies has greatly reduced communication costs, hence transforming many economic activities, not only by changing operational processes, but also leading to the emergence of new business models.

Prior to the digital age, business models relied mostly on a linear supply chain, with value for consumers derived from processing inputs, through a series of consecutive operations, and transforming them into outputs valuable to end consumers.² Intermediation services and intermediaries, defined for the purpose of this Study as entities who act to arrange an agreement between people who are unwilling or unable to communicate directly, were a notable exception. In terms of business models, an intermediary is usually understood to be a conduit for goods or services offered by a supplier to a consumer.³ The existence of an intermediary is driven by factors such as the geographical distance, the separation of production and consumption in time, and the technological differences between the seller and the buyer. An intermediary is needed to bridge these gaps between the seller and the buyer.⁴

New digital business models no longer need to follow a linear chain approach and also depart from the traditional intermediary model. Apart from having a common feature of using web and other digital technologies, they differ from the traditional business models and between each other in various dimensions. The difference results among others from: (i) the number of parties involved in the transaction, (ii) the roles of each party in value creation,⁵ (iii) which party bears risks and responsibilities, (iv) the organizational and regulatory autonomy of the transaction parties, (v) the employment relationships, (vi) the direction of the information exchange, and (vii) the remuneration mechanism and the roles in payment facilitation.

By increasing the number of transaction parties and differentiating the roles within transaction networks, the emergence of new business models causes regulatory challenges. Whenever the general rules for businesses cannot address problems related to the functioning of new business models, there may be a need for introducing targeted provisions. For this purpose, the precise definitions and a functional typology of such models are necessary. **Currently, there is no such commonly acknowledged typology, because of the multiplicity of criteria differentiating business models and their fast emergence.**

Yet, not all digital business models need to rely on non-linear supply chains. Many of the models use linear supply-chains with web and Internet technologies employed to facilitate operational processes or user experience rather than change the traditional supply chain. Overall, digital business models distinguished by the OECD include:⁶

² Based on Beretta, G. (2019), *European VAT and the Sharing Economy*; Das, A. (2015), *An Introduction to Operations Management: The Joy of Operations*, at page 4.

³ Source: OECD (2019), *Typologies on the Role of Intermediaries in International Business Transactions, Final Report*.

⁴ Havila, V. (1993), *The role of the intermediary in international business relationships: theoretical framework*, Working Papers 1993:6, Uppsala University, Department of Business Studies.

⁵ Created value is understood as the difference between the cost of output and inputs.

⁶ OECD (2018), *Tax Challenges Arising from Digitalisation – Interim Report*, OECD/G20 Base Erosion and Profit Shifting Project.

- 1) Multi-sided platforms, i.e. platforms that allow end-users to exchange and transact while leaving control rights and liabilities towards customers mostly with the supplier/service provider; end-users affiliate with the platform and interact across market sides so that indirect network effects⁷ become crucial. For instance, search engines and social networks are multi-sided platforms, as well as merchant platforms such as *eBay* or *Amazon Marketplace*, or some platforms for letting accommodation or transport services;
- 2) Resellers, i.e. businesses that acquire products, including control rights, from suppliers and resell them to buyers, such as *Amazon e-Commerce Platform* or, partially, *Allegro*;
- 3) Vertically integrated firms, i.e. businesses that have acquired ownership over (some of) suppliers and have, thus integrated the production of goods or services with distribution activities, such as *Netflix*;
- 4) Input suppliers, i.e. businesses or individuals supplying intermediate inputs required for a production process of goods or services in another firm, such as *Intel*.

As discussed in the Group on the Future of VAT (GFV) and the VAT Expert Group (VEG),⁸ the most precise description of digital business models that have not yet been covered by a specific definition for VAT purposes in the EU is '**platform economy**'. In particular, the work of GFV focused on:

- the 'sharing economy', that 'refers to business models where activities are facilitated by collaborative platforms that create an open marketplace for the temporary usage of goods or services often provided by private individuals'; and
- the 'platform economy' *stricto sensu*, i.e. the supply of goods or services facilitated by platforms to the extent that they are not already covered by the current VAT provisions related to e-commerce (including areas which are also covered by certain sharing economy business models).⁹

2.2. Scope of the platform economy

Multi-sided platforms depart considerably from traditional business models by connecting two or more interdependent groups.¹⁰ In these interactions, one of the parties offers access to assets, resources, time and/or skills, goods and/or services to the other party, in return for monetary consideration, explicit barter exchanges, or implicit barter/non-monetary transactions (e.g. when services are provided in exchange for access to personal data). The platform can either extract a share of the consideration, or offer its services for free to the parties, financing itself e.g. via targeted advertising made possible by the individuals' personal data and attention time spent on the platform.

As noted by the GFV and the VEG, in the most prevalent business model – involving a platform, one provider and one customer – there could be up to three transactions overall,

⁷ Occurs when a specific group of end-users benefit from interacting with another group of end-users.

⁸ Group on the Future of VAT (2020), *VAT treatment of the platform economy*, GFV no. 097, taxud.c.1(2020)2377472 – EN.

⁹ Group on the Future of VAT (2019), *VAT treatment of the sharing economy*, GFV no. 086, taxud.c.1(2019)1950741 – EN and Group on the Future of VAT (2020), *VAT treatment of the platform economy*, GFV no. 097, taxud.c.1(2020)2377472 – EN.

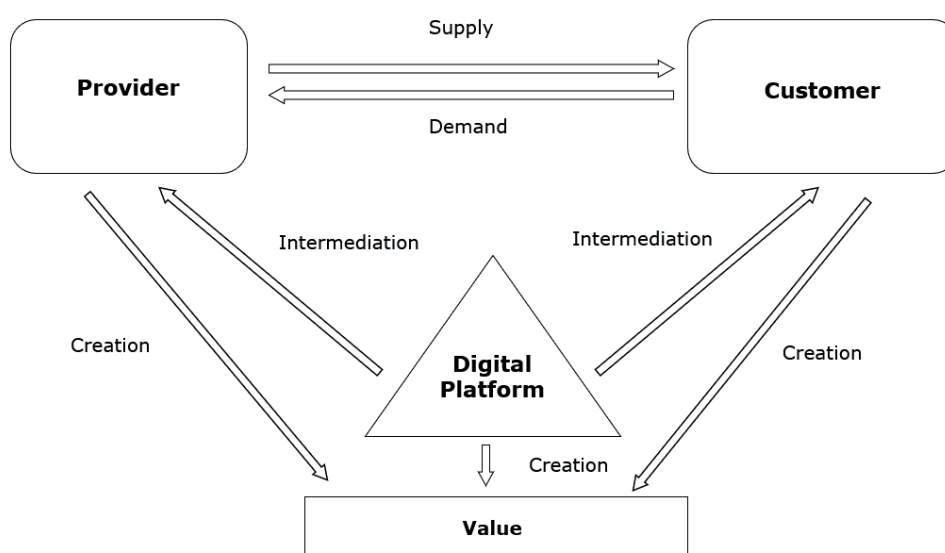
¹⁰ Baretta, G. (2019), *European VAT and the Sharing Economy*; Das, A. (2015), *An Introduction to Operations Management: The Joy of Operations*, at page 4.

namely the transactions between the provider and the platform, between the customer and the platform, and between the customer and the provider (see Figure 2).¹¹

Considering the various payments generated by the transactions, they typically include the main payment, i.e. the one for the underlying provision of goods and services, and the payment for the platform's facilitation services (the facilitation fee). In many platform business models the facilitation fee is paid only by provider or only by customer. This means that, payment-wise, there is either no transaction between the customer and the platform or between the provider and the platform. Though, in an economic sense, the cost of the digital platform's facilitation is borne by both types of users.

Yet, there are business models, which, due to multiple providers or users interacting in a single provision of goods or services, could involve even more transactions. This is the case of the usual home delivery model, in which services are provided by a restaurant and a driver, independently from each other. However, the chain of transactions could also be less compound.

Figure 2. Three-sided platform business model



Source. Author's own elaboration, based on Beretta, G. (2019).

The role of online platforms in these transactions is to:

- 1) Aggregate supply and demand;
- 2) Provide the capacity to facilitate, and extract value from direct interactions and transactions between users;
- 3) Collect, use, and process a large amount of personal and non-personal data in order to optimise, *inter alia*, the service and the experience of each user;
- 4) Provide the capacity to build networks through which any additional user will enhance the experience of all existing users – so-called 'network effects';
- 5) Enhance the abilities to create and shape new markets within more efficient arrangements by relying on information technology as the means to achieve all of the above.¹²

¹¹ Group on the Future of VAT (2020), *VAT treatment of the platform economy*, GFV no. 097, taxud.c.1(2020)2377472 – EN.

¹² OECD (2019), *The Sharing and Gig Economy: Effective Taxation of Platform Sellers: Forum on Tax Administration*, OECD Publishing, Paris.

Some of these roles resemble the traditional intermediary model carried out, for instance, by sales agents, commission agents, distributors, consultants, or brokerage houses. In a similar manner to intermediaries, digital platforms are able to aggregate supply and demand, facilitate transactions and, to a broader extent than in case of non-platform intermediaries, create network effects. The main difference between the traditional intermediary model and online platforms lies in the use of online technology, which, in the case of the platform business model, takes a primary role, so that, oftentimes, the platforms also provide the intangible network linking providers and users, typically over the Internet.¹³ The use of Internet technology allows to internalize the resulting indirect network externalities,¹⁴ which are much higher than in the case of smaller networks that do not hinge on electronic technologies.¹⁵ Moreover, it is worth noting that, in the case of the platform model, digital platforms often take roles and responsibilities that were not traditionally taken over by intermediaries. An example of this is that they often bear the economic risk entailed in the provision of goods or services or have a price setting role.¹⁶ Anyhow, roles and responsibilities *per se* do not differentiate traditional intermediaries and digital platforms.

The presence of network effects, as identified by the Impact Assessment of the Digital Markets Act¹⁷, could cause market failures related to the digital platform business models. These failures include entry barriers for new platforms, economic dependence, and an imbalanced bargaining power with platforms' users.

Another key characteristic of the online platform business model is its flexibility, as it can take different shapes and forms concerning the parties involved and the variation of interactions between them. The digital platform model could also be applied only partially by companies or individuals, who can use platforms just as a secondary source of income or supporting activity.

As there is no commonly acknowledged definition of the 'platform economy', the scope of this Study was defined broadly, in line with the legal challenges to be addressed (see Box 1, legal challenges are described in Section 2.3).

Box 1. Platforms in the scope of the Study

'Platform economy' is the term used to describe a multi-sided model of transactions, where there are three or more parties involved. In these transactions, the role of the **'online/digital platform'** is to facilitate the connection between two or more distinct but interdependent sets of users (whether firms or individuals, whether carrying out an economic activity or not) who interact via electronic means. In these interactions, one of the parties to the platform offers access to or transfers assets, resources, time and/or skills, goods and/or services to the other party, in return for monetary consideration or, in certain cases, by barter/non-monetary exchanges. In most of the cases, these users could be named as **'providers'** and **'consumers'**, respectively. A platform usually charges a fee for the facilitation of the transaction.¹⁸

¹³ In the case of traditional intermediaries, the primary role can be played by physical infrastructure.

¹⁴ Evans, D.S. (2003), *The Antitrust Economics of Multi-Sided Platform Markets*, Yale Journal on Regulation Vol. 20:325.

¹⁵ Indirect network effects occur when the value obtained by an agent increase with the number of the other agents (Evans, 2003).

¹⁶ Beretta, G. (2019), *European VAT and the Sharing Economy*; Das, A. (2015), *An Introduction to Operations Management: The Joy of Operations*, at page 99.

¹⁷ European Commission (2020), *Commission Staff working document: Impact assessment report accompanying the document: Proposal for a regulation of the European Parliament and of the Council on contestable and fair markets in the digital sector (Digital Markets Act)*, SWD(2020) 363 final.

¹⁸ Own elaboration, based on: (1) OECD (2019), *The Sharing and Gig Economy: Effective Taxation of Platform Sellers: Forum on Tax Administration*, OECD Publishing, Paris; (2) European Commission (2020), *Tax fraud and evasion – better cooperation between national tax authorities on exchanging information accompanying the document Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation*.

The Study Team decided not to use any of the existing definitions as, to its knowledge, there is no commonly acknowledged definition meeting the following objectives:

- 1) The scope should cover platforms that facilitate **trade in both goods and services**;
- 2) It must be sufficiently broad to cover **currently operating business models and potential deviations from these models in the future**;
- 3) It should clearly **distinguish digital platforms from the other online business models** that are not multi-sided and do not require one of the transaction sides to play the role of digital facilitation;
- 4) In line with the scope of the VAT Directive, the definition needs to cover models where **consideration is not necessarily monetary**.

For the last reason, the scope of the Study is broader than the definition used for the *Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation*,¹⁹ which defines digital platforms as *a software, including a website or a part thereof and applications, including mobile applications, accessible by users and allowing Sellers to be connected to other users for the purpose of carrying out a Relevant Activity, directly or indirectly, to such users. It also includes any arrangement for the collection and payment of a Consideration*²⁰ in respect of a Relevant Activity.²¹ This piece of legislation focuses on direct taxes, therefore it excludes platforms that do not operate against monetary consideration (if there is no consideration, there are no revenues or profits representing the basis for the application of direct taxes). However, from a VAT perspective, such a definition may be too narrow for the purpose of this Study and the issue of non-monetary transactions will be further considered in the legal analysis. The scope of the platform economy proposed is in line with the definition used in the Impact Assessment of the Digital Markets Act.²² Yet, it does not contain the elements of this definition that could be difficult to assess for individual business models, like *an ability to create and shape new markets and challenge existing ones*.

As for the consideration, digital platforms usually charge a fee for the facilitation of the transaction that could be withheld on payments, or charged to selected types of users in the form of, for instance, fixed or variable subscription fees. The forms of non-monetary consideration often include the provision of access to private information and the provision of specific facilities (e.g. access to software). The transaction between the consumer and the provider is usually monetary but could also take the form of a barter exchange (e.g. home swapping model) or cost-sharing arrangement (e.g. ridesharing model).

Moreover, the scope proposed above includes, fully or partially, **other related business and transaction models** which have recently emerged, **namely the 'sharing economy', 'collaborative economy' and 'gig economy'**. The notion of the '*Platform economy*' is sometimes used interchangeably with these terms and vice versa since there is no commonly acknowledged definition.

¹⁹ Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation, COM(2020) 314 final, Brussels, 15.7.2020. The Proposal has been amended and endorsed by the Council; cf. Interinstitutional File 2020/0148(CNS), ECOFIN 1073, Note from the General Secretariat of the Council of 25 November 2020.

²⁰ The OECD suggested excluding from the scope of VAT platform transactions for which there is no monetary consideration; the issue is however debated in the literature. Cf. Technical Advisory Group to Working Party No.9 on Consumption Taxes, The growth of the sharing/gig economy: exploring the implications for VAT/GST policy and administration.

²¹ Council of the European Union (2020); *Draft Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation (DAC7) - Endorsement*.

²² See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020SC0363>

- As regards the **collaborative economy**, the European Commission defines it as 'business models where activities are facilitated by collaborative platforms that create an open marketplace for temporary usage of goods or services (assets, resources, time, and/or skills) often provided by private individuals'.²³
- The **sharing economy** is sometimes referred to as collaborative economy in some jurisdictions,²⁴ but, according to Botsman and Frenken and Schor, the sharing economy is an economic system based on granting temporary access (sharing) to underused assets or services, for free or for a fee, directly from individuals.²⁵ Hence, the main difference between the sharing and the collaborative economy would consist in the sharing economy being based on the usage of idle assets or services.

Their common feature would be the temporary usage, or sharing, of the assets or services provided mainly by private individuals without a change of ownership. This feature distinguishes the sharing and collaborative economy from the platform economy, since, in the latter, goods and services providers can be both private individuals and businesses, and a change of ownership is possible.

- Finally, the '**gig economy**' stands for initiatives based on contingent work, i.e. typically part-time, non-permanent and paid on a piece work basis. This work is transacted on a digital marketplace, therefore referring to various forms of work facilitated through online platforms. An example of gig economy platform could be *Upwork* that facilitates the interaction between freelancers and their clients.

In line with the above, the sectoral analysis in Section 3 focuses on the whole scope of the platform economy. On the contrary, the analysis of impacts covers only the sectors in which, following the problem definitions, issues were identified. In consequence, the e-commerce sector, already covered by the 'VAT e-Commerce Package'²⁶ and the advertising sector, where the interaction between users is not observed by the platform, are excluded from the analysis of impacts.

Setting a broad scope of the work was necessary to encompass various business models. Yet, such an approach creates a risk of including borderline cases that depart from the nature of the business of interest to this Study, such as those that do not involve direct interaction of users, like content sharing portals. Moreover, business models that use in parallel other means for intermediation, or in other words, do not hinge only on the Internet for communication, are excluded from the scope of the work.

Specific borderline cases of business models and sectors that were excluded are enumerated below:

- 1) Financial intermediation and stock exchanges** as, for instance, CO2 stock exchanges and brokerage houses. They were excluded since these are regulated markets, they can operate both over the Internet or not, and, in the interactions, in most of the cases the 'users' remain anonymous;

²³ European Commission (2016), *Literature review on taxation, entrepreneurship and collaborative economy*, at p. 30.

²⁴ OECD (2019), *The Sharing and Gig Economy: Effective Taxation of Platform Sellers: Forum on Tax Administration*, OECD Publishing, Paris.

²⁵ Botsman, R. (2015), *Defining The Sharing Economy: What is Collaborative Consumption – and What Isn't?*, Fast Company; Frenken, K., Schor, J., (2019). *Putting the sharing economy into perspective*, Chapters, in: Oksana Mont (ed.), *A Research Agenda for Sustainable Consumption Governance*, Chapter 8, pages 121-135.

²⁶ Cf. i.a. Council Directive (EU) 2017/2455 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods and Council Directive (EU) 2019/1995 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies of goods.

- 2) **Taxi companies** using Internet-based platforms in parallel to traditional phone hailing and providing services on behalf of the company rather than in their own name;
- 3) **Advertisers** other than search engines and social networks. This group of excluded 'advertisers' consists primarily of media and web companies which match viewers and companies via other, traditional, business models.

2.3. Classification of operators

The platform operators could be classified by types of users, sector, subsector, type of goods and nature of the platform. **As for the type of users, the platforms can be distinguished into four categories** (see Table 1) depending on whether they link businesses or private consumers. Most often, digital platforms allow for more than one type of interaction, meaning that providers or consumers could be both businesses and individuals. Moreover, in the case of more than two users' parties involved, businesses and consumers could be both mingled in a single transaction.

An example of the platform that relies predominantly on the B2B model is *alibaba.com*, an affiliate of the *Alibaba group*, that connects importers and exporters all around the world for the B2B sale of goods or services. Amazon Business is another example of the B2B model, as its platform creates a marketplace for businesses of all sizes. *Allegro* is an example of both B2C and C2C platforms, as it allows both businesses and consumers to offer their products to consumers at a fixed price through its online portal. *Airbnb* is an example of platform in which mostly C2C transactions take place, albeit not exclusively. *Airbnb* is primarily an online accommodation rental platform, enabling individuals to lease or rent rooms or apartments/houses from other individuals; businesses can also use it (either as providers or customers). In the C2B model, the consumer offers goods or services to the business through the online platform. *Kickstarter* is an example of a crowdfunding C2B platform that connects individuals funding money to launch products offered by companies.

Table 1. Possible relation between providers and users

Consumer	Supplier	
	Business (B)	Consumer (C)
Business (C)	B2B	C2B
Consumer (C)	B2C	C2C

Source. Author's own elaboration.

Furthermore, **the platforms may be classified with respect to the type of good or service traded, which results in their allocation to sectors and sub-sectors** with relevant NACE²⁷ codes. The sectors in which platform operators have a significant or increasing presence are shown in Table 2. The list is not exhaustive, since platforms could also be present in other sectors, though on a smaller scale. Another limitation is that a single platform could often be classified in more than one sector. As an example, there are general platforms facilitating, for instance, rental of real estate, sales of second-hand goods and advertisement.

The scope of the sectoral analysis includes digital platforms facilitating e-commerce (trade in goods), referred to as 'marketplaces'. However, this aspect of e-commerce is not covered by the legal analysis as this sector was already largely addressed by the VAT e-Commerce Package.²⁸ In a broader definition, marketplaces could also represent any space in which

²⁷ *Nomenclature of Economic Activities in the European Communities.*

²⁸ *Cf. i.a.* Council Directive (EU) 2017/2455 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance

a buyer and a seller can conduct transactions, and thus could be associated with the sharing economy and digital platforms facilitating also trade in services.²⁹ These marketplaces can match offline services, i.e. hairdressers, and online services, i.e. educational or professional services, with customers.

Within transport services, five main sub-categories of platforms were distinguished:

- 'Ride on demand' (or 'ride hailing') services mean provision of private transportation from a place to another place within the area covered by the service. They can be differentiated from 'ridesharing' as they restrict the service to private use and allow to modify the route.
- 'Ridesharing' services where the provider decides on the route and the number of co-passengers.
- 'Car sharing' services refer to the business model, in competition with ordinary rent-a-car that usually hinges on very short rentals. Nonetheless, to be included in the scope of the platform economy described in Section 2.2, there need to be multiple providers of the fleet and the access to providing vehicles cannot be restricted.
- 'Delivery services', are considered here as services for the transport of goods, in line with their traditional classifications as 'Other postal and courier activities'.
- 'Trip booking' platforms typically cover flight tickets reservation portals, but can also include other means of transport.

Accommodation services include four main types of activities facilitated by platforms, which are very close in terms of the amenities they offer:

- 'Residence renting' and 'B&B and hotel accommodation' could be differentiated between each other as 'B&B and hotel accommodation' are accompanied by the provision or at least the making available of additional services. In contrast, to 'B&B and hotel accommodation', which are carried out primarily on a regular basis by businesses, residences are often rented on an occasional basis by individuals including the situations in which the landlord lives in the residence when it is not rented out.
- 'Home sharing' could be distinguished from other accommodation services as the underlying property serves as the owner's home and, in principle, the owner and consumer use the real estate at the same time. In contrast to 'residence renting' and 'B&B and hotel accommodation', there is often no consideration at all or the payment for the service is non-monetary.
- 'Home swapping' business model is similar to 'residence renting' with the core difference in the payment for underlying service. The business model of home swapping is based on a barter exchange of properties.

The accommodation services cover only short-term stays, whereas 'real estate' covers intermediation of long-term rental and sales of real estate.³⁰

sales of goods and Council Directive (EU) 2019/1995 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies of goods.

²⁹ Fraunhofer (2016), *Business Models in the Digital Economy: an Empirical Classification of Digital Marketplaces*, Working Paper 2016 Nr. 2.

³⁰ A short-term rental is understood as a rental shorter than 30 days.

For financial services, the scope of the Study was restricted to collaborative finance that include 'reward-based funding', 'equity funding' and 'debt funding'.

'Advertising platforms' are a broad group of businesses, representing a borderline case for this analysis. In fact, any advertising via the Internet could be regarded as transactions facilitation and could lead to direct interaction of users. For this Study, the scope of the sectoral analysis covers only search engines and social networks, where intermediation is done actively by the platform. Such an active facilitation role often takes the form of providing channels for a direct communication between users or a provision of detailed information requested by them (e.g. search engine facility).

Table 2. Typology of platforms used throughout the report

Sector	Sub-sector	NACE	Type	Example
E-commerce	Marketplace of goods	G47.9	Goods	Amazon Marketplace
Transport services	Ride on demand	H49.3	Services or temporary access to assets	Uber
	Ridesharing	H49.3		Blablacar
	Car sharing	H49.3		GetAround
	Delivery services	H53.2		Ubereats
	Trip booking	N79.9, H52.2		Gotogate
Accommodation	Residence renting	I55.2		Airbnb
	B&B and hotel accommodation	I55.2		Booking
	Home sharing	I55.2		Couchsurfing
	Home swapping	I55.2		HomeExchange
Real estate	Rental and sales intermediation	L68		Otodom
Finance (crowd funding)	Reward-based funding	K64		Kickstarter
	Equity funding	K64		Beesfund
	Debt funding	K64		Lending Club a
Professional and household services	On-demand household services	M, N78, Q87-88, S95.2		TaskRabbit
	On-demand professional services	M, N78, Q87-88, S95.2		Upwork
Advertising	Search engines	various	Google	
	Social media		Facebook	

Source. Author's own elaboration, based on European Commission (2018), *Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States* and European Commission (2016), *Assessing the size and presence of the collaborative economy in Europe*.

3. SECTORAL ANALYSIS

3.1. Introduction

This chapter presents the economic analysis of the platform economy. It consists of five sections. Section 3.2 describes the overall approach and the main sources of information. More detailed methodological considerations and the analysis of the relevance, accuracy and granularity of the sources of information used, and the detailed description of the estimation algorithm are included in annexes.³¹ The results of the analysis are then presented in the following sections. Section 3.3 discusses the structure of the platform economy in terms of variation in platforms' size and presence in the EU Member States. By analysing the prevalence of various business models among the platforms that took part in the targeted consultation, Section 3.4 complements the considerations included in Chapter 2 above. Section 3.5 presents the results of a comprehensive analysis of the size of the platform economy in the EU27. It presents the estimates of the number of platforms in the EU, revenue of digital platforms and the entire ecosystem, direct and indirect employment, number of users, cross-border trade and VAT revenue broken by Member State and sector of economic activity. It also compares own estimates with figures published in other studies and provides additional checks of the accuracy of obtained results.

The figures presented refer to the 'platform economy', which is a broader notion than 'collaborative economy' covered by the previous studies for the Commission carried out by PwC (2016), Technopolis (2018), and CEPS (2021).³² Yet, not all indicators analysed could cover the advertising sector, as facilitated transactions in this sector are largely not observed by platforms (see Table 3 for a summary). It may also be argued that in the case of the advertising sector, where the link interrelation between the platform and users is more indirect, the 'ecosystem' term shall not apply.³³

The analysis is carried out separately for the EU27 and the UK, which was still a Member State in 2019, the reference year of this Study.

Table 3. Sectors covered

Sector	Platform revenue	Ecosystem value	Cross-border trade	Workforce	VAT revenue
E-commerce	Covered	Covered	Covered	Covered	Covered
Transport services	Covered	Covered	Covered	Covered	Covered
Accommodation	Covered	Covered	Covered	Covered	Covered
Real estate	Covered	Covered	Covered	Covered	Covered
Finance (crowd funding)	Covered	Covered	Covered	Covered	Covered

³¹ Detailed information about data sources are described in Annex A, whereas the details of the estimation algorithm and assumptions made are included in Annex B.

³² European Commission (2016), *Assessing the size and presence of the collaborative economy in Europe*, Publications Office of the European Union; European Commission (2018), *Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States*, Publications Office of the European Union; European Commission (2021), *Digital labour platforms in the EU: Mapping and business models*, Publications Office of the European Union.

³³ While in most platform-based markets, network effects are mutually beneficial for the group of users, in the advertising sector advertisers benefit from the number of users, but users do not benefit from the number of advertisers. Cf. Luchetta G. (2014), *Is the Google Platform a Two-Sided Market?*, Journal of Competition Law & Economics, Vol. 10, No. 1, pp. 185–207.

Sector	Platform revenue	Ecosystem value	Cross-border trade	Workforce	VAT revenue
Professional and household services	Covered	Covered	Covered	Covered	Covered
Advertising	Covered	Not covered	Not covered	Covered	Not covered

Source. Author's own elaboration.

For ease of clarity, the term 'EU operation' used frequently in this section refers to platforms' facilitation services delivered to EU resident consumers, be they taxable or non-taxable persons. The term 'revenue' and 'turnover' are used interchangeably and stand for the value of services (or goods) delivered, calculated as the average sales price times the number of units sold. It consists of the sum of the platforms' and providers' revenue and turnover. In the case of digital platforms, revenue and turnover are understood as the value of facilitation services delivered to both providers and consumers. In the case of providers, turnover and revenue stand for the value of goods and services delivered, exclusive the facilitation fee, if not stated otherwise.³⁴

3.2. Data and methodology

The sectoral analysis hinges on a broad array of information sources. A methodology combining partial information from multiple sources was necessary to deliver a complete set of quantitative measures, to ensure wide geographical coverage, to enable data cross-validation and high level of granularity. Thus, if the information was available only for a group of Member States, only for specific firms or sectors, other indicators were used for inter- and extrapolations. As in a recent European Commission study,³⁵ both direct and indirect indicators were triangulated for this purpose.³⁶ In addition, relevant fiscal data were integrated into the analysis.

Part of the information used in the analysis comes directly from the platform operators, who responded to the questionnaire requesting detailed financial and VAT-related data as well as information regarding their business model. Overall, exhaustive information was received from a group of 14 interviewees across seven sectors, namely accommodation, advertising, e-commerce, finance, household and professional services, real estate and transportation. The group of interviewed platforms represented a prevalent share of turnover and web traffic of platforms' operation in their sectors of economic activity in the EU. In the accommodation sector, the interviewed platforms accounted for over 90 percent of total revenue and web traffic, in the e-commerce – they accounted for ca. 50 percent of total revenue and ca. 90 percent of total web traffic. Among the transportation services they made ca. 30 percent of total revenue and ca. 15 percent of total traffic in the EU.³⁷ Due to the large total market share of the interviewed platforms, the information obtained allowed for an exhaustive analysis of business models of large digital operators and for estimating important indicators of the size of the platforms' ecosystem and its employment.

The calculation of the baseline estimates of the scale of the platform economy – i.e. the estimation of the revenue generated – used a bottom-up approach, by aggregating firm-level data from various sources of information to estimate relevant aggregates for the Member States and the EU27 in total. In the first step of the calculation, a list of 1,831

³⁴ The facilitation fee could be paid either or both by consumers and providers. In situations when the facilitation fee is paid by providers it could be considered as an intermediate use and a component of both revenue and costs.

³⁵ European Commission (2018), *Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States*, Publications Office of the European Union.

³⁶ European Commission (2018), Cf. *supra note*, focuses on collaborative economy and thus excludes some online platforms.

³⁷ Quoted share are based on the own bottom-up analysis of the scale of the platform economy.

digital platforms with EU operations was identified. As the information about the companies in the company databases was incomplete and varied across company size, missing data had to be imputed.³⁸ Though based on firm-level data the resulting revenue figures and other variables calculated thereupon are presented on a sectoral or country level.³⁹

As a next step, the value of turnover for each platform that could be attributed to EU operations, and then to specific Member States, was calculated. For this purpose, *SEMRush* data on web traffic generated by portals' Internet domains was primarily used. This part of the calculation was supplemented by detailed information on regional market structures obtained from the targeted questionnaires for platform operators. The method of attribution of turnover to specific Member States varied across sectors. For the sectors, in which the place of consumption was strongly linked with the physical location of consumers, the data on web traffic generated by each portals' national domain was used. To account for higher expected revenue generated on wealthier markets, web traffic indicators were additionally reweighed using GDP per capita figures.⁴⁰

An exception was made for two sectors: accommodation and finance. In the case of the accommodation sector, instead of web traffic, country weights within the EU were calculated using the dataset '*Short-stay accommodation booked via collaborative economy platforms*' published by Eurostat.⁴¹ This dataset includes information on guest-nights booked through the biggest Online Travel Agencies operating in the EU market, which are *Airbnb*, *Booking*, *Expedia Group* and *Trip Advisor*, representing over 93 percent of the value of services facilitated by digital platforms within this sector. In the case of the financial sector, the standard method described above could not be used as it does not capture the much greater differentiation of average consumer spending between various Member States. To allocate revenues across Member States, data on alternative financial services spending published in *Cambridge Centre for Alternative Finance* Report was used instead.⁴²

Further, based on the split of platforms' revenue by country and sector and the information on various characteristics of the platform economy gathered from the targeted consultation and desk research, other aggregates were derived. Country-level figures of employment by digital platforms were calculated by multiplying revenue figures by average employment-to-revenue ratios derived from the questionnaires. To estimate direct and indirect employment of digital platforms, values obtained in the previous step were paired with national accounts. Data on margins readily available for large platform operators or included in responses to the questionnaire were used to calculate the value of the underlying provision of goods and services. The revenue of platform operators together with the value of the underlying provision is referred to as the value of the 'platform economy ecosystem'.⁴³ The revenue estimate for each platform served to estimate trade flows in facilitation services in the EU and with the rest of the world.

The calculation of VAT revenue was mainly based on a simulation model of the VAT liability of the platform operator and providers. The model used is composed of a set of single equations calibrated and adapted to the tax base in each Member State and sector. As

³⁸ The imputation covered mostly small- and mid-size operators using the algorithms described in more detail in Annex B.

³⁹ This is due to the margin of error around individual figures because of sector-specific assumptions for imputations.

⁴⁰ Such a measure of weighed consumer interest in platform's services was constructed for each portal and each Member States with over 50 thousand values obtained for the EU27 and the UK. In rather rare cases of missing traffic data, the value of revenue and related employment was fully assigned to the Member States where the companies' headquarters were located

⁴¹ See: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210629-2>

⁴² See: <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-2nd-global-alternative-finance-market-benchmarking-report/>

⁴³ Due to the limitations of the approach, the value of the ecosystem was not calculated for the Advertising sector. For this specific sector, there was no evidence on the value of goods and services purchased with the use of platform's facilitation.

discussed in more detail in Annex C, it aligns tax rules (the effective rate and place of supply) and respective components of the tax base (i.e. output and cross-border trade).

To summarise, the methodology for estimating all indicators was decomposed into separate steps presented in a chronological order (Table 4). The method of completing each of the sub-tasks is also presented in more detail in Annex B that discusses details of the estimation algorithm, the assumptions made and the accuracy of the results obtained.

Table 4. Steps for estimating the scale of the platform economy

Step	Objective	Main sources of information
1	Compilation of the extended list of companies from <i>Crunchbase</i> and <i>DnB</i> databases	<i>Crunchbase</i> and <i>DnB</i> databases
2	Segmentation of companies using industry tags, key words, revenue range and region of headquarters and assigning priorities to segments	Own assumptions
3	Manual verification of companies in segments with high priority	Company description, tags and website, desk research, questionnaires
4	Double checking of database completeness against independent sources	<i>Google</i> , <i>DnB</i> , market reports, news articles, questionnaires
5	Estimation of revenue by platform	<i>DnB</i> , <i>Google</i> , own calculation, questionnaires
6	Estimation of employment by platform	<i>DnB</i> , <i>Google</i> , own calculation, questionnaires
7	Assigning revenue and employment to EU market and specific Member States	<i>SEMRush</i> , <i>Eurostat</i> , <i>Cambridge Center for Alternative Finance</i> , <i>Google</i> , questionnaires
8	Extension of results to platform ecosystem	<i>Eurostat</i> , <i>Google</i> , questionnaires
9	Estimation of user base by platform	<i>SEMRush</i> , <i>Google</i> , questionnaires
10	Calculation of VAT revenue	Questionnaires, fiscal data
11	Cross-checking against other available measurements	Questionnaires, national accounts, other secondary sources

Source. Author's own elaboration.

3.3. Structure of the platform economy

To understand the internal differentiation of the platform economy and variation of its business models, this section scrutinises the distribution of revenue by platform size and country coverage of their operation. The initial set included in the underlying analysis consisted of 1,589, out of 1,831 platform operators, for which both the information on web traffic and revenue was available.⁴⁴ Out of the seminal database, 104 platforms were excluded due to the prevalent share of their operations in the United Kingdom. The final universe of platforms analysed consisted of 1,485 instances. These are analysed over two criteria: size (i.e. revenue) and cross-border dimension (i.e. Member States of operations).

The revenue structure

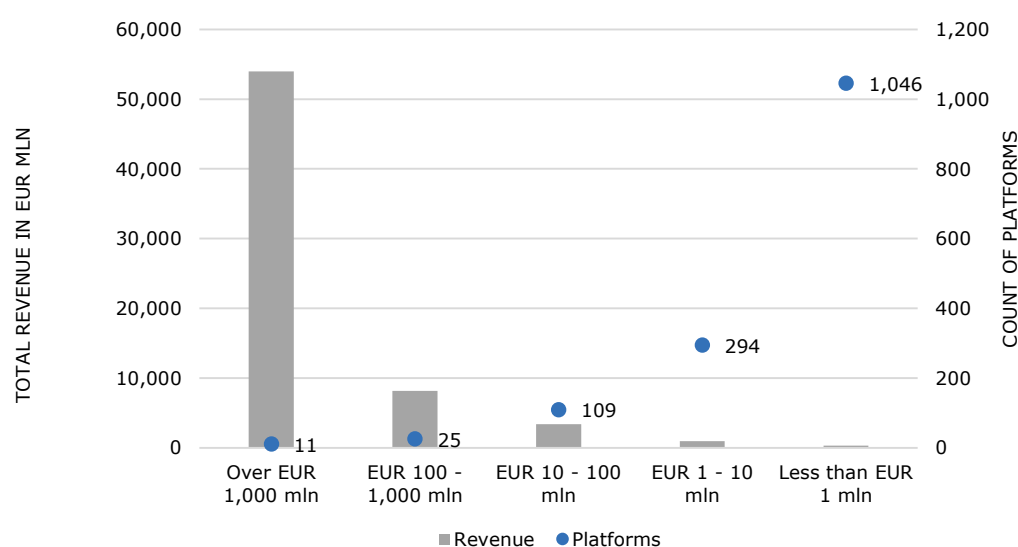
The cluster of digital platforms that stands out from the rest is a small group of platforms with substantial operations in all or nearly all Member States and the annual revenue significantly above the average (referred to as Cluster #1). **The group of digital platforms with the EU27-attributed turnover of above EUR 1 billion consisted of 11 operators. These platforms accounted for ca. 81 percent of the total revenue**

⁴⁴ See more discussion on the number of platforms in the database in Section 3.5.

generated by digital platforms in the EU27 in 2019. In the accommodation sector, turnover of large platform operators exceeded 83 percent of the total turnover of all platforms in the sector. The average annual revenue of very large platforms was ca. EUR 4.9 billion and the average number of Member States with a significant share of operation was 14.⁴⁵

The remaining share in total platforms' revenue in the EU27 was generated mostly by platforms with the EU27 revenue ranging from EUR 100 million to EUR 1 billion. **The most numerous group - ca. 70 percent of platforms with annual revenue less than EUR 1 million - accounted only for ca. 0.5 percent of total revenue of the platform economy** (see Figure 3 and Table 5).

Figure 3. Landscape of digital platforms in terms of their count and revenue



Source. Author's own elaboration.

Table 5. Landscape of digital platforms in terms of their count, revenue and Member States of operation

Annual revenue in the EU	Share (count)	Share in total revenue of all digital platforms in the EU	Average revenue	Average number of Member States of operation
Over EUR 1 billion	1%	80.9%	EUR 4,905 million	14
EUR 100 – 1,000 million	2%	12.2%	EUR 325 million	9
EUR 10 – 100 million	7%	5.0%	EUR 30 million	6
EUR 1 – 10 million	21%	1.4%	EUR 3.3 million	7
Less than EUR 1 million	69%	0.5%	EUR 0.3 million	6

Source. Author's own elaboration.

⁴⁵ A platform is considered to operate in 12 Member States if, according to own revenue estimates, in each of those markets at least 1 percent of platform revenue is generated.

The clusters of platforms

The population of digital platforms with a significant presence in the EU has been divided into four clusters. Cluster #1 – Very large platforms, has already been introduced above, and includes all platforms with a revenue higher than EUR 1 billion; they are, on average, active in most of the EU27 Member States. Below this revenue threshold, three relatively distinct groups of digital platforms can be identified:

1. Platforms operating in a large group of Member States – 195 platforms (Cluster #2);
2. Platforms operating in a small sub-group of Member States (3 to 12 Members States) – 749 platforms (Cluster #3); and
3. Platforms operating in a single state or two countries – 530 platforms (Cluster #4).

These three groups stand for 6.3 percent, 8.5 percent and 4.4 percent of revenue, respectively. Table 6. Summary statistics for clusters below provides the summary statistics for the four clusters.

Table 6. Summary statistics for clusters

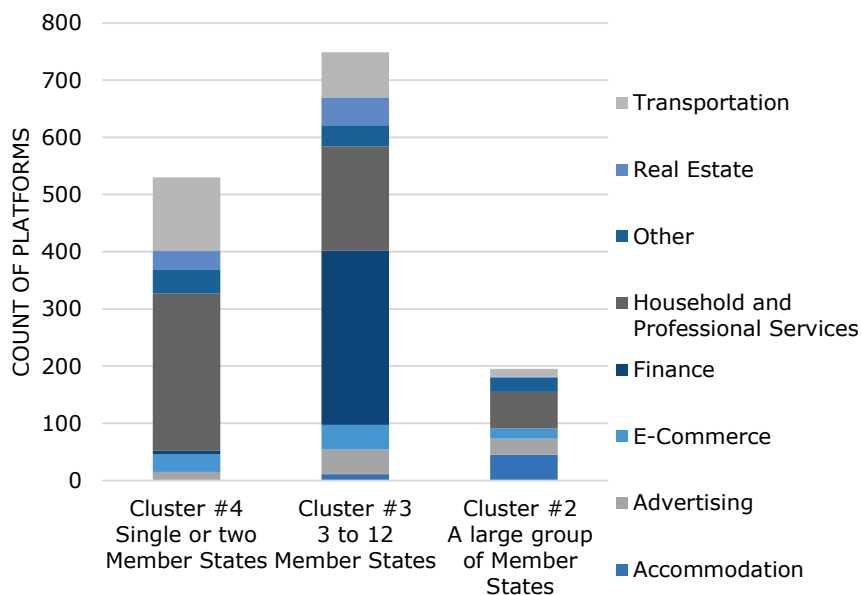
Cluster	Description of cluster	Count of platforms	Share (count)	Average value of revenue	Share in total revenue of all digital platforms in the EU
Cluster #1	Platforms with substantial operation in all or nearly all Member States and the annual revenue significantly above the average. The EU27-attributed turnover of platform above EUR 1 billion	11	0.7%	EUR 4,905 million	80.9%
Cluster #2	Platforms operating in a large group of Member States, turnover below EUR 1 billion	195	13.1%	EUR 21.5 million	6.3%
Cluster #3	Platforms operating in a small sub-group of Member States (3 to 12 Members States), turnover below EUR 1 billion	749	50.5%	EUR 7.5 million	8.5%
Cluster #4	Platforms operating in a single state or two countries, turnover below EUR 1 billion	530	35.7%	EUR 5.5 million	4.4%

Source. Author's own elaboration.

The groups are not homogenous in terms of their revenue range in the EU; however some sectoral patterns could be observed. Approximately 80 percent of small and medium-size platforms in the accommodation sector belongs to Cluster #2, which means that, within this sector, platforms have a high cross-border nature. No platforms in the accommodation sector operate in less than three Member States. In the finance sector, 98 percent of platforms belong to Cluster #3 (operating in three to 12 Member States), similarly to the real estate sector, where ca. 59 percent of platforms operate in 3 to 12 Member States. Differently, over 50 percent of platforms from the transportation, household and

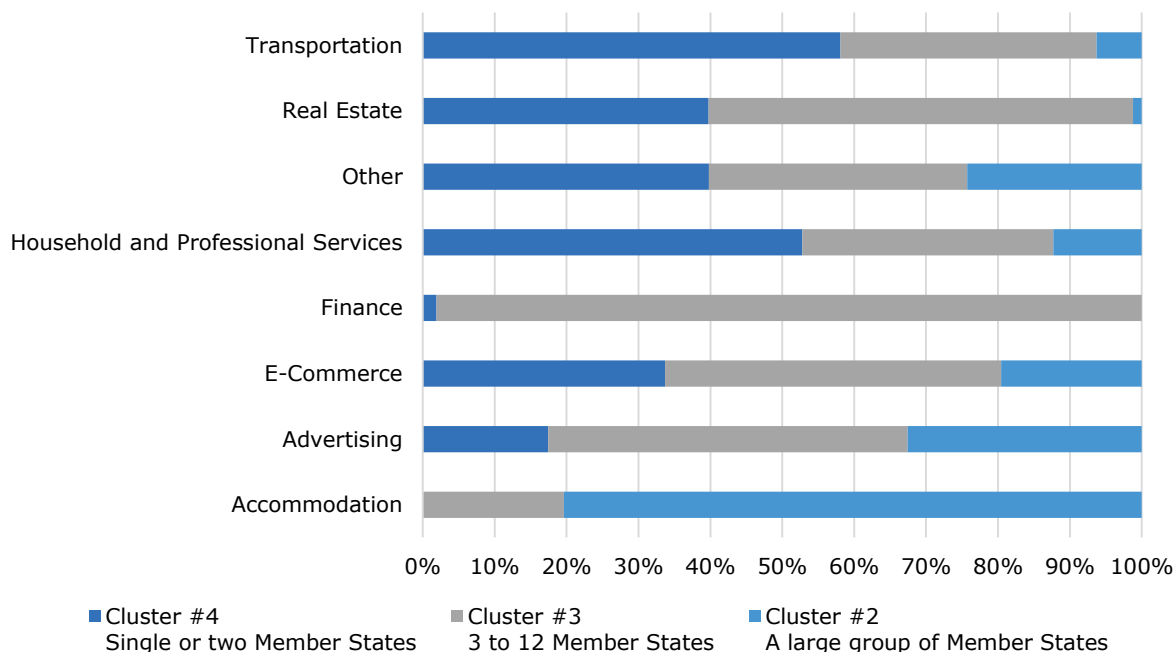
professional services sectors belongs to Cluster #4 (operation in one or two Member States). The platforms from the advertising and e-commerce sectors are almost equally distributed among Cluster #2 and Cluster #4 (see Figure 4 and Figure 5).

Figure 4. Platforms in clusters #2, #3 and #4, frequency (2019)



Source. Author's own elaboration

Figure 5. Sectoral shares of cluster #2, #3, #4, frequency (2019)



Source. Author's own elaboration.

3.4. Business models

In this section we consider five important aspects related to the platform business models, which are:

1. the location and organisation,
2. the provision of multiple services,
3. the roles and responsibilities of platforms and providers,
4. the nature of platforms' facilitation, and
5. the underlying supplies.

As described in Section 3.3, digital platforms could be clustered into four groups using total revenue and number of Member States of operation as the clustering criteria. The main group in terms of the market share, Cluster #1, consists of very large digital platforms with substantial operation in all or nearly all Member States accounting for ca. 81 percent of the revenue generated by the digital platforms in the EU27.

1. Location and group organisations

Very large platform operators stand out from medium and small-size in terms of organizational and business model variation. Smaller platforms (Cluster #2, #3 and #4) could be characterized by having one headquarters, which in most of the cases is in the country of origin of the platform. Overall, **for about 73 percent of all platforms included in the analysis, this establishment was located in the EU**, whereas in case of ca. 27 percent, it was located outside the EU. **For the largest platforms (Cluster #1), in 6 out of 11 cases the global headquarters were located in the EU**. For the remaining largest platforms, there often was a branch or subsidiary overseeing EU operations.

The geographical distribution of the headquarters of large players has some sectoral patterns. The advertising sector is the only one in which the majority (ca. 63 percent) of platforms' headquarters are located outside the EU. In the transportation and real estate sectors over 90 percent of platforms have their headquarters located in the EU. In all the analysed sectors, the spectral distribution of revenue hinges most commonly on the main entity responsible for service delivery and strategic functions

As for the distribution of branches and subsidiaries, large platforms other than in the e-commerce sector typically have branches and subsidiaries in a few Member States (mainly in the largest EU markets). These branches and subsidiaries provide marketing services for the local customers and other supporting functions. In the case of e-commerce, branches and subsidiaries are often present in all or nearly all Member States to facilitate the distribution of goods.

2. Provision of multiple services

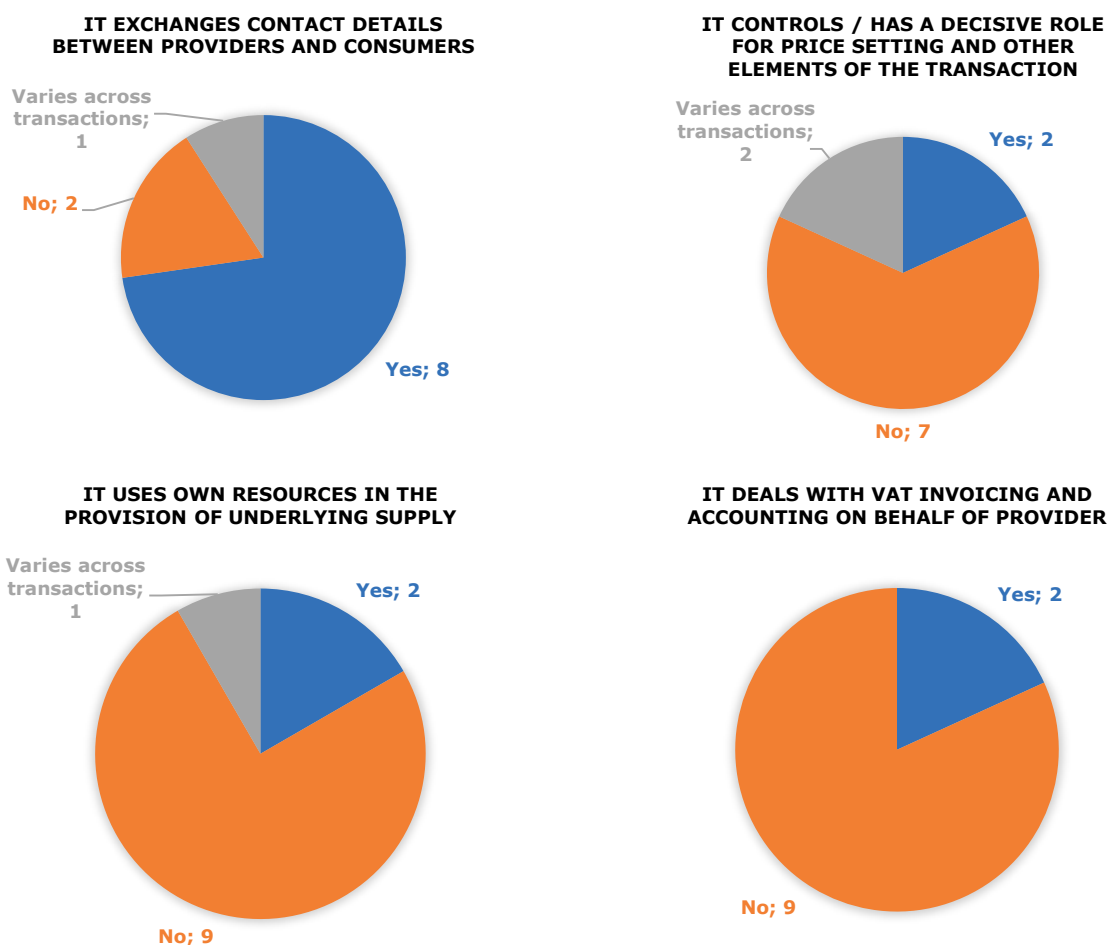
The services of the largest platform operators often span across more than one subsector of economic activity. Providing different services is typical for accommodation and transport platforms. This could take the form of, for instance, offering facilitation for both ride on demand and ridesharing services. Prevalent were also interlinkages between transport and accommodation services, related to a broader 'trip booking business model'. The trip booking platforms not only link various core and supporting services but could also facilitate access to other intermediaries or smaller platforms, with the consumers exploiting the economies of scale.

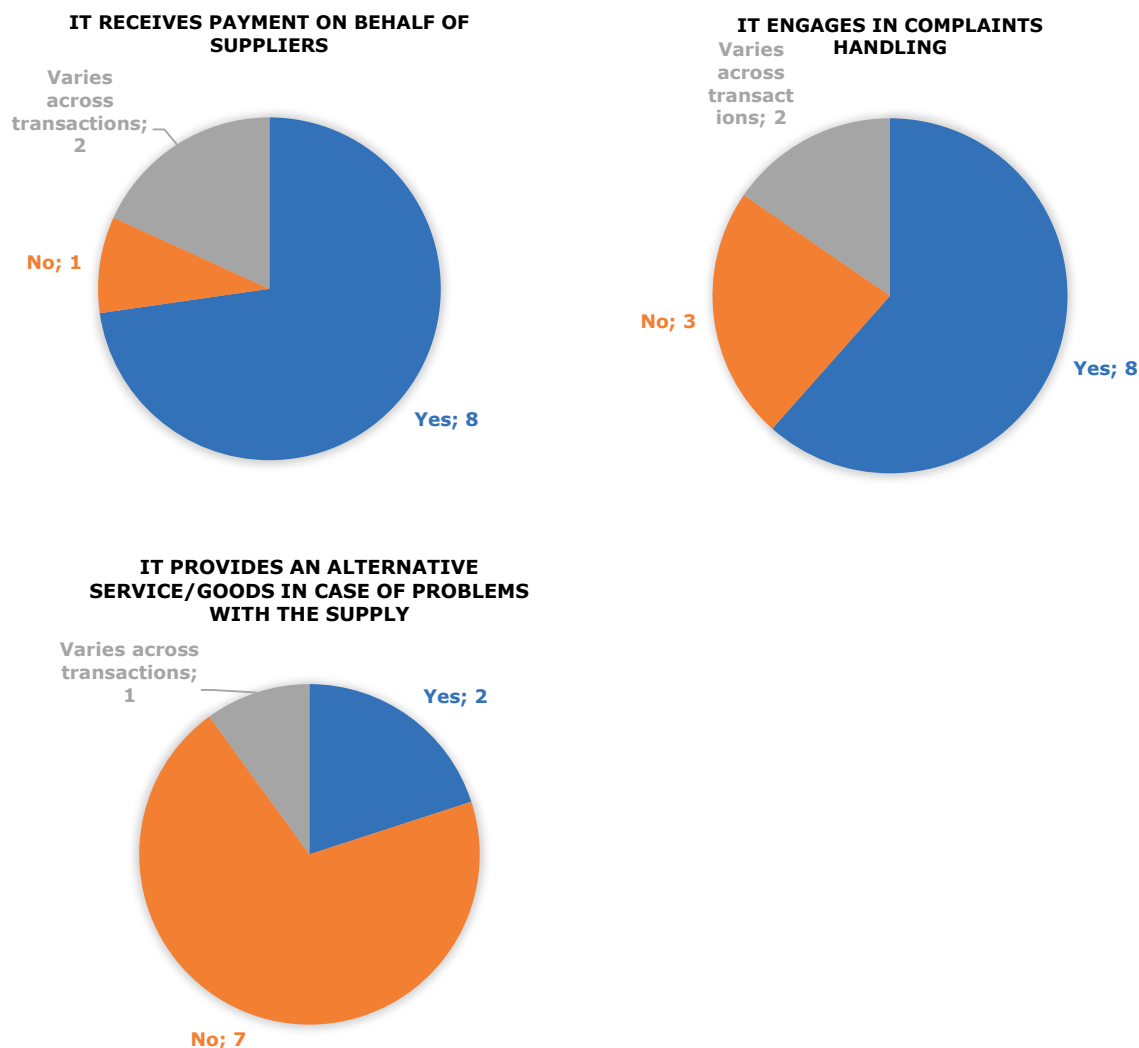
3. The roles and responsibilities of platforms and providers

The analysis of roles taken by the interviewed platform operators has shown that they vary substantially in terms of their duties, contractual responsibilities and risk-bearing. As depicted by Figure 6, in the sample, **the most common digital platforms role was to match users, exchange contact details of users, handle payments, and, to some extent, handle complaints.**

To the contrary, only a fraction of the respondents claimed to: have a price setting role, use own resources in the provision of supply of the underlying services, handle invoicing and accounting on behalf of providers, or provide alternative services or goods in case of problems. However, it is important to note that the few platforms that claimed to have a price setting role, handle invoicing and provide alternative services in case of problems with the supply, had relatively large market shares.

Figure 6. Platforms' roles





Source. Author's own elaboration, based on responses to questionnaire for platform operators.

4. Nature of platforms' facilitation services

According to the responses to questionnaires and the information published by platform operators, **in the vast majority of cases, facilitation fees are paid only by the provider**. Other operators charge facilitation fees to consumers or have a mixed payment model, involving fees or commissions paid by both consumers and providers. In the analysed sample covering over 90 percent of the market in the EU, **ca. 95 percent of revenue was collected by charging providers and ca. 5 percent by charging consumers. All platforms charging fees to consumers also charged to providers** (i.e. no platforms charged only consumers).

Still, there are significant differences across sectors. In the transportation sector, the share of revenue from fees charged to consumers was relatively low (ca. 1.3 percent), whereas in the accommodation sector, it was relatively high (ca. 18.8 percent). In the case of an accommodation sub-industry – residence renting – most of the fees come from the consumers. Respondents expect the collection of facilitation fees from consumers in the accommodation sector is to follow a downward trend, due to problems related to the double taxation in cross-border transactions.

All platforms covered by the analysis were above the VAT registration threshold and the VAT was always charged on their supplies of facilitation services. As for the nature of these supplies, **approximately, 80 percent of the platforms' services were considered as**

Electronically-Supplied Services (ESS), and in 20 percent of transactions as intermediation services. Such a split of services results from both different actual nature of services provided by various platform and varying treatment of platforms' services at national level.

5. Underlying supplies

The following analysis considers platforms active in the services sectors, i.e. excluding e-commerce. In the services sectors, **about 28 percent of transactions between suppliers and consumers were not subject to VAT**, either because the provider was covered by the VAT SME scheme (21 percent of transactions) or were non-taxable persons providing services on occasional basis (7 percent of transactions).⁴⁶ The share of exempt transactions provided by operators covered by the VAT SME scheme was relatively higher in the transportation (ca. 30 percent) and accommodation sectors (ca. 25 percent), due to a relatively larger share of small businesses.

In the vast majority of transactions, consumers of underlying services were non-taxable persons (ca. 75 percent of all transactions). As a result, the most prevalent model identified was B2B2C (about 70 percent, see Table 7). Transactions via the B2B2* models are subject to VAT, if the provider is a taxable person not covered by the VAT SME scheme or otherwise exempt; C2B2* transactions are typically out of the scope of VAT.

Table 7. Estimated prevalence of the status of providers and consumers – trade in services

Provider/Platform/Consumer	Frequency	VAT treatment
B2B2C	69.5%	Either taxed (ca. 77% of the group) or exempt (ca. 23% of the group)
B2B2B	23.2%	
C2B2C	5.5%	Out-of-scope
C2B2B	1.8%	

Source. Author's own estimates. Notes. "C" stands for non-taxable person and "B" stands for taxable persons. The analysis does not include the e-commerce sector.

In the case of trade in goods (e-commerce), the responses to the questionnaire did not allow to estimate accurately the share of various business models. However, it is worth noting that all respondents representing marketplaces indicated that the prevalent model is the B2B2C.

3.5. Scale of the platform economy

3.5.1. Number of platforms

The analysis of firm-level databases, based on subsequent filtering steps to exclude companies using primarily other business models, led to the identification of **1,831 digital platforms**⁴⁷ with a non-minor market presence⁴⁸ in the EU27 or the UK, regardless of

⁴⁶ These estimates exclude the e-commerce and advertising sectors.

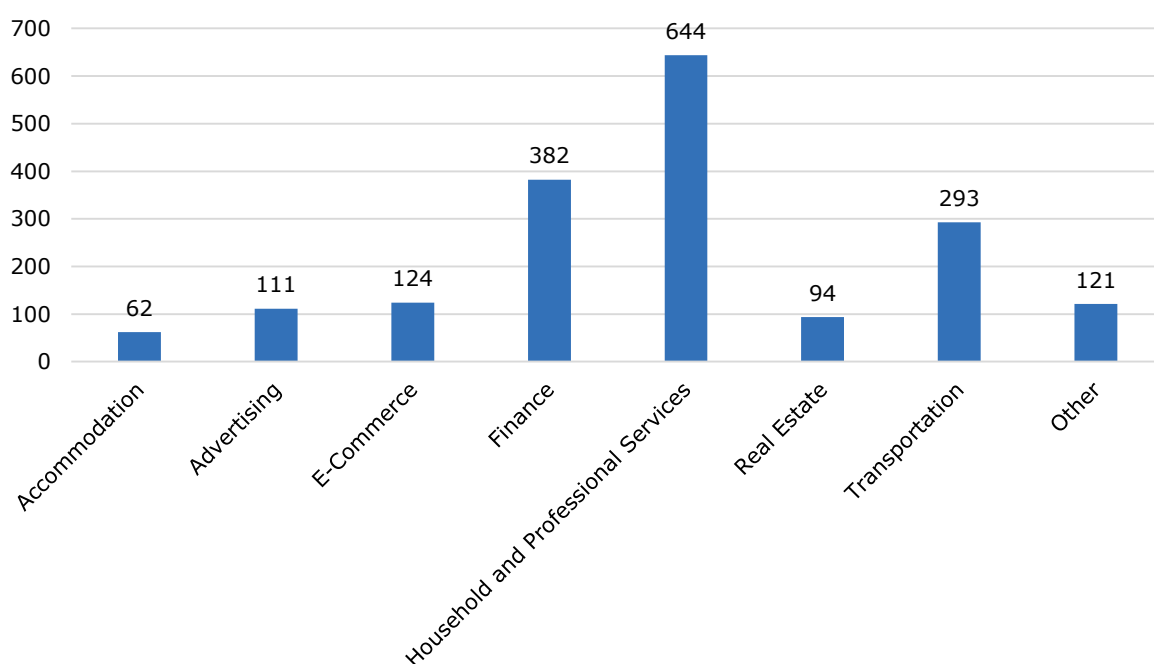
⁴⁷ The initial number of companies as a candidate of being a digital platform was 23,341, as discussed in Annex B. The filtering reduced this number to 1,831. We treat platform operators that span across more than one sub-sector of economic activity as one platform. For example, *Uber* operates two separate platforms that provide ride-on-demand and delivery (*Uber Eats*) services. Since both services are classified in the transportation sector, we count *Uber* as one platform in the analysis. Despite using multiple sources of information, the list of analysed companies likely excludes some small, start-ups, for which little or no information was available. The completeness of the database might also vary across countries of platforms' operations.

⁴⁸ During the first stages of company database compilation some companies with scarce information on their business model and relatively low revenue were dropped due to large workload necessary to manually verify whether they fit platform model definition.

where they have their headquarter.⁴⁹ Importantly, the platforms identified represent the bulk of the markets concerned.⁵⁰

As depicted by Figure 7, **the greatest number of platforms operate in the household and professional services sector whereas the smallest number was identified in the accommodation sector.** These numbers could be an indicator for different market structures in different sectors, but may also result from more limited information available on small platforms in specific sectors. Importantly, as described in Section 3.3, the accommodation sector is highly concentrated and dominated by very few large players. On the contrary, the household and professional services sector consists of more numerous small and mid-size platforms. The platforms spanning across sectors were allocated to the sectors in which the majority of their revenue was generated.

Figure 7. Number of platforms identified, by sector (2019)



Source. Authors' own elaboration.

3.5.2. Revenue of platforms and their ecosystem

Overall, in **2019 the revenue of the digital platforms in the EU27 market reached EUR 66.9 billion.** The revenue of their providers (exclusive the facilitation fees and excluding the advertising sector) is estimated at about three times the platform revenue, at **EUR 191.1 billion.**⁵¹ The sum of both platforms' and providers' revenue, that is the EU27 ecosystem value, reached **EUR 258 billion** (see

⁴⁹ E.g. the popular US food delivery platform *DoorDash* was dropped because it does not operate in any EU Member State.

⁵⁰ Therefore, the margin of error around the estimated total turnover values as presented in the rest of the section is low. In other words, the possible non-inclusion of very small operators has a marginal impact on the accuracy of the aggregate results presented in this chapter.

⁵¹ The estimate excludes the value of transactions facilitated by platforms in the advertising sector since the value of goods and services facilitated by digital platforms in this sector cannot be accurately measured.

Table 8). In addition, the estimates point to EUR 19.1 billion of revenue and EUR 89.1 billion of ecosystem value in the UK market.

The estimated revenue of the platform ecosystem was broken by sectors of economic activity based on the methodology discussed in Section 3.2 and Annex B. The value of goods and services was derived by using scaling factors estimated using the average fees in each sector. The value of fees was obtained through the financial statements, publicly available information reported by large platforms and industry reports.⁵² **The ratio of the revenue of digital platforms to the ecosystem value ranged from 15 to 20 percent** for most of the sectors with the exception of finance, where the average commissions were below 10 percent.⁵³

Table 8. Scale of platform economy operation, by sectors (EU27, EUR billion, 2019)

Sector	Revenue of digital platforms (EU27)	Revenue of platforms' providers exclusive the facilitation fee (EU27) ⁵⁴	Ecosystem value (EU27)
Accommodation	6.3	36.9	43.2
Advertising*	32.8	n.a.	32.8
E-Commerce	16.6	93.8	110.4
Finance	0.6	6.7	7.3
Household and Professional Services	1.4	7.1	8.5
Real Estate	0.7	3.8	4.5
Transportation	7.2	31.0	38.2
Other	1.3	11.8	13.1
TOTAL	66.9	191.1	258.0

Source. Authors' own elaboration, * revenue of digital platforms only. The numbers may not add up due to rounding.

For the accommodation and transportation industries, the estimated revenue of the platform ecosystem by sectors of economic activity was further broken by subsectors based on the main business segment of the platforms.

- **The bulk of the revenue in the EU27 concerning accommodation sector was generated in the B&B and hotel accommodation (EUR 4.7 billion) subsector** (see the third column of Table 9). The sum of residence renting, home sharing, and home swapping revenue (EUR 1.6 billion) makes almost one-quarter of the total accommodation sector.
- In the transportation sector, **three subsectors – ride-on-demand, ride sharing, and car sharing – generate total revenue of EUR 4.7 billion in the EU27, i.e. 65 percent of the platforms' revenue in this sector.** The delivery subsector generated revenue exceeding EUR 2 billion.

⁵² The detailed explanations of deriving the average market margins for each sector are given in the Annex B. In the case of the Advertising sector, this step could not be completed as there is no information available on transactions that were concluded thanks to platforms' advertising services.

⁵³ Similar approach for obtaining estimates for size of platform ecosystems from financial data on individual companies was employed in recent DG EMPL study, see: European Commission (2020), *Digital labour platforms in the EU, Mapping and business models*, Final Report.

⁵⁴ Value of transaction underlying platforms' facilitation service.

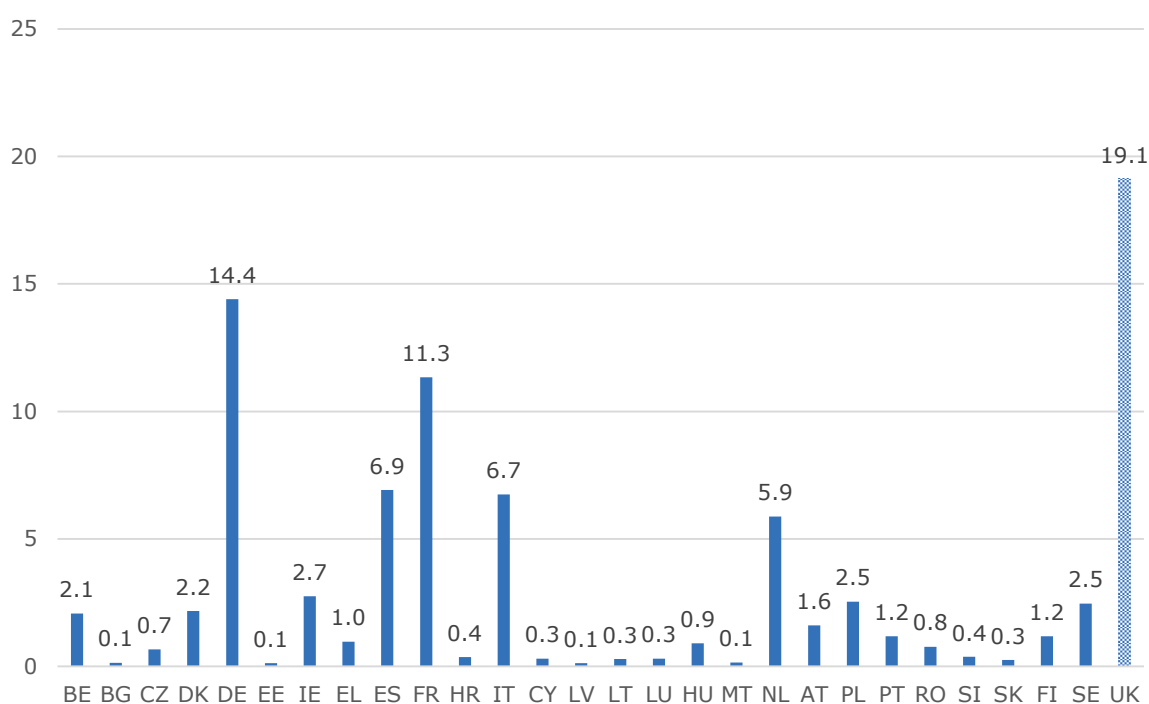
Table 9. Scale of platform economy operation, by subsectors (EUR billion, 2019)

Sector	Subsector ⁵⁵	Revenue of digital platforms (EU27)	Ecosystem value (EU27)
Accommodation	B&B and hotel accommodation	4.7	32.5
	Residence renting	1.6	10.7
	Home sharing		
	Home swapping		
Transportation	Ride on demand	4.7	24.8
	Ridesharing		
	Car sharing	2.1	11.0
	Delivery services	0.4	2.4
	Trip booking and other		

Source. Authors' own elaboration..

Out of the 28 countries analysed, **the largest platform revenue was observed in the UK (EUR 19.1 billion), Germany (EUR 14.4 billion), France (EUR 11.3 billion), Spain (EUR 6.9 billion), and Italy (EUR 6.7 billion)** (see Figure 8). In per capita terms, the mean platform revenue in the EU27 was EUR 150 per inhabitant. **The largest yearly platform revenue per capita was estimated for Ireland (EUR 560)** followed by Luxembourg (EUR 499) and Denmark (EUR 344) and the smallest for Bulgaria (EUR 20), Romania (EUR 40), and Slovakia (EUR 46).⁵⁶

Figure 8. Platform revenues in the EU27 by Member States and the UK (EUR billion, 2019)



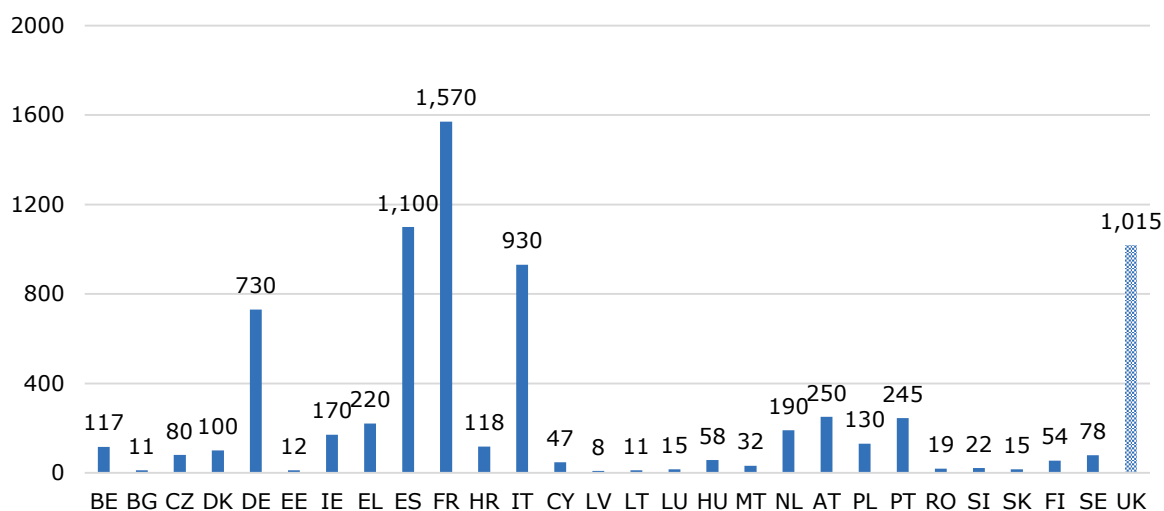
Source. Author's own elaboration.

⁵⁵ The revenues and the ecosystem value of the residence renting, home sharing, and home swapping are summed up and presented as total of these subsectors in Table 8. The same procedure also applies for the ride on demand, ride sharing, and car sharing.

⁵⁶ The mean platform revenue per capita was EUR 168 for the EU27 and the UK.

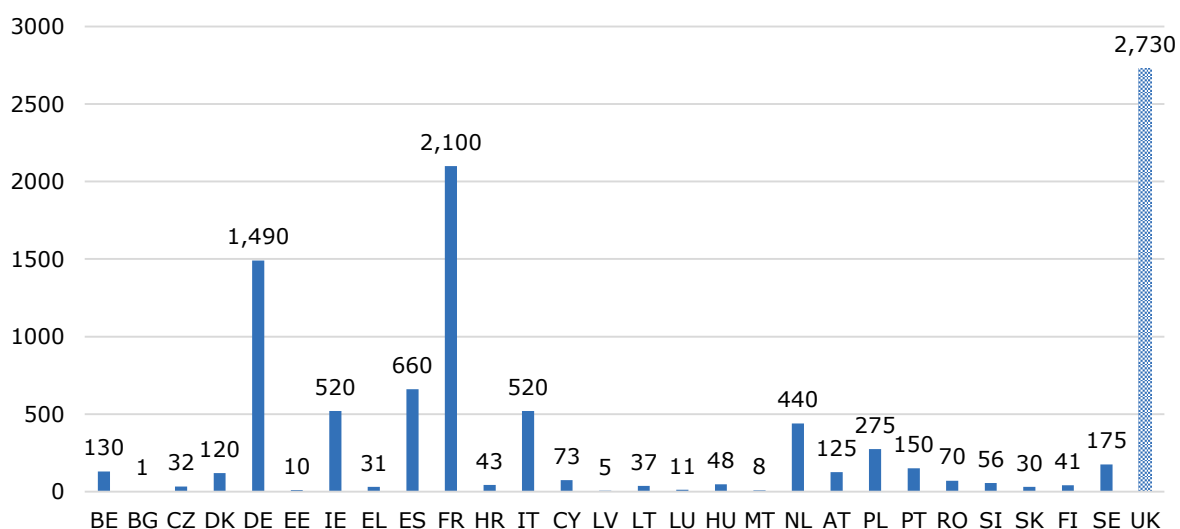
The revenue of platforms in the accommodation sector was the greatest in large Member States and popular destinations for foreign tourists, as in France (EUR 1.6 billion), Spain (EUR 1.1 billion), and Italy (EUR 0.9 billion) (see Figure 9).⁵⁷ In the transportation sector, the largest revenue of platform operators was estimated for the UK (EUR 2.7 billion); France (EUR 2.1 billion) and Germany (EUR 1.5 billion) saw the largest absolute revenue of platforms in the transportation sector in the EU27 (see Figure 10). The ride on demand and delivery services had a prevalent contribution to the revenue in both France and Germany.

Figure 9. Platform revenue by country in accommodation sector (EUR million, 2019)



Source. Author's own elaboration.

Figure 10. Platform revenue by country in transportation sector (EUR million, 2019)



Source. Author's own elaboration.

⁵⁷ These were the most popular destinations in 2019 according to the 'Short-stay accommodation booked via collaborative economy platforms' database published by Eurostat. The information on guest-nights paired with GDP per capita allowed to create a set of country weights which were later used to split individual platforms' revenue figures by Member States. In this case, the data on online traffic was used only to judge whether a specific platform operated in a Member State in question. If not, the weight was set to 0 percent.

In relation to the overall economic activity in the industries concerned, the platform ecosystem played the most substantial role in the accommodation sector (18.8 percent of total output, see Table 10). The second largest share of the platform economy was recorded in retail trade (e-commerce) with 12.7 percent. In other sectors, as defined by NACE, the share of platform economy was smaller.⁵⁸

Table 10. Share of platform economy in output, by sectors (EUR billion, 2019)⁵⁹

Sector	Total output	Platform ecosystem value	Share of platform economy
Accommodation ⁶⁰	230.1	43.2	18.8%
Retail trade ^{61*}	867.4	110.4	12.7%
Transportation ⁶²	2,231.6	38.2	1.7%
Finance	1,226.7	7.3	0.6%
Household and professional services	3,042.4	8.5	0.3%
Real estate	1,742.1	4.5	0.3%

Source. Authors' own elaboration, * recorded as a margin.

The estimated trends point to the fast growth rates of the platform economy in all sectors analysed. **Between 2015 and 2019, the revenue more than doubled in all the analysed sectors except for the accommodation and real estate sectors. In the transportation sector, where the growth was the fastest, the revenue increased over seven times in the four year period before the COVID-19 pandemic** (see Figure 11). The average growth per year during this time ranged from 17 (real estate services) to 67 percent (transportation services).⁶³ In all the sectors, the growth rates were above 10 percent year-to-year but followed a downward trend since 2017. In 2020, the growth of the platform economy was sustained in all sectors with the exception of accommodation and transport services, i.e. the sectors that were heavily affected by the pandemic and restriction measures introduced.

⁵⁸ This is also due to the fact that sectoral output includes a wider range of types of economic activities than intermediated by platforms. As an example, the transportation sector covers public transport services, rail transport and freight, which are rarely facilitated by digital platforms.

⁵⁹ The share of the platform economy in the total economy of the sector was measured by dividing the ecosystem value, the value of underlying goods and services, generated by the platforms to the total output, total value of newly produced goods and provided services, of the corresponding sector. The output of each sector is collected through 'The national accounts aggregates by industry up to 64 NACE sectors' database of Eurostat under the code 'nama_10_a64'.

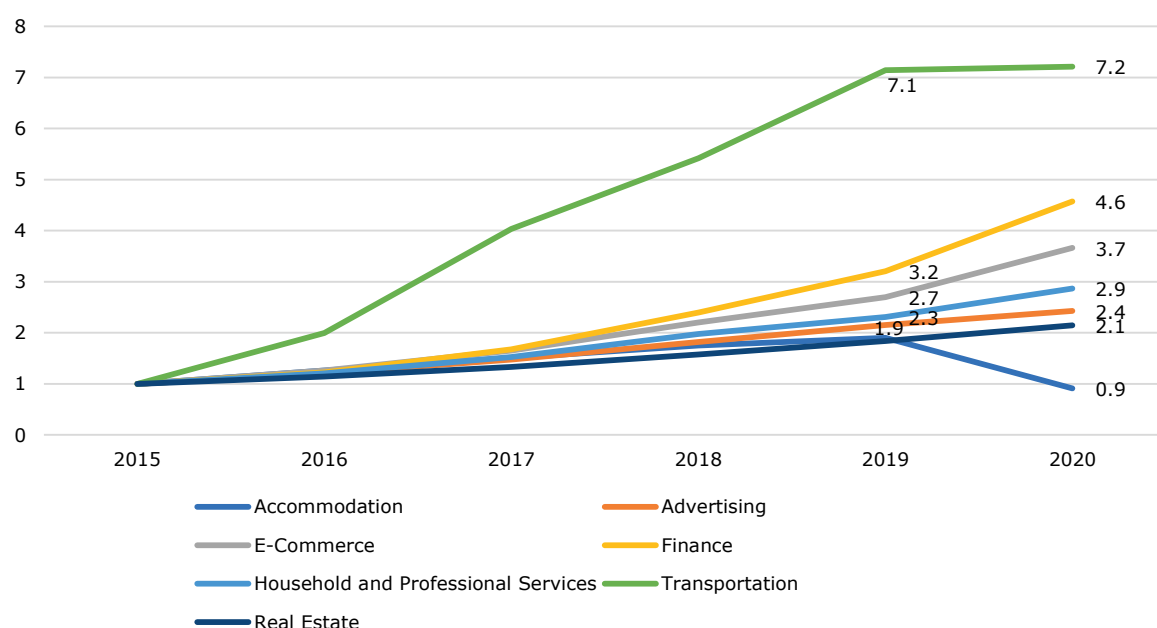
⁶⁰ The Accommodation sector presented in Table 9 excludes food service activities. The national accounts aggregates by industry up to 64 NACE sectors contain 'Accommodation and food service activities' as one sector with sector code I. Eurostat's structural business statistics (SBS) show the turnover of accommodation and deliver services separately. The output of accommodation sector is isolated by deriving the share of accommodation in 'Accommodation and food service activities' sector using SBS and multiplying this share with total output of 'Accommodation and food service activities' from national accounts.

⁶¹ The Retail trade refers to the 'Retail trade, except of motor vehicles and motorcycles' sector in National Accounts tables.

⁶² The transportation sector covers only 'Land transport and transport via pipelines'.

⁶³ The trends for the EU were estimated on the basis of large platforms' global revenue. Large market share of the major platforms which make these platforms a natural candidate for becoming a proxy to the overall platform economy and the availability of the financial data are the two rationales of using the financials of major platforms to estimate the trends in the platform economy. The financial data was generally not available for the small-to-medium size platforms over the years whereas the same data can be extracted for the major platforms through their financial statements.

Figure 11. Growth trends of the platform economy (2015-2020)



Note. The revenues in each sector are normalized by dividing to the 2015 revenue of the corresponding sector.
Source. Author's own elaboration.

3.5.3. Employment

The employment in the platform economy includes both 'direct' and 'indirect employment'. Direct employment relates to the workforce of digital platforms involved in securing the facilitation infrastructure that it is not involved in the provision of the underlying goods and services. Indirect employment⁶⁴ refers to the number of individuals engaged in providing goods or services facilitated by platforms. The estimates of direct employment are based on the information provided by mostly large platforms, whereas the estimates of indirect employment are based on sectoral employment data. In other words, the assumption was made that the provider in the platform economy generates the same output as a worker in the corresponding sector in the traditional channel.⁶⁵ Although there is likely a margin of error resulting from the assumptions taken, more precise information was not available. Importantly, employment is measured in Full-Time Equivalent (FTE), i.e. the typical amount of time spent on the job by one worker. Considering that many providers operate on an occasional basis, i.e. (way) less than full-time, the amount of workers involved in the platform economy is higher than the estimated FTEs.

The number of direct employees of the platform operators in the EU27 was estimated at ca. 152 thousand FTEs, see Table 11). Including the UK, total employment in the platform economy in the EU in 2019 was ca. 200 thousand. The largest number of jobs was estimated for digital platforms in the e-commerce, transportation, and advertising sectors. **The estimated FTEs of indirect employment in the platform ecosystem was additional ca. 3.6 million in the EU27 Member States.**⁶⁶ The indirect employment of platforms in the UK was ca. 1 million FTE.

⁶⁴ The term 'employment' is used in its economic meaning, i.e. without discussing or judging the independent vs. employed status of the providers of services facilitated by certain platforms.

⁶⁵ Source: SBS, Eurostat, <https://ec.europa.eu/eurostat/web/structural-business-statistics>

⁶⁶ The estimates were derived by multiplying the share of platform economy in each sector (see Table 9) by total employment in the corresponding sectors. The total employment refers to the total employment domestic concept, the sum of domestic employees and self-employed, in the national accounts employment data by industry (up to NACE A*64) published by Eurostat under the code 'nama_10_a64_e'.

Table 11. Direct and indirect workforce in the platform economy, by sector of economic activity (2019)

Sector	Digital platform direct employment (thousand FTE)	Digital platform indirect employment (thousand FTE)
Accommodation	12	458
Advertising	36	624
E-Commerce	51	2,057
Finance	2	18
Household and Professional Services	7	57
Real Estate	3	6
Transportation	37	410
Other	3	*
TOTAL	152	3,630

Source. Author's own elaboration.

Note. Figures may not sum up to totals due to rounding.

The estimates derived using bottom-up estimates of the scale of the platform economy and average turnover-to-employment ratios for subsectors with large prevalence of the platforms economy point to a somewhat smaller scale of the employment than the recently published impact assessment accompanying the Proposal for a Directive of the European Parliament and of the Council to improve the working conditions in platform work in the European Union.⁶⁷ According to the estimates presented therein using primarily survey results, in 2021 there were ca. 28.3 million people working through digital platforms in the EU spending on average 12.6 hours per week on paid and 8.9 hours on unpaid tasks. Yet, the difference in the estimates results to large extent from a different unit of measurement (FTE against number of people involved) and the growth of platform economy between 2019 and 2021. As pointed in the analysis of impacts, only one-fourth of people working through platforms (ca. 7 million) treats it as a main employment.⁶⁸

3.5.4. Number of users

The assessment of the total number of users, including both 'providers' and 'consumers', in the platform economy with a bottom-up approach is prone to a number of difficulties. First of all, customers can, and often are, using different platforms in parallel, which means that there is an overlap between platforms' user bases that is very hard to be accounted for. Secondly, the numbers of users reported by different platforms are often incomparable. Some of them refer to the total number of registered users, some report users with some activity observed in a defined period of time, others report the number of consumers that carried out at least one transaction. Due to these difficulties, this section focuses on interpreting secondary information from various sources.

According to 2018 Flash Eurobarometer⁶⁹ which focused on the 'use of collaborative economy', **about 23 percent of respondents in the EU27 used services provided by online platforms at least once in their life. Frequent users accounted for only 4**

⁶⁷ See: European Commission (2021), *Commission Staff working document impact assessment report accompanying the document Proposal for a Directive of the European Parliament and of the Council to improve the working conditions in platform work in the European Union*, SWD(2021) 396 final/2, <https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10120>.

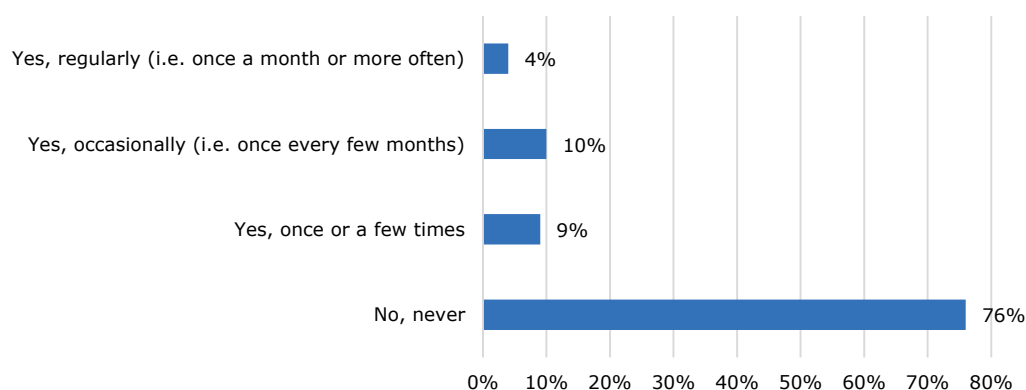
⁶⁸ Main source is understood as over 50 percent share of person's income.

⁶⁹ Flash Eurobarometer 467: The use of the collaborative economy, Directorate-General for Communication, 2018.

percent of the population as shown in Figure 12.⁷⁰ In absolute terms, more than 87 million people used some online platform at least once, while about 15 million were their frequent users.⁷¹ The share of respondents who used platforms at least once varied substantially across Member States ranging from 17 percent in Portugal and Bulgaria to 40 percent in Latvia. Variation in frequencies across types of services was even higher than the variation across Member States. Among respondents who admitted to using online platforms, 57 percent have some experience with platforms related to accommodation services, 51 percent to the Transportation sector, while only 8 percent used collaborative finance platforms (see Figure 13).

The recent 2021 Flash Eurobarometer⁷² which focused on the use of collaborative economy in short-term rentals indicated that 29 percent of respondents used online platform services in accommodation at least once in their life. Sporadic ('less frequents than once every few months') and occasional ('once every few months') users accounted for 17 and 7 percent of the population, respectively. The share of respondents who used short-term rental platforms at least once varied substantially across Member States ranging from 15 percent in Austria to 41 percent in France.

Figure 12. Users in the platform economy as percent of population over 15 years old (2018)



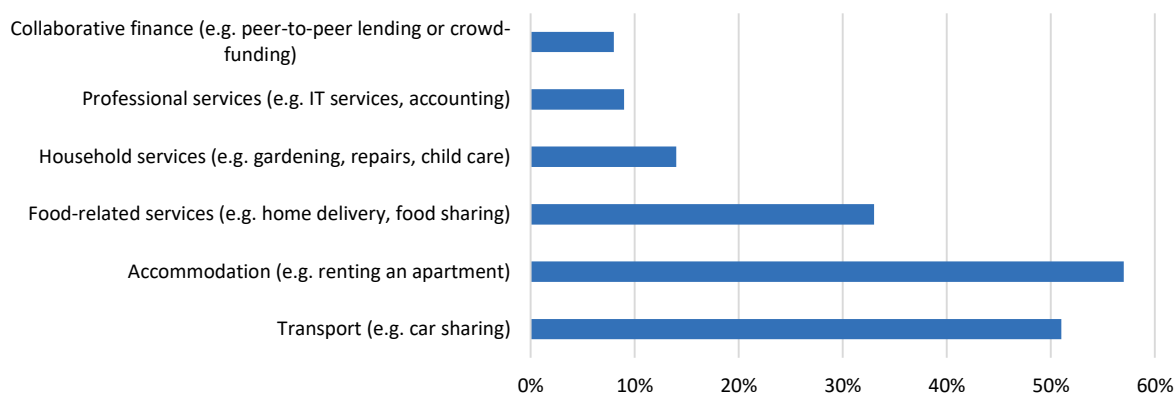
Source. Flash Eurobarometer 467: The use of the collaborative economy, based on a sample of 25 542 response.

⁷⁰ E-commerce and Advertisement were not included in the analysis.

⁷¹ Estimates based on a single extrapolation of survey results not controlled for the sample-correction bias.

⁷² Flash Eurobarometer 495: Short-term rentals in the EU, Directorate-General for Communication, 2018.

Figure 13. Users in the platform economy by type of services (as percent of those who used collaborative economy services at least once, 2018)



Source. Flash Eurobarometer 467: The use of the collaborative economy.

Another perspective on the overall scale of user base of platforms in each sector can be observed through statistics on the mobile application downloads (though downloading does not always imply usage). Based on data published by Business of Apps portal, in 2019, in Europe there were 121 million users of Food Delivery apps⁷³ and 146 million users of Ride Hailing apps.⁷⁴ In other sectors, such as e-commerce or advertising, this kind of data is less reliable as dedicated mobile apps are not necessarily the dominant mode of accessing platforms. In the case of the accommodation sector, it is possible to indirectly estimate number of user based on survey conducted by Eurostat on 'Short-stay accommodation booked via collaborative economy platforms'.⁷⁵ The total number of guests who used services provided by four of the biggest platforms in 2019 was 53 million. Although this number is smaller than the abovementioned figures for food delivery and transport this does not necessarily contradict data from Flash Eurobarometer – services related to accommodation are consumed less frequently, but the number of people who used it at least once over many years can still be greater than, for example, for food delivery services.

3.5.5. Cross-border trade

This section presents data on the cross-border dimension of platforms' facilitation services. Trade in services is understood as the flow between the headquarters and the actual place of consumption of the underlying services. The estimates of the value of the transactions follow the methodology used for estimating the overall scale of the platform economy. The 'bottom-up' methodology employed for this purpose allowed to estimate the value of transactions facilitated by each platform in each country. For each company value of domestic, intra-EU and extra-EU supplies were calculated and later aggregated separately for EU27 and the rest of the world using the information on platforms' tax residence and the web-traffic of users broken by country.

According to these estimates, **intra-EU27 cross-border trade in goods and services facilitated by platforms located in other EU27 Member States was EUR 52.2 billion whereas the value of goods and services facilitated by platforms located in third countries and consumed in EU27 was ca. EUR 116.2 billion. Value of goods and**

⁷³ See: <https://www.businessofapps.com/data/food-delivery-app-market/>

⁷⁴ See: <https://www.businessofapps.com/data/ride-hailing-app-market>

⁷⁵ See: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210629-2>

services facilitated by the platforms located in the EU27 and consumed in third countries was ca. EUR 74.6 billion (see Table 12).⁷⁶

These figures are largely influenced by the e-commerce sector as its share in the value of the analysed ecosystem was ca. 50 percent and the share of the value goods traded by platforms located in third countries was relatively large. Yet, it is important to note that the estimates do not cover the advertising sector where large, mostly US-based, entities have a prevalent presence in the market. The dominance of foreign platforms reached more than 70 percent in the e-commerce platform ecosystem. Household and professional services was the sector with the largest share of services facilitated by the EU27 based platforms, with foreign players' share of 16 percent. This is mostly related to the fact that platforms in this sector tend to be smaller and more specialized in their domestic markets.

As mentioned above, the value of goods and services consumed in third countries facilitated by the EU27-based platforms reached EUR 74.6 billion in 2019. A large share of that value (more than 60 percent) was attributed to the accommodation sector, as one of the biggest platforms on that market has its headquarters in the EU27. In two other sectors, finance, and household and professional services, the export exceeded the import. In other sectors, the EU is a net importer of platforms' facilitation services, with a large deficit in the e-commerce and real estate sectors.

Table 12. Cross-border trade in goods and services facilitated by platforms (EU27, 2019, EUR billion)

Sector	Value of goods and services consumed in EU27, facilitated by domestic platforms	Value of goods and services consumed in EU27, facilitated by platforms in other EU27 MS	Value of goods and services consumed in EU27, facilitated by platforms located in third countries	Value of goods and services consumed outside the EU27, facilitated by platforms located EU27
Accommodation	0.8	25.9	16.4	47.0
e-Commerce	21.8	9.2	79.4	3.9
Finance	0.6	3.7	2.9	6.6
Household and professional services	6.0	1.2	1.3	5.9
Real estate	2.0	0.1	2.4	0.1
Transportation	12.5	11.9	13.8	11.1
TOTAL	43.7	52.2	116.2	74.6

Source. Author's own elaboration. Note. Totals may not add up due to rounding.

3.5.6. VAT revenue

This section analyses VAT revenue collected on the provision of platforms' facilitation services and on the underlying supplies of goods and services. The figures reported in this section concern the VAT effectively paid, that includes non-recoverable input VAT from non-taxable and exempt providers.

The analysis uses different approaches for various groups of sectors:

⁷⁶ The sum of the first three columns by sector in Table 11 corresponds to the ecosystem value of the same sector given in Table 7 since both are equivalent to the total value of transactions in goods and services that took place in EU through online platforms.

- 1) **Transport services, accommodation services and e-commerce:** detailed analysis of VAT effectively remitted for each of the three sectors is presented (including a breakdown of revenue by country).
- 2) **Professional and household services, real estate and finance:** detailed analysis of VAT effectively remitted for the three sectors in aggregate is presented (including a breakdown of revenue by country). In the case of these services, uncertainty around the estimates is higher, due to a larger variation of rates across the underlying services.
- 3) **Advertising:** excluded from the analysis due to inability to define accurately the actual place of supply and rates applicable to the output of purchasers of advertising services.

The estimates are based:

- 1) for the tax base, on the estimated revenue of the platform economy per Member States, as reported in Section 3.5.2 above, and the parameters of the VAT liability model;
- 2) for the applicable VAT treatment, on the findings from the legal analysis and the information on the place of supply rules described in Table 19 and Table 20, specifically.

The sources and the methodology for estimating the parameters are only briefly described; more details are available in Annex C.

Analysing VAT effectively collected on certain group of services needs to use a combined 'production' and 'consumption-side' approach.

- From the 'production-side' approach, VAT revenue could be regarded as the sum of output VAT and import VAT minus VAT creditable on inputs. The equation holds for overall VAT liability and collections as well as for every type of activity and every VAT payer.
- The 'production-side' looks at that VAT paid by a company or group of companies and reflects its payments to the budget. Such payments cannot be, however, associated with effectively collected tax, as VAT is deducted in the value chain and, in most of cases, depends on the rate applicable for final goods. As an example, in situations when a taxable provider of ride on demand services in the platform economy pays the platform's facilitation fee, the VAT is effectively collected at final stage. In this situation, the driver is able to deduct VAT on the facilitation service. Thus, VAT on the value added of the facilitation service is collected at the rate applicable to relevant transportation services.

The 'consumption-side' approach analyses the final base for groups of product or services in question and adjusts it whenever VAT was collected in the intermediate stage. Yet, the estimates of collected VAT on specific products and services also does not show the VAT that was effectively collected. In case of above-mentioned ride on demand service, VAT estimates using consumption side approach would be nil as the final service offered was the transportation service. The approach taken in this analysis combines both 'production' and 'consumption-side' approaches and estimates revenue associated with the value added of the facilitation service using appropriate tax rules, depending on whether treatment at the final or intermediate stage plays a role.

Due to the complexity of the platforms' business models and numerous possible types of transactions and their chains, the starting point was the identification of the applicable place of supply rules and the effective rates applicable with respect to the following determinants: (i) the VAT status of the provider, (ii) the VAT status of the consumer, (iii) the VAT status of the platform operator, (iv) the nature/classification of the facilitation

services provided, and (v) the side of the transaction paying the facilitation fee. After combining transaction characteristics resulting in the same place of supply and VAT liability, and after excluding from the analysis the transactions very rarely existent in the market,⁷⁷ 10 types of transactions were analysed (as described in Table 13).⁷⁸

More in detail, the place of the supply of the platform's facilitation service depends on whether the service is classified as ESS or as an intermediary service. The place of supply also depends on whether the purchaser of the facilitation services is a taxable person or not. As described in more detail in Chapter 4, in the case of the ESS and intermediary services provided to taxable persons, the place of supply is linked to the place of residence or establishment of the consumer. In the case of the intermediary services provided to non-taxable persons, their place of supply is linked to the place of supply of the underlying transaction.

Since all platforms are taxable persons, as the sectoral analysis has shown, the VAT on the facilitation service is considered as always remitted. This is not the case for the provision of the underlying services or goods, as the provider could be an exempt or a non-taxable person. In such a case, the VAT revenue is the sum of the VAT charged on the facilitation fee and the non-deductible VAT on inputs purchased by the provider (see the last column, Table 13).

The second step of the analysis hinged on estimating the relative weights of the various types of transactions over the value generated by the platform economy ecosystem in the EU27. To estimate such weights, a number of parameters reported in Section 3.4 had to be used. The crucial parameters included: (1) the shares of B2B2B, B2B2C, C2B2B and C2B2C transactions, (2) the share of providers below the VAT registration threshold and (3) relative prevalence of ESS and intermediary services (see Section 3.4).

On top of estimating relative weights of the cases/situations presented in Table 13, it was necessary to estimate additional fiscal parameters describing the VAT liability. This included weighted average rates for each sector, the rates applicable to platforms' facilitation services and the average share of non-deductible input VAT in the output of the sectors. Moreover, since the estimates of the platform economy are based on the place of consumption, it was also necessary to analyse the origin of the consumers to attribute correctly the VAT liability to their place of residence or establishment. For the accommodation sector, it was also necessary to analyse the share of cross-border transactions in which the location of the host was different than the location of the property.⁷⁹

⁷⁷ More specifically, the situation when the platform is a non-taxable person or below the VAT registration threshold was not analysed.

⁷⁸ The analysis of VAT revenue in the e-commerce had also to account for VAT-exempt cross-border trade in low value consignments, which, according to European Commission (2016), *Impact Assessment Accompanying the document Proposals for a Council Directive, a Council Implementing Regulation and a Council Regulation on Modernising VAT for cross-border B2C e-Commerce, SWD (2016)379* accounted for ca. 0.3 percent of total trade in the e-commerce in 2015.

⁷⁹ See Annex C for description on the VAT liability simulation model.

Table 13. Applicable VAT rules depending on transaction characteristics (general rules)

Situation no.	Payment of facilitation fee	Provider	Platform	Consumer	Platform's service classification	Facilitation service – place of supply	Facilitation service – effective rate ⁸⁰	Underlying service
1	By provider	Registered as a VAT payer	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT collected in the place of establishment or permanent location of the provider	As applicable to the underlying service or final goods/services in the transaction chain	VAT collected in the place where the service was supplied
2	By provider	Non-taxable or exempt from VAT	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT collected in the place of establishment or permanent location of the provider	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
3	By provider	Registered as a VAT payer	Registered as a VAT payer	Taxable or non-taxable person	Intermediary service	VAT collected in the place of establishment or permanent location of the provider	As applicable to the underlying service or final goods/services in the transaction chain	VAT collected in the place where the service was supplied
4	By provider	Small business (exempt from VAT)	Registered as a VAT payer	Taxable or non-taxable person	Intermediary service	VAT collected in the place of establishment or permanent location of the provider	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
5	By provider	Non-taxable person	Registered as a VAT payer	Taxable or non-taxable person	Intermediary service	VAT collected in the place where the underlying transaction is supplied (where accommodation is located or transport carried out)	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
6	By consumer	Registered as a VAT payer	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services or final goods/services in the transaction chain	VAT collected in the place where the service was supplied

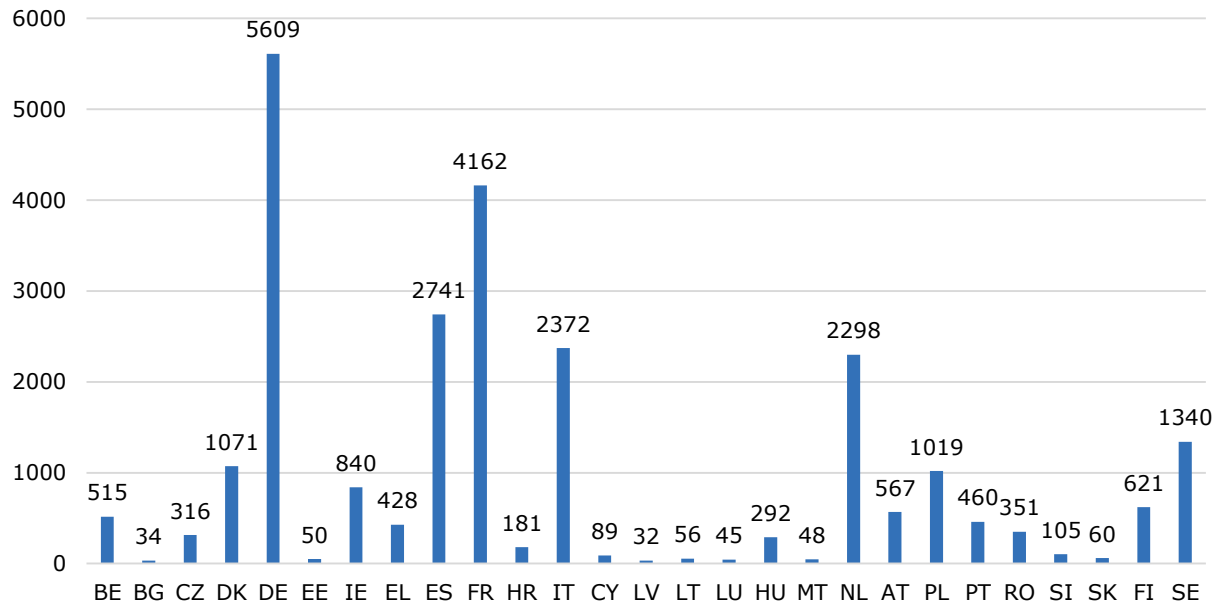
⁸⁰ The effective rate stands for the statutory applicable to the final product in the value added chain and tax burden associated with non-deductible VAT in the transaction chain.

Situation no.	Payment of facilitation fee	Provider	Platform	Consumer	Platform's service classification	Facilitation service – <u>place of supply</u>	Facilitation service – <u>effective rate</u> ⁸⁰	Underlying service
7	By consumer	Taxable person, exempt from VAT	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
8	By consumer	Non-taxable person	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
9	By consumer	Taxable or non-taxable person	Registered as a VAT payer	Non-taxable person	Intermediary service	VAT paid in the place where the underlying transaction is supplied	As applicable to the facilitation services	VAT collected in the place where the service was supplied
10	By consumer	Taxable or non-taxable person	Registered as a VAT payer	Taxable person	Intermediary service	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services or final goods/services in the transaction chain	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted

Source. Author's own elaboration.

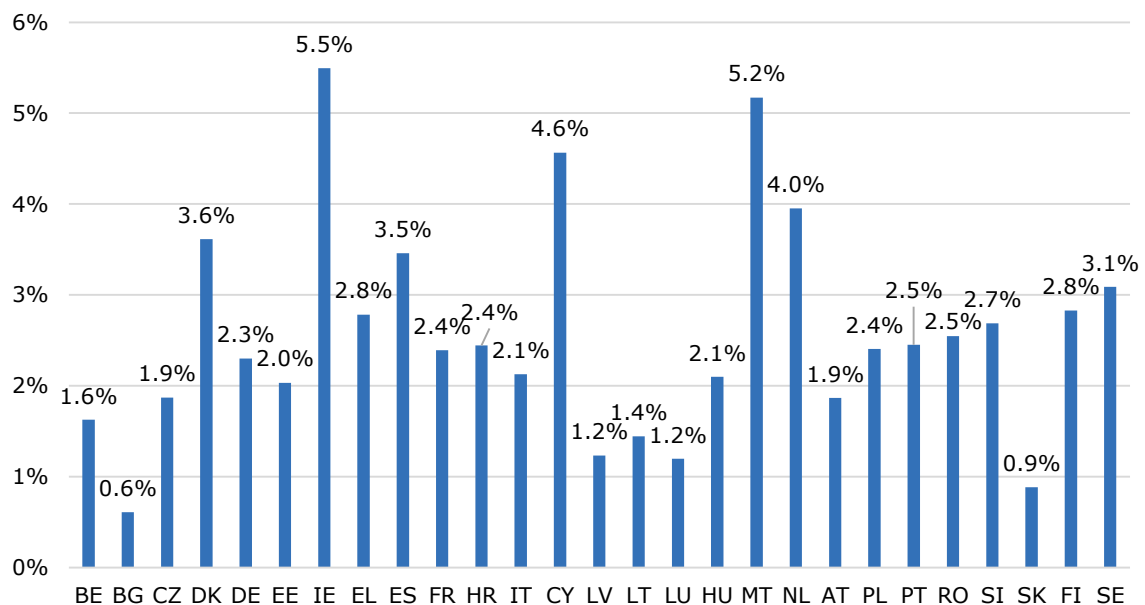
Overall, the EU27 VAT liability on the platform economy ecosystem accounted for approximately EUR 25.7 billion in 2019.⁸¹ In absolute terms, the largest revenue was recorded in Germany (EUR 5.6 billion) and France (EUR 4.2 billion) (see Figure 14). In relative terms, VAT revenue in the platform economy accounted for 2.6 percent of the overall VAT revenue with the highest shares observed in Ireland (5.5 percent), Malta (ca. 5.2 percent) and Cyprus (ca. 4.6 percent). The lowest contribution to the overall VAT revenue was estimated for Bulgaria (0.6 percent) and Slovakia (0.9 percent).

Figure 14. VAT revenue in the platform economy (excluding advertising, 2019, EUR million)



Source. Author's own elaboration.

Figure 15. VAT revenue in the platform economy as percent of total VAT revenue (excluding advertising, 2019)

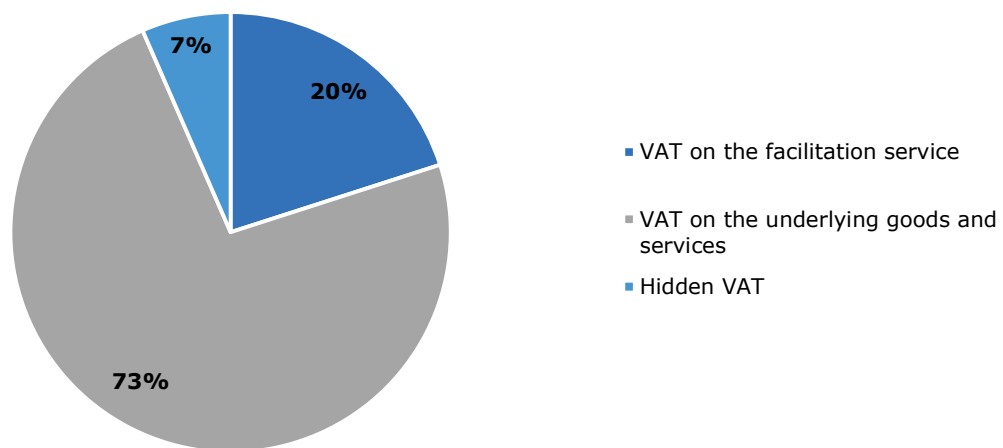


Source. Author's own elaboration.

⁸¹ Excluding the advertising sector.

About 73 percent of the VAT revenue from the platform economy ecosystem consists in the VAT charged on the underlying supplies of goods and services (equivalent to EUR 18.9 billion). Approximately 20 percent of VAT revenue in platform economy is collected on the value added of the facilitation fee (EUR 5.2 billion) whereas 7 percent (EUR 1.7 billion) comes from the non-recoverable input VAT borne by non-taxable and exempt providers (see Figure 16). As a result, the weighted average rate on the facilitation service is significantly higher than the rate on the underlying goods and services (ca. 18 percent vs. 11 percent). This results mainly from the fact there is a substantial fraction of transactions in which VAT rate applicable to facilitation services is higher than on the underlying service (e.g. VAT applicable to facilitation fee paid by a consumer is standard, whereas the rate on the underlying accommodation service is reduced). Moreover, non-deductible VAT on input paid by non-taxable persons or exempt providers is (on average) lower than then the output VAT that would be collected in case their services were taxed.

Figure 16. Composition of VAT revenue in the platform economy (excluding advertising, 2019)

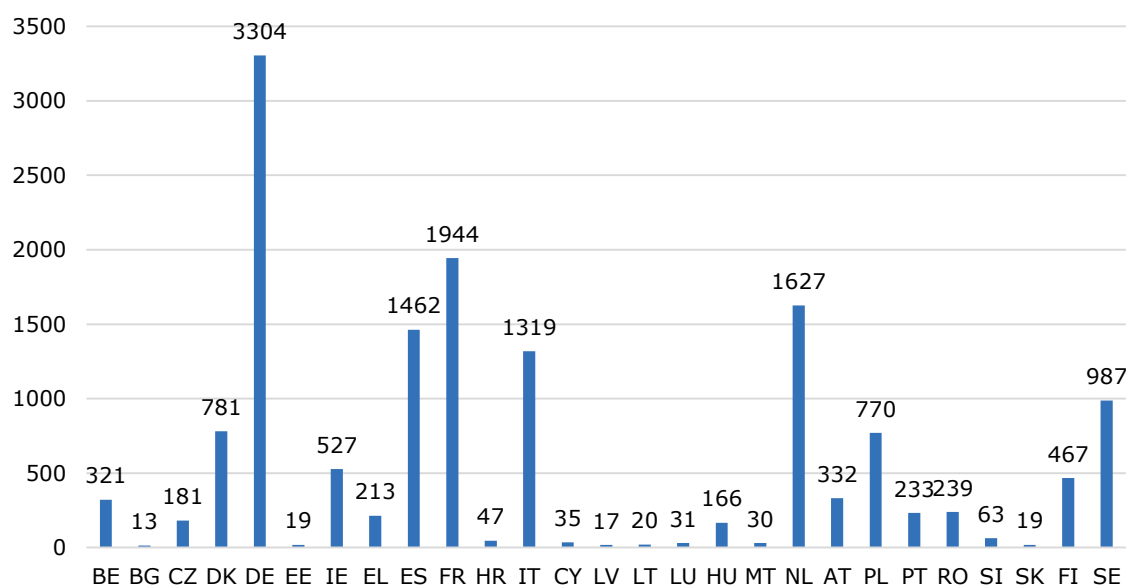


Source. Author's own elaboration.

Out of the sectors analysed, the largest contribution to VAT revenue - ca. EUR 15.2 billion – came from the e-commerce sector.⁸² This stood for nearly 60 percent of VAT revenue in the platform economy excluding the advertising sector. The largest VAT revenue from the sales of goods in the platform economy were estimated for Germany (EUR 3.3 billion, see Figure 17).

⁸² The value of yearly VAT revenue in the EU28 from the entire e-commerce was estimated at EUR 137 billion in 2016 (See: European Commission (2016), *Impact Assessment Accompanying the document Proposals for a Council Directive, a Council Implementing Regulation and a Council Regulation on Modernising VAT for cross-border B2C e-Commerce*, {COM(2016) 757 final}).

Figure 17. VAT revenue in the platform economy in the e-commerce sector (2019, EUR million)



Source. Author's own elaboration.

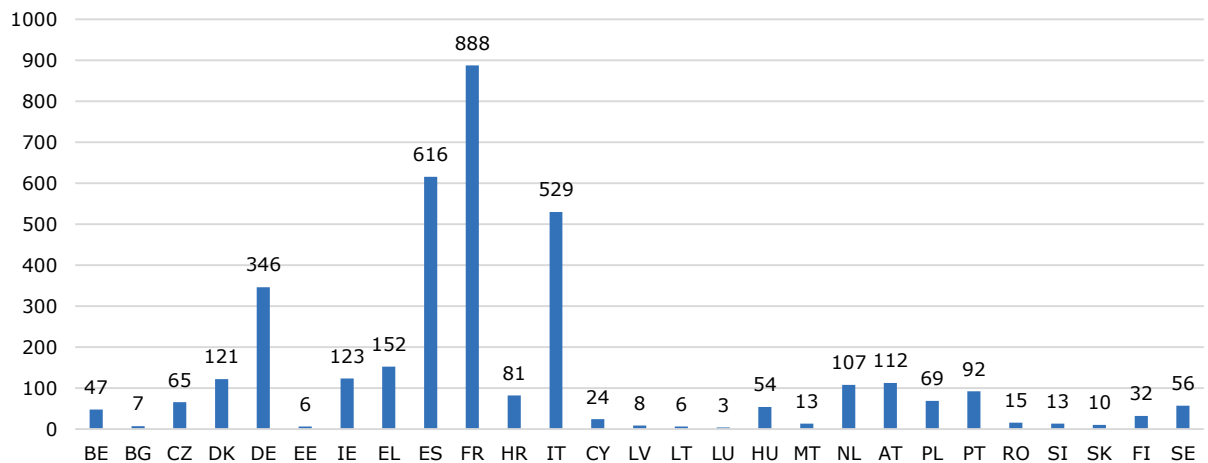
The revenue from accommodation services in the platform economy accounted for EUR 3.6 billion. In absolute terms, the largest VAT revenue in the accommodation sector in the platform economy was observed in typical tourist destinations, i.e. France (EUR 0.9 billion), Spain (EUR 0.6 billion) and Italy (EUR 0.5 billion) (see Figure 18). In relative terms, the platform in the accommodation sector brought the largest share of total VAT revenue in Malta (1.4 percent), Cyprus (1.2 percent) and Croatia (1.1 percent) (see Figure 19).

VAT revenue in the transportation sector was nearly as large as in the accommodation sector (ca. EUR 3.2 billion). The largest VAT revenue, in absolute terms was estimated for Germany (EUR 0.8 billion) and France (EUR 0.8 billion) (see Figure 20). The platform economy in the transportation sector is responsible for 0.3 percent of the EU27 VAT revenue. The greatest shares were estimated for Cyprus (1.3 percent) and Slovenia (0.6 percent) (see Figure 21).

The remaining VAT revenue was charged mostly to platforms and companies in the real estate and household and professional services sectors. **Overall, sectors other than e-commerce, accommodation and transportation brought ca. 15 percent of VAT revenue from the platform economy.**⁸³ VAT revenue from other sectors of the platform economy was the highest in Germany (EUR 0.4 billion), which was related to a significant presence of platforms facilitating household and professional services (see Figure 22).

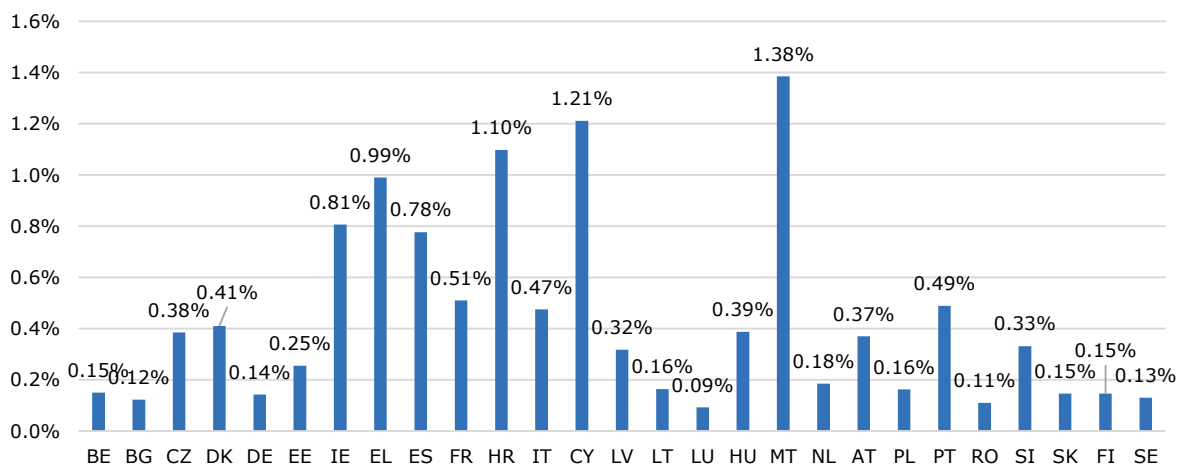
⁸³ Excluding the advertising sector.

Figure 18. VAT revenue in the platform economy in the accommodation sector (2019, EUR million)



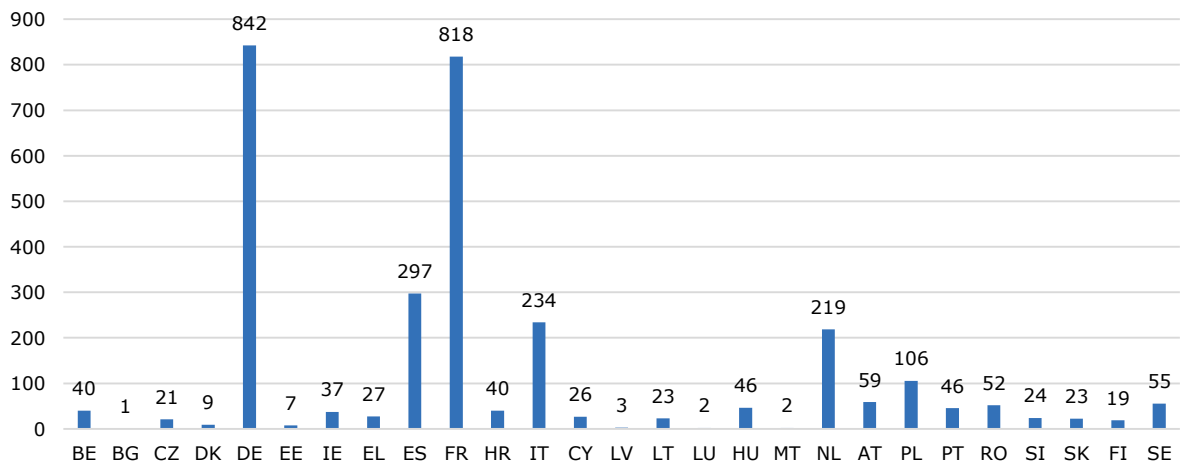
Source. Author's own elaboration.

Figure 19. VAT revenue in the platform economy in the accommodation sector as percent of total VAT revenue (2019)



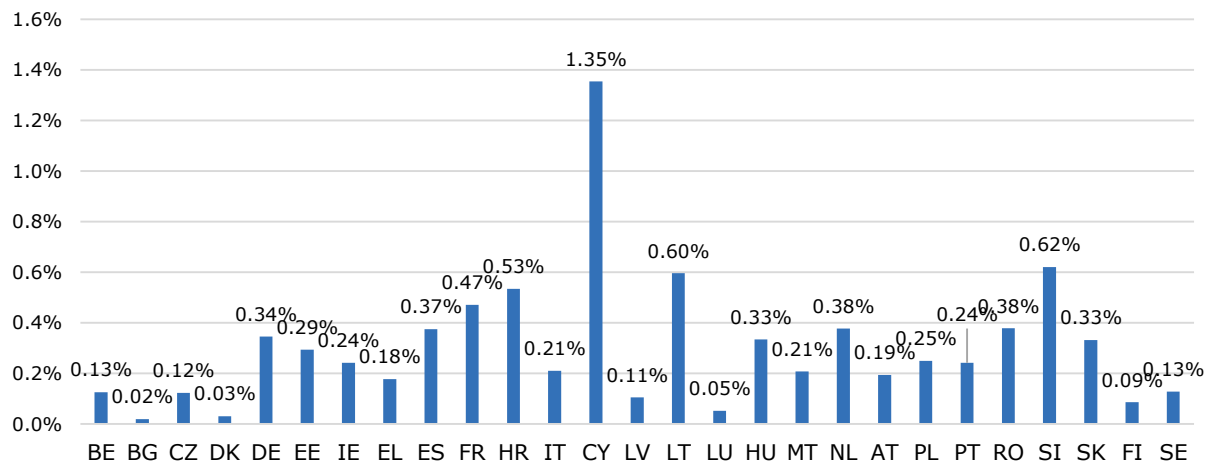
Source. Author's own elaboration.

Figure 20. VAT revenue in the platform economy in the transportation sector (2019, EUR million)



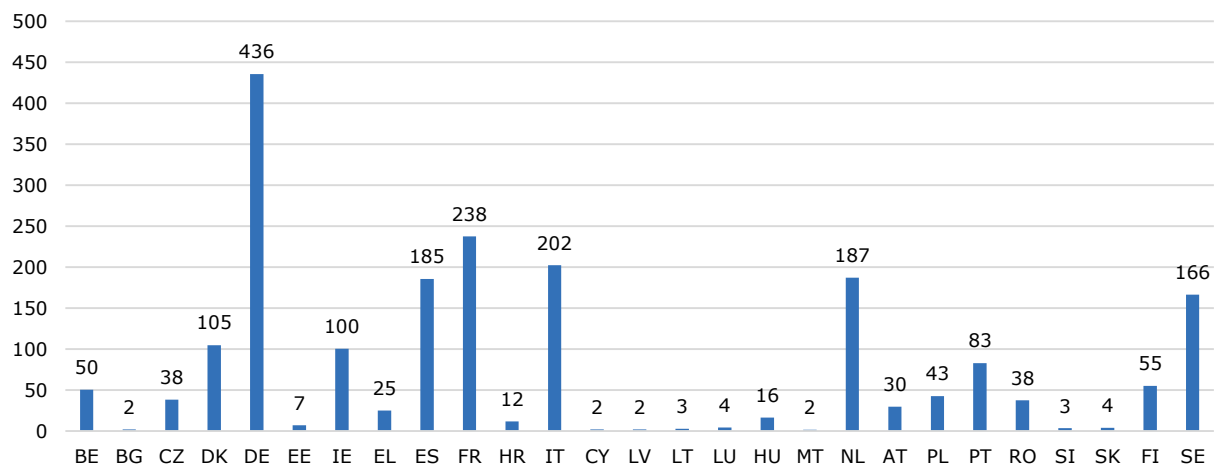
Source. Author's own elaboration.

Figure 21. VAT revenue in the platform economy in the transportation sector as percent of total VAT revenue (2019)



Source. Author's own elaboration.

Figure 22. VAT revenue in the platform economy in other sectors (2019, EUR million)



Source. Author's own elaboration.

3.5.7. Relation to previous studies and additional checks

This section first compares the estimates obtained with other studies and then presents the results of various accuracy checks. The most recent Study used for the comparison – carried out for the European Commission, DG EMPL – found that the value of the platform economy ecosystem reached EUR 11 billion in transportation (ride on demand) and EUR 3 billion for household and professional services, respectively. The estimates derived in this analysis are substantially higher as they point to EUR 38 billion and EUR 8.5 billion, respectively.⁸⁴ This difference partially results from the number of platforms identified and the sectoral coverage, which was narrower than in this Study. The study commissioned by DG EMPL identified 392 platforms in the household and professional services and 128 in the transportation sectors whereas the number of identified platforms in this study reached 644 and 293, respectively.

The ecosystem revenue from this analysis is also higher than figures presented in other previous studies (see Table 14). Yet, this likely results from the different period covered, given the rapid evolution and growth of the platform economy over time. Another reason

⁸⁴ De Groen W., Kilhoffer Z., Westhoff L., Postica D. and Shamsfakhr F. (2021), *Digital Labour Platforms in the EU: Mapping and Business Models*, Study prepared by CEPS for DG EMPL under service contact VC/2020/0360.

for discrepancies is the broader scope of this study, covering more subsectors than in the previous literature. Although a proper comparison of the overall scale of platform economy between this and previous studies cannot be conducted due to differences in definitions (both in terms of sectors and business models included), some tentative conclusions could be drawn at least on their growth for the sectors with similar treatment across the studies. Based on the present estimates and data from PwC report,⁸⁵ accommodation and transportation sector revenue grew by 452 percent and 418 percent, respectively over four years. This is broadly in line with the findings of the recent study of DG EMPL, finding that, between 2016-2020, the size of digital labour platforms increased ca. five times.

Table 14. Scale of platform/collaborative economy operations in the EU – previous studies (EUR million)

	"Assessing the size and presence of the collaborative economy in Europe", EC/PwC, 2016		"Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States", EC/Technopolis, 2018		This Study	
	Revenue of digital platforms assigned to EU operations	Revenue of platform ecosystems assigned to EU operations	Revenue of digital platforms assigned to EU operations	Revenue of platform ecosystems assigned to EU operations	Revenue of digital platforms assigned to EU operations	Revenue of platform ecosystems assigned to EU operations
Accommodation	1,150	15,100	900	7,300	6,300	43,200
Finance	250	5,200	1,400	9,600	600	7,300
Household and Professional Services	550	2,700	800*	5,600*	1,400	8,500
Transportation	1,650	5,100	600	4,000	7,200	38,200
TOTAL	3,600	28,100	3,700	26,500	15,500**	97,000**

Source. Author's own estimates. Note. * online skills only, ** only for sectors included in the table.

In addition, the sensitivity of the results obtained by some key assumptions was tested. Since certain estimates rely on the assumption of a linear relation between website traffic and revenue, econometric methods were used to test the robustness of such an assumption. More specifically, we employed Weighted Ordinary Least Squares (WOLS) to regress revenue over traffic statistics using sector specific weights, and the estimated relationship between these two is utilized to predict the revenues of the platforms. The revenues estimated using the WOLS method does not depart markedly from the baseline estimates and lie within +/- 15 percent from baseline results shown in Table 15.

Table 15. Alternative estimates of the platforms' revenue in the EU27 (EUR billion)

Sector	Baseline	WOLS
Accommodation	6.3	5.4
Advertising	32.8	29.6
E-Commerce	16.6	18.6
Transportation	7.2	5.2
Other	2.0	1.6

Source. Author's own estimates.

⁸⁵ European Commission (2016), *Assessing the size and presence of the collaborative economy in Europe*, Study prepared for DG Grow by PwC, <https://op.europa.eu/>.

Another check compared the results with the range of platforms' activity estimated by experts. More specifically, interviewees were asked to estimate the share of transactions facilitated by online platforms in the EU27 in their sectors. These responses show that the share of sales intermediated by platforms in the accommodation sector is assessed to range between 10 to 30 percent. Own estimates indicate 18.7 percent share of online platforms in the accommodation sector which is almost the mid-point in this range.

4. LEGAL ANALYSIS

4.1. Introduction

This chapter presents, in addition to the analysis carried out at the inception phase, the results of the legal mapping exercise in 12 EU Member States using the information gathered from national authorities. Importantly, a gap analysis of the sectors or transactions relevant to the platform economy not covered by previous changes to VAT rules and, in particular by the VAT provisions introduced by the 'VAT e-Commerce Package'⁸⁶ was also carried out.

4.2. Refined methodology and data sources

The methodology presented in this section remained broadly unchanged compared to the Inception Report. The analysis was carried out via the **legal mapping**, supported for the analysis of the emerging legal issues from the findings from the **targeted consultation**. The information obtained from the legal mapping and the consultation was complemented by the analysis of the relevant CJEU jurisprudence and of national and EU policy documents, as well as of the academic and grey literature (e.g. stakeholders' position papers). The analysis of CJEU jurisprudence is broad. In addition to closed cases, both VAT and non-VAT pending cases before the CJEU were analysed to assess which particular regulatory areas raise doubts and require further clarifications.

To perform the legal mapping which aimed at gathering accurate information on legislative measures taken, court judgments or guidelines issued at national level, a **mapping tool** was prepared. The tool included the definition of the platform economy and a set of both open and closed-form questions to determine whether a country applies specific VAT provisions for platforms, their transactions and participants. It also verified what kind of solutions are envisaged, and, in the absence of specific regulations, attempts at collecting information on the application of standard VAT provisions to the platform economy. The relatively large proportion of open questions was related to the lack of harmonisation and expected differentiation of provisions and guidelines across Member States. Such an approach has, however, put more weight on the desk research and the targeted consultations, when specific findings from the first stage of the analysis were to be validated.

The legal mapping questionnaire was structured by the **main thematic areas**, which are: (i) taxable persons; (ii) deduction rules; (iii) special scheme for small enterprises; (iv) consideration; (iv) nature of services provided within the platform economy; (v) VAT rates/exemptions in specific sectors; and (vii) reporting obligations. Overall, the questionnaire focused on the VAT framework, but also touched upon other policies relevant for the VAT treatment, and namely: (i) other reporting obligations, (ii) specific taxes, and (iii) dedicated income tax schemes. The questionnaire asked for non-VAT tax treatment to provide evidence on the current tax burden of platform economy stakeholders, which is relevant to the further analysis of equality and neutrality impacts of changes in the VAT treatment. The questionnaire covered the general treatment of platforms operating in various sectors. In areas where the rules are service or sector-specific, the questions targeted those specific services or sectors.

The mapping exercise was carried out by the **Mazars N.V. network of VAT practitioners**. Local affiliates in the selected Member States received the mapping tool and the necessary guidance. The Study Team interacted with the local practitioners and reviewed their contributions, requesting adjustments and refinements in specific cases.

⁸⁶ Cf. *i.a.* Council Directive (EU) 2017/2455 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods and Council Directive (EU) 2019/1995 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies of goods.

The accuracy of the analysis was also verified with Member States using completed brief summaries which were submitted to the tax authorities for validation. In a few cases, this means of validation helped the Study team find additional guidelines and soft law relevant for the platform economy.

4.3. National policies

The development of the platform economy raises new VAT-related legal challenges to national policies. The main legal issues regulated in the VAT Directive and transposed into national legislation are connected to: (i) the taxable person status of the provider and the user, (ii) the deduction of input VAT and the adjustment of deduction, (iii) the special schemes for SMEs, (iv) the consideration, and (v) the nature of the service and the resulting place of supply. An important additional issue that also relates to the status of the taxable person, as well as the special schemes for small taxable persons, is the determination of the platforms' liability for the VAT on the transactions facilitated by them. This problem is addressed in the first subsection devoted to 'taxable persons'.

4.3.1. Taxable persons

Determining the status of the parties involved in the transactions – taxable or non-taxable persons – facilitated by digital platforms is crucial for the broader assessment of these transactions. In the case of the provider, the assessment of his/her VAT status is naturally contingent to the chargeability of VAT on the transaction.⁸⁷ The question whether VAT should be charged is of primary interest not only for the provider and tax authorities, as the taxable status of the provider must also be known by the platform. Establishing that the provider is a taxable person will not only mean that the platform should issue an invoice for its facilitation services, but may also affect where these services should be taxed. In cross-border transactions, the taxable status of the provider defines who is liable to pay VAT and whether the reverse charge mechanism applies. Additionally, it is also necessary to determine the status of the consumer, since this affects the place of the supply and the liability to pay VAT related to the underlying supply. However, this aspect does not pose specific problems in the current situation (and therefore is not analysed in the remainder of this section).

According to the VAT Directive, the concept of a taxable person is very broad and includes each person '*who independently carries out in any place any economic activity, whatever the purpose or result of that activity*'. Economic activity includes, inter alia, the activity of persons supplying services on a continuing basis.⁸⁸ This means that, in most circumstances, **platforms** providing services for consideration would qualify as taxable persons and where they supply services for consideration, such services are subject to VAT.⁸⁹

However, the determination of the status of the **provider**, i.e. whether or not she or he is a taxable person, or acting as such, for VAT purposes, is more problematic. In order to establish whether individuals providing goods and services through a digital platform qualify as taxable persons, it is necessary to assess, firstly, whether they carry out an economic activity and, secondly, whether they do it independently.

The term 'economic activities' is very wide and objective in character, in the sense that the activity is considered in itself and without regard to its purpose or results.⁹⁰ Providers in the platform economy usually share their property (flat, car, tools), which can be

⁸⁷ As for determining the status of non-taxable person see the recent Wellcome Trust case (C-459/19 The Commissioners for Her Majesty's Revenue & Customs against Wellcome Trust Ltd, ECLI:EU:C:2021:209).

⁸⁸ Article 9 of the VAT Directive.

⁸⁹ See: VAT Committee, Working paper no 878, p. 10.

⁹⁰ See for instance: Joined Cases C-354/03, C-355/03 and C-484/03 Optigen Ltd, Fulcrum Electronics Ltd, Bond House Systems Ltd v Commission, ECLI:EU:C:2006:16, paragraph 43.

used for both economic and private purposes, so all the circumstances in which it is used will have to be examined in order to determine whether it is actually being used for the purpose of obtaining income on a continuing basis. It can be assumed that, in general, becoming a provider of goods and services via a platform in return for consideration implies some continuity. The activities in question would therefore meet the requirements for inclusion in the concept of "economic activity" as set out in Article 9(1) of the VAT Directive.

The analysis of the stakeholder views showed that clarification may be needed. The clarification should preferably have binding force, although not necessarily by amending the VAT Directive. The need for clarification also results from the very limited number of countries that introduced guidelines on the VAT status of platform providers (see Table 16). In Czechia, specific guidelines on the tax status of the platform users have been introduced for two sectors (accommodation services and passenger transport services). The guidelines state that platforms within these sectors similar to Airbnb and Uber, as well as providers of services facilitated by these platforms, shall be recognised as taxable persons. In Germany and Spain, only general guidelines/rulings in this regard have been issued. For instance, according to the court decision in Germany,⁹¹ it is considered that a person that sold over 140 third-party fur coats via a marketplace in its own name on a regular basis, repeatedly and with considerable organizational effort, became an entrepreneur. In addition, France provides for joint and several liability of platforms in its tax code.

Table 16. Member States where there are interpretations/rules on the tax status of the platform provider (sample-based)

Country	AT	CZ	DE	DK	EE	ES	FR	HU	IT	NL	PL	SE
Specific guidelines or court judgments concerning the taxability of platform users	NO	YES	YES	NO	NO	YES	YES	NO	NO	NO	NO	NO
Sector, if sector-specific guidelines	NO	Accommodation and transport	NO	NO	NO	Accommodation	NO	NO	NO	NO	NO	NO

Source. Authors' own elaboration.

Article 12 of the VAT Directive provides additional clarification as to the persons' status. Notably, Article 12(1) enables Member States to regard as a taxable person anyone who carries out certain economic activities even on an **occasional basis**. This can be applied to transactions relating to the activities referred to in the second subparagraph of Article 9(1) (production, trading, supply of services, mining and agricultural activities, professional activities, exploitation of tangible and intangible property) or other specific activities (supply of buildings before first occupation, supply of building land). According to the settled case-law of the Court, the transposition of the Directive into domestic law does not require that its provisions are incorporated formally and verbatim in express.⁹² However, provisions which permit to Member States a certain discretion implementing the rules laid down by a directive must be determined with the precision and clarity

⁹¹ Court decision on 12.08.2015 (Az.: XI R 43/13)

⁹² A general legal context may be adequate for the purpose provided that it does indeed guarantee the full application of the Directive in a sufficiently clear and precise manner. See, by analogy, Case C-102/08 SALIX Grundstücks-Vermietungsgesellschaft [2009] ECR I-4629.

necessary to satisfy the requirements flowing from that principle.⁹³ If the Member State has availed itself of the option provided for in Article 12(1) of the VAT Directive, with respect to transactions that could be facilitated by platforms, e.g. exploitation of tangible property, such transactions must be regarded as subject to VAT under the national legislation, irrespective of whether the transaction is carried out on a continuing basis or whether the person who effected the supply carries out an activity of a producer, a trader or a person supplying services, to the extent that that transaction does not constitute the mere exercise of the right of ownership by its holder and the sound management of private assets.⁹⁴

Table 17 depicts how the option under Article 12 has been exercised by the group of 12 Member States. The analysis of the national law of 12 Member States showed that only three Member States (Austria, Hungary and Spain) opted in. However, as it has been used mostly for the supply of land or buildings, the option has hardly been applied to the most common transactions facilitated by digital platforms.

Table 17. Use of the option in Article 12 of the VAT Directive (sample-based)

Country	AT	CZ	DE	DK	EE	ES	FR	HU	IT	NL	PL	SE
Any person carrying out activities on an occasional basis considered as taxable persons (Article 12)	YES	NO	NO	NO	NO	YES	NO	YES	NO	NO	NO	NO

Source. Authors' own elaboration.

It is worth noting that the CJEU, in *Kostov*,⁹⁵ indicated that a taxable person acting in a certain field of activity who occasionally carries out a transaction falling within another field of activity is liable to VAT on that transaction, provided that that activity constitutes an activity within the meaning of the second subparagraph of Article 9(1) of the VAT Directive. However, the *Kostov* case does not clarify situations where the activity performed through the platform is the only type of activity of the provider.⁹⁶ The fundamental difficulty in the area of the platform economy is to determine whether a person using the platform is 'still' acting privately or as a taxable person. The Court has repeatedly emphasised that a taxable person must act 'as such' for a transaction to be subject to VAT.⁹⁷ So far, however, there is no ruling that could be applied to the universe of situations in the platform economy, and the boundaries between activities carried out by taxable persons and private individuals remain, to some extent, uncertain.

As set out in Article 10 of the VAT Directive, the condition that the economic activity must be conducted independently is aimed at excluding from the scope of VAT employed

⁹³ See: C-227/09 Antonino Accardo and others v Comune di Torino, ECLI:EU:C:2010:624, paragraph 55.

⁹⁴ See: Joined Cases C-180/10 and C-181/10, Jarosław Słaby and Emilian Kuć, Halina Jeziorska-Kuć v Minister Finansów, Dyrektor Izby Skarbowej w Warszawie, ECLI:EU:C:2011:589, paragraph 43; Case C 655/19 Administrația Județeană a Finanțelor Publice Sibiu and Direcția Generală Regională a Finanțelor Publice Brașov v LN; Case 846/19 EQ v Administration de l'Enregistrement, des Domaines et de la TVA.

⁹⁵ Case C-62/12 *Kostov*, ECLI:EU:C:2013:391, paragraphs 28-31.

⁹⁶ It should also be noted that *Kostov* case was followed by other cases: C-692/17, Paulo Nascimento Consulting (see: paragraphs 24-28) and C-421/17, Polfarmex (see: paragraph 42), in which the conclusions were not so straightforward as in *Kostov*.

⁹⁷ See C-331/14 *Petar Kezić s.p. Trgovina Prizma v Republika Slovenija*, ECLI:EU:C:2015:456, paragraph 18.

and other individuals, in so far as they are bound to an employer by a contract of employment or by any other legal ties creating the relationship of employer and employee as regards working conditions, remuneration and the employer's liability.⁹⁸ Typically, there is no such relationship of employer and employee binding an individual provider and the digital platform. It can therefore be concluded that a typical individual supplier of goods or services through a sharing economy platform carries out his/her activities independently. This is also indirectly confirmed by the study on Digital Labour Platforms (DLPs) in the EU, according to which the employment status of the vast majority of people working through DLPs in the EU27 can be classified as self-employed (92 percent of active providers and 93 percent in terms of earnings).⁹⁹ However, in specific cases, doubts arise about the possible legal relationship between the platform and the provider, i.e. whether the provider is in fact an independent supplier of a service. Perhaps, the features of the relationship between the platform and the provider are such that, in fact, the employer-employee dependence is present in reality. Such circumstances should generally be analysed on a case-by-case basis, depending on the agreements between platforms and providers.

Impacts. The legal analysis has shown that, in any of the Member States examined, there are no doubts that the platforms are, in principle, taxable persons. However, uncertainties about the VAT status of the platform suppliers are widespread. The possibilities offered by Article 12 of the VAT Directive, which is only applied in three of the sampled Member States and to a very limited extent, seem unlikely to be fit for this purpose. The Member States are rather trying to solve the problem of identification of the status of platform suppliers by clarifying the general rules for determining the presence of a taxable person (based on Article 9 of the VAT Directive). According to the stakeholders' views, the differences in the approaches taken by the Member States significantly increase the regulatory complexity for digital platforms operating cross-border, and increase their compliance and hassle costs.¹⁰⁰

4.3.2. Special schemes for SMEs

The problems related to the application of the special schemes for SMEs operating in the platform economy are of great importance primarily due to potential violation of the equality and neutrality principles. Special schemes for SMEs typically remove the need for VAT registration or significantly simplify compliance for micro taxpayers; they usually come with a VAT exemption. This puts those micro taxpayers at an advantage, but their (very) limited size is considered not to affect the market level-playing field too negatively.

However, when it comes to the platform economy, online platforms aggregate thousands, or millions, of micro suppliers. **Therefore, any VAT advantage granted to transactions carried out by these suppliers risks tilting the level-playing field between traditional and platform-based business models.** Furthermore, as discussed below in more detail, **the facilitation services of platforms could remove obstacles that small companies face, which are a justification for introducing VAT registration thresholds.** All in all, the simplified VAT compliance and the lower VAT burden may provide an edge over larger VAT non-exempt businesses and lead to the growth in the scale of economic activities under the VAT threshold. This, in turn,

⁹⁸ See: Case C-355/06 *J. A. van der Steen v Inspecteur van de Belastingdienst Utrecht-Gooi/kantoor Utrecht*, ECLI:EU:C:2007:615.

⁹⁹ See Digital labour platforms in the EU, Mapping and business models, final report, a study prepared by CEPS for the European Commission, Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL), <https://www.ceps.eu/wp-content/uploads/2021/06/KE-02-21-572-EN-N.pdf>. It is important to keep in mind that this study did not examine the issue of the relationship between DLPs and providers in light of VAT regulations, only in the context of employment regulations.

¹⁰⁰ For typology of regulatory costs see Better regulation Toolbox, p. 463, https://ec.europa.eu/info/sites/default/files/better-regulation-toolbox_1.pdf

raises the question not only of maintaining a level-playing field, but also of ensuring an adequate level of VAT revenue.

Against this background, a key element of the legal analysis attains to the application of the VAT SME scheme. The scheme aims to set a minimum level of business activity and compliance requirements (the business acting as a taxable person) that is relevant for VAT purposes. The scheme's thresholds are set to minimize the cost of compliance for businesses and tax collection for tax administrations securing VAT revenues. In the platform economy, the ability of an unregistered business to make *de facto* supplies which are not subject to VAT plays a critical role. Given the low amount of their annual turnover, in fact, many individual service providers often fall below the VAT scheme threshold. As the analysis of the legal situation in 12 Member States showed, all Member States in the sample apply the special scheme for small enterprises also to platform providers.¹⁰¹

Finally, when analysing the status of the taxpayer for platform providers, it is also important to take into account other measures for small businesses provided by the VAT Directive. This is because the VAT exemption may not result in a lower tax burden for all small businesses (depending on e.g. their cost structure or the transactions they carry out)¹⁰². Therefore, other solutions applied in the Member States which could reduce compliance costs must also be examined (i.e. the simplified procedures for charging and collection under Article 281 and the graduated relief under Article 282 of the VAT Directive). These systems are generally applied by most Member States. From the information received, it appears that, among the sampled Member States, only Estonia does not apply special schemes within the meaning of Articles 281 and 282 of the Directive for small enterprises.

Impacts. Member States apply special SME VAT scheme without differentiating between traditional providers and suppliers of platforms.¹⁰³ As the treatment of platform providers in this respect is similar across Member States, there is no regulatory fragmentation, and thus no negative impacts.

Still, the applicability of the special scheme for small enterprises could bring platform providers substantial VAT savings and gives them an edge over brick-and-mortar businesses above the thresholds for the VAT SME exemption operating in the same sectors.¹⁰⁴ This may not result in an additional distortion: smaller traditional players also enjoy the same advantage. Still, the platforms' business models often rely on a multitude of very small suppliers whose supply is intermediated by a single facilitator, and this may result in a larger distortion compared to those introduced by the current working of the SME scheme, at least in some sectors. Indeed, the platform providers could benefit from the network effects, also inducing economies of scale typically

¹⁰¹ Note that the special scheme for small taxable persons until 2025 only apply to taxable persons established in a Member State (they do not apply to taxable persons established in another Member State).

¹⁰² This concerns, among others, companies producing goods and providing services subject to reduced rates, and with substantial share of taxable intermediate inputs. In any case, the application of the SME scheme remains optional for taxpayers, who can always opt for the normal arrangement.

¹⁰³ An exception to this rule is planned in Belgium, where abolishment of the SME scheme for furnished accommodation services as 2022 was announced. <https://www.lachambre.be/kvvcr/showpage.cfm?section=/flwb&language=fr&cfm=/site/wwwcfm/flwb/flwbn.cfm?lang=F&legislat=55&dossierID=2279>.

¹⁰⁴ Beretta G., (2018), *VAT and the Sharing Economy*, World Tax Journal, August 2018, p.381-425.

associated with larger businesses, and yet still fall within exemptions that were designed to reduce the burden for small businesses.¹⁰⁵

The lack of neutrality also has a cross-border nature. Currently, providers cannot benefit from the exemption in Member States other than the one in which they are established. However, this issue has already been solved by the new SME rules applicable from 2025.¹⁰⁶ According to the new rules, the exemption for small companies will apply also in Member States where the SME is not established if the company's turnover is below the national threshold and if the company's total annual turnover in the EU is below EUR 100 000.

In summary, the study has shown that Member States apply special procedures for SMEs without differentiating between the traditional and the platform providers. As the treatment of platform providers in this respect is similar across Member States, there is no regulatory fragmentation and resulting negative impacts.

4.3.3. Deduction of input VAT/Adjustment of deduction

The issue of input VAT deduction has arisen because of the specific nature of the platform economy (and in particular of 'sharing' business models), where mixed assets for both business and private purposes are used much more frequently than in the traditional economy. This issue needs to be analysed in the context of maintaining the principle of neutrality across different business models.

The concept of a taxable person is linked to the possibility of deducting input VAT, except 'where taxable persons incur expenditure which is not business related they are acting as consumers rather than as traders, and as such should bear the VAT costs'.¹⁰⁷ Similarly, where a taxable person simultaneously carries out economic and non-economic activities outside the scope of the VAT Directive, the deduction of the input VAT relating to expenditures to both of the above-mentioned types of activities is allowed only to the extent that expenditure can be attributed to the taxable person's economic activity covered by the VAT system.¹⁰⁸ In this context, the principle of neutrality ensured by the right of deduction was also examined by the CJEU in its case-law as regards the usage of capital goods for private purposes by a taxable person.¹⁰⁹ However, this principle has been limited by the adoption of the provisions (i.e. Article 168a of the VAT Directive) regarding the deduction on expenditure related to immovable property used both for the purposes of the taxable person's business and for his private use.¹¹⁰

¹⁰⁵ Chris Sanger, April 8, 2021, HM Treasury calls for evidence on VAT and the sharing economy <https://www.icaew.com/technical/tax/tax-faculty/taxline/taxline-2021/april-2021/hm-treasury-calls-for-evidence-on-vat-and-the-sharing-economy>

¹⁰⁶ Council Directive (EU) 2020/285 of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises and Regulation (EU) No 904/2010 as regards the administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises. The interplay with Council Directive (EU) 2020/285 will also be considered.

¹⁰⁷ De la Feria, R., (2008), *The EU VAT System and the Internal Market*, p. 144 (IBFD 2008).

¹⁰⁸ CJEU judgements: of 13 March 2008 in case *Securenta* (C-437/06, paragraph 31); of 12 February 2009 in case *VNLTO* (C-515/07, paragraph 27); of 20 June 2013 in case *Finanzamt Freistadt Rohrbach Urfahr* (C 219/12).

¹⁰⁹ CJEU judgements: of 21 April 2005 in case *HE* (C-25/03, paragraph 46); of 14 July 2005 in case *Charles i T.S. Charles-Tijmens* (C-434/03, paragraph 23); of 14 September 2006 in case *Wollny*, C-72/05, paragraph 21; of 23 April 2009 in case *Puffer* (C-460/07, EU:C:2009:254, paragraph 39); of 16 February 2012 in case *Eon Aset Menidjmont* (C-118/11, paragraph 53); of 16 February 2012 in case *T.G. van Laarhoven* (C-594/10, paragraph 25).

¹¹⁰ It follows from a recent ruling that the failure to allocate part of a property to business activities as required by national law may mean that the property can be considered to be used entirely for private purposes, and hence no right of deduction arises (see: joined Cases C-45/20 and C-46/20, *E v Finanzamt N* (C-45/20) and *Z v Finanzamt G* (C-46/20), ECLI:EU:C:2021:852, paragraph 65).

The analysis of the Member State's approach to input VAT deduction showed that no country has introduced specific rules for platform providers, nor has it issued any guidance in this regard.

Impacts. Issues related to input VAT deduction may also constitute a barrier to the general application of the principle of neutrality between taxpayers acting via platforms and traditional economy. Still, no Member States adopted specific guidance with respect to the platform economy. Hence, the deduction of input VAT is not considered to pose any specific significant problems for platform economy providers and there is no difference in the approaches taken by Member States.

4.3.4. Consideration (taxable amount)

Dematerialisation of transactions is an inherent feature of the platform economy. In other words, consideration in the platform economy may be indirectly linked to the service or have a non-monetary character. These two properties have important consequences for defining and enforcing chargeability of VAT on many transactions.

The issue of the existence of consideration is a key issue in the VAT system. Where consideration within the meaning of Article 2(1) of the VAT Directive is not sought, no economic activity is present, since no income is obtained from that activity, as required by the second sentence of the second subparagraph of Article 9(1) of the VAT Directive.¹¹¹ According to the settled case-law of the CJEU,¹¹² there must be a direct link between the supply of goods or services made and the consideration received, if the supply is to be within the scope of VAT. Notably, in the judgment *Commission vs Finland*¹¹³, where the recipient of the services was obliged to pay an amount according to his financial resources, the existence of a direct link was challenged on the grounds that the amount was not calculated according to the value of the services received, but rather depended on the client's income and assets. The CJEU stressed that, where a person's activity consists exclusively of providing services for no direct consideration, there is no basis of assessment and the services supplied are therefore not subject to VAT. On the other hand, it is not relevant for determining the existence of consideration and the required 'direct link' within the meaning of the VAT system that a price lower than the cost is charged.

In the context of determining whether a service is provided for consideration, the CJEU judgment¹¹⁴ concerning the transport of children to school seems worth considering, since the transportation of passengers is one of the sectors with a high prevalence in the platform economy. On the one hand, the CJEU notes that the fact that the price paid for an economic transaction is higher or lower than the cost is irrelevant to the question of whether the transaction is to be regarded as a 'transaction effected for consideration'. On the other hand, when the contributions are not payable by each user and were paid by only a third of the users (with the result that they account for only 3 percent of the overall transport costs, the balance being financed by public funds) such a difference between the operating costs and the sums received in return for the services offered suggests that the contributions must be regarded more as a fee than as consideration for a specific supply (of, in this case, transportation).

The initial analysis showed that in none of the analysed Member States there are specific rules transposing Article 73 of the VAT Directive (determining a taxable amount) defining consideration in platform economy transactions. Specific guidelines or court

¹¹¹ Opinion of Advocate General in Case C-520/14 *Gemeente Borsele v Staatssecretaris van Financiën*, ECLI:EU:C:2015:855, paragraph 50.

¹¹² *Coöperatieve Aardappelenbewaarplaats (154/80)*, paragraphs 12-13; see also: R. Pincher, *Is There a Link?*, *Brit. Tax Rev.* 3 (1995), p. 306-316.

¹¹³ Case C-246/08 *Commission vs. Finland*, ECLI:EU:C:2009:671, paragraphs 49 and 51.

¹¹⁴ Case C-520/14 *Gemeente Borsele v Staatssecretaris van Financiën*, ECLI:EU:C:2016:334, paragraphs 26 and 33.

judgments defining the consideration in platform economy transactions have been identified only in two out of 12 Member States (Austria and Germany, see Table 18).

Table 18. Member States where specific guidelines or court judgments defining the consideration in the platform economy exist (sample-based)

Country	AT	CZ	DE	DK	EE	ES	FR	HU	IT	NL	PL	SE
Specific guidelines/court judgments defining what the consideration is in platform economy transactions	YES	NO	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO

Source. Authors' own elaboration.

The problems related to the payment of fees for platform's facilitation services are covered by guidelines in Germany. According to them, entrepreneurs are obliged to pay monthly fees for any sale of goods via a 'trading platform' that require subscription fees for the sales of goods.¹¹⁵ When the goods are sold, these fees are offset against the proceeds from the sale of the goods. Only the amount minus the fees shall be transferred to the entrepreneur.¹¹⁶

When considering the issues related to consideration in the platform economy, the treatment of non-monetary consideration must also be analysed. Overall, three situations can be distinguished with regard to barter transactions in the platform economy. If both persons engaged in a barter transaction are taxable persons, each party has to account for VAT. Where, instead, a barter transaction is concluded between a taxable person and a non-taxable person, only the taxable person has to account for VAT, and only in special circumstances.¹¹⁷ An example is a situation in which a taxable person provides IT services without requesting monetary consideration from an Internet user in exchange for that user's permission to use his/her personal data. In such a case the provision of IT services does not constitute a taxable transaction for VAT purposes as long as those services are offered under the same conditions to all users of the Internet, irrespective of the quantity and quality of the personal data they provide individually, in such a way that no direct link can be established between the IT services provided and the consideration in the form of personal data received.¹¹⁸ Under the third and last scenario, a barter transaction might take place between two non-taxable persons. In this case, their respective supplies remain outside the scope of VAT.

In a barter transaction between VAT taxable persons, the legal mapping confirmed that each party has to account for VAT. No special rules exist in Member States in this respect. With regard to supplies without monetary consideration (e.g. in exchange for users' personal data), such supplies are not taxable in the majority of the sampled Member States. However, the analysis highlighted significant differences in the treatment across the Member States, as illustrated in Figure 23. The variation across Member States requires further analysis, especially as it has already been discussed at EU level with a view to achieving a uniform approach and the discussion showed a great

¹¹⁵ i.e. 'Handelsplattform'.

¹¹⁶ See: OFD Karlsruhe, VfG. v. 19.2.2015, UR 2015 p. 323.

<https://datenbank.nwb.de/Dokument/543070/?listPos=48>

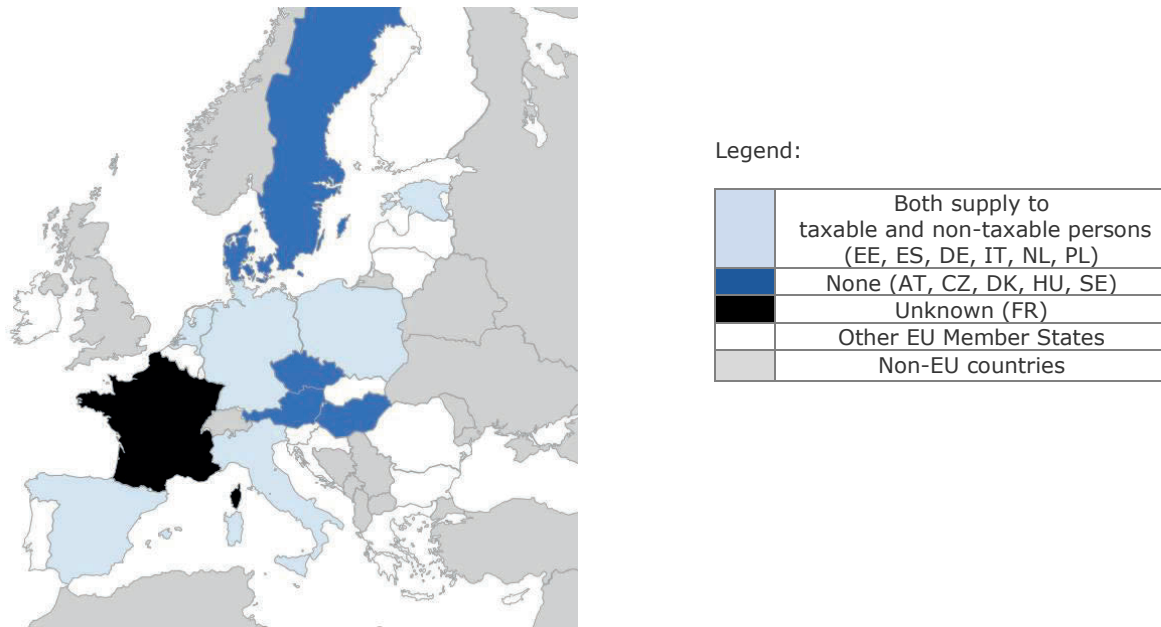
¹¹⁷ A slightly different approach in B2C 'barter' transactions is presented in: Beretta, G. (2019), VAT and the Sharing Economy, Beretta G. World Tax Journal, August 2018, p.381-425.

¹¹⁸ See: Guidelines resulting from the 111th meeting of the VAT Committee of 30 November 2018 document B – taxud.c.1(2019)3722302 – 967. This is however debated, cf. Bouchard, J.C. (2018), *Quelques réflexions sur la taxation de l'économie numérique*, ERA Forum Volume 19 (2018), No 3.

deal of difference in opinion (no agreement was reached on issuing a guideline in this regard).¹¹⁹

It appears that most Member States treat supplies for non-monetary consideration as taxable when provided to both taxable and non-taxable persons.

Figure 23. Taxability of transactions without monetary consideration (sample-based)



Source. Authors' own elaboration.

Impacts. The problem of taxable consideration is not considered as a major issue for the platform economy. Only in two Member States (Austria and Germany), a case law or legal doctrine interpreting the issue of consideration was identified. In contrast, the issue of non-monetary consideration (such as barter exchanges) appears to be somewhat more complex. However, the complexity is grounded in the difficulty of defining the monetary equivalent and enforcing the collection of VAT, rather than in the differences in legal approaches applied in the different Member States. In other words, though Member States tend to agree that certain non-monetary transactions are indeed taxable, it is very hard to both determine the VAT due and obtain its payment.

4.3.5. Nature of service (place of supply)

The problem of the nature of the service provided by the platform to the underlying supplier and/or the customer is of primary relevance for the platform economy. The platform 'does' something which is inherently similar to other economic activities, e.g. intermediation. However, it does it very differently, typically via (mostly) automated means, over the Internet, which is very similar to the concept of electronically supplied services.¹²⁰ Nonetheless, one could consider that a platform does something new which does not fit the categories of 'services' as currently included in the VAT Directive. To make things significantly more complex, the nature of the services provided varies across business models, with various differences and similarities with other types of services. Such discussion is not theoretical. The nature

¹¹⁹ See: Minutes from 111TH meeting of the VAT Committee of 30 November 2018 regarding Working paper no 958.

<https://circabc.europa.eu/ui/group/cb1eaff7-eedd-413d-ab88-94f761f9773b/library/929cb475-f920-41ea-8c1f-700a3fc0b851/details>.

¹²⁰ Article 58 of the VAT Directive.

of the service has a direct implication in the determination of the place of supply, in turn defining the Member State receiving the tax revenue.

Thus, **it is primarily important to determine whether the services provided by the platforms are (or can be) considered as electronically supplied services, intermediary services, or as something else.**¹²¹ At present, the rules regarding the place of supply that could be applied to services provided by platforms, depending on their classification into even just two types of services (electronically supplied or intermediary) are complex, as Table 19 and Table 20 depict. It is also apparent that these rules are quite diverse between sectors and are not always linked to the place of consumption of the underlying services, which is the case for electronically supplied accommodation and transport services.

Table 19. Place of supply for electronically supplied services

Fee/commission paid by:		Place of supply		
		General rule (other sectors)	Accommodation	Passenger Transport
Provider	Taxable person	Place of establishment, permanent location or place where the <u>provider</u> usually resides		
Provider	Non-taxable person			
User	Taxable person	Place of establishment, permanent location or place where the <u>consumer</u> usually resides		
User	Non-taxable person			

Source. Authors' own elaboration taken into account the interpretation of some Member States regarding the accommodation and passenger transport.

Table 20. Place of supply for intermediary services (referred to in Article 46 of the VAT Directive)

Fee/commission paid by:		Place of supply		
		General rule (other sectors)	Accommodation	Passenger Transport
Provider	Taxable person	place of establishment or permanent location of the provider	place of establishment or permanent location of the provider	place of establishment or permanent location of the provider
Provider	Non-taxable person	place where the underlying transaction is supplied	place where the accommodation is located	Place where transport takes place
User	Taxable person	place of establishment or permanent location of the user	place of establishment or permanent location of the user	place of establishment or permanent location of the user
User	Non-taxable person	place where the underlying transaction is supplied	place where the accommodation is located	Place where transport takes place

Source. Authors' own elaboration.

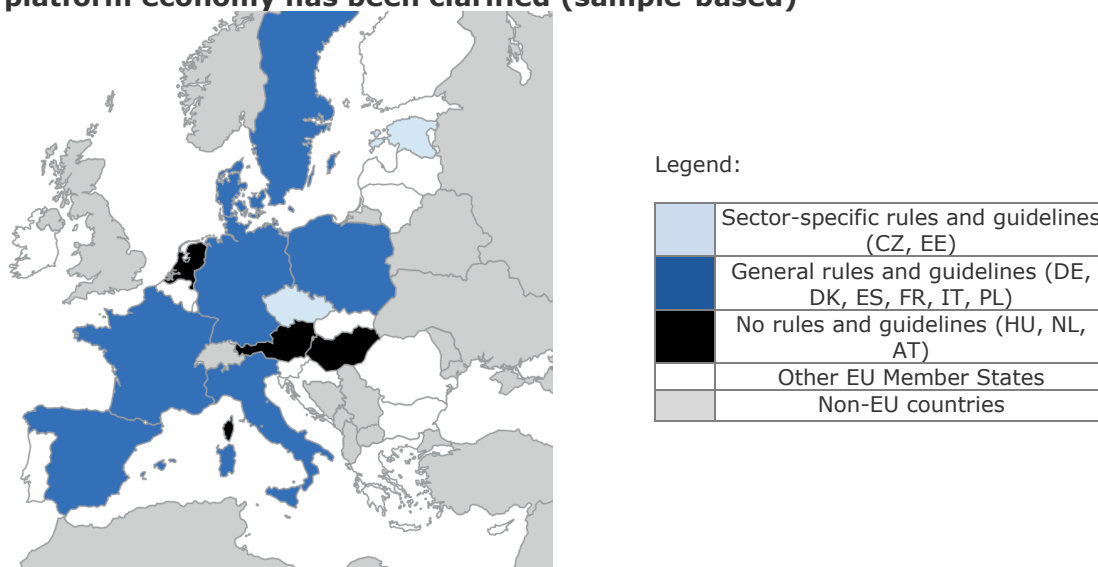
¹²¹ So far CJEU has not delivered a judgment that could shed any light on the interpretation of these provisions. However, it seems that there some guidance could be provided in the pending C-695/20 Fenix International case in relation to the application of article 9a of the Implementing Regulation, unless the CJEU focuses solely on procedural issues. The ruling on this issue may not only be relevant to the concept of deemed supplier rules in the platform economy, but also to the interpretation of electronically supplied services, the scope of which is further clarified in the Implementing Regulation 282/2011. The judgment could thus been quite fundamental in shedding light on a very relevant issue for the VAT treatment of the platform economy.

For services supplied electronically to non-taxable persons (and from 1 July 2021 for all cross-border B2C services), a special VAT collection and reporting regime using the One Stop Shop (OSS) (replacing, as from 1 July 2021, the Mini One Stop Shop (MOSS)) may be applied. However, it may be difficult to determine whether a service can be considered an electronically supplied service, and in particular to determine its level of automation or rather the degree of human intervention, which is currently one of the factors determining the qualification of a service as an electronically supplied service.¹²² Even if services are provided using the internet and modern technology, this does not mean that they will qualify as electronically supplied services.¹²³ In the case of other than electronically supplied services, depending on the nature of the supply, general rules for determining the place of supply or special rules are applied.¹²⁴

The uncertainty of the rule is confirmed by the number of Member States issuing specific rules, guidelines or interpretations presenting a general approach to this classification problem (See Figure 24. Member States where the nature of the services provided by platform economy has been clarified (sample-based)). Sector-specific guidelines have been issued on a smaller scale and mainly relate to services in the accommodation sector. For example, the Austrian tax guidelines contain an extended definition of what is meant by 'electronically supplied service'.¹²⁵ According to these guidelines, a supply of services could be treated as an intermediation service also in the case of 'full automation'.¹²⁶

The consultation with stakeholders pointed out that Member States tend to interpret the rules so that they increase their own VAT revenue. This is specifically pronounced for the treatment of accommodation services. Member States with a relatively developed tourism industry tend to treat platform services as intermediary services, making them taxable in the place where the property is located.

Figure 24. Member States where the nature of the services provided by platform economy has been clarified (sample-based)



Source. Authors' own elaboration.

¹²² See: Guidelines resulting from the 67th meeting of the VAT Committee of 8 January 2003 document A – TAXUD/2303/03

¹²³ Recently, guidelines were adopted on services consisting of interactive sessions filmed and broadcasted in real time via the Internet (e.g. video-chat) supplied by a taxable person who owns the digital content to a final customer (viewer), with the content being provided by another taxable person. These supplies shall represent an entertainment event/activity falling under Article 54 of the VAT Directive. See: Guidelines resulting from the 118th meeting of the VAT Committee of 19 April 2021 document B – taxud.c.1(2021)6378389 – 1016.

¹²⁴ E.g. for intermediary services or services connected with immovable property.

¹²⁵ UStR Rz 642m.

Against this backdrop, it is important to examine whether the platform technology creates new types of services, i.e. services of a nature other than services as defined in the Directive. This issue will be further analysed.

It should also be noted in this context the significance of the VAT identification number in light of the correct application of the place of supply rules for services. This issue should also be further examined, especially with a view to taking account of the fact that the scope of the platform economy is large and, as a result, there is a lot of small-scale taxpayers which may not be required to obtain a VAT number in certain Member States.

In addition, **platforms increasingly expand their offerings that may include a combination of different services/supplies** in which they participate (e.g. rental plus insurance) as well as non-platform economy activities. Identifying the VAT nature of these different types of (packaged or complex) services can raise further challenges and has been discussed in a number of CJEU judgments (in Box 2 below).¹²⁷ Determining whether platforms provide only an online intermediation service or an overall service comprising the underlying physical service as well is instrumental both for VAT purposes, as well as for other parts of the EU *acquis* (and, in particular, for Directives 2000/31/EC and 2006/123/EC).¹²⁸

Under the current rules and case law, the determination of the VAT treatment requires the identification of the **main supply** vs. the ancillary supplies, and the application of the VAT treatment of the main supply to the entire transaction. However, the determination of the main supply may be complex for certain package transactions, and this in turn creates legal uncertainty and litigation.

Box 2. CJEU Cases on the nature of services provided by platforms

In three cases, the CJEU has been called to determine whether the intermediation services provided by a platform should be considered as information society services – covered under the Directive 2000/31/EC, or as a part to the overall service (e.g. transport, accommodation) provided to the final customer. In two cases (Star Taxi app¹²⁹ and Airbnb¹³⁰), the Court concluded that such intermediation services shall be recognised as information society services. In particular, the ability of the service provider to e.g. set the price, as well as the existence of alternative channels for reaching out to customers, suggested that the intermediation service was not an integral part of the overall service. In a nutshell, the app and Airbnb were only offering intermediation services (the qualification of such services as intermediation is undisputed from the proceedings), but not transport or accommodation services respectively. The Court took a difference stance in the Uber case,¹³¹ so that Uber was considered to supply transport services, due to the different business model. In the model, which is no longer used in the EU called 'Uber Pop'), the platform connected non-professional drivers which would not offer transport services otherwise, and contributes to determining their pricing strategy. The difference in the rulings confirms that the definition of the services offered by platforms is dependent on their business models, and in particular on the independence granted to their providers. This could mean that, in certain cases, such platforms could already enjoy a deemed supplier role.

¹²⁷ OECD (2021), *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*, OECD Publishing, Paris, <https://doi.org/10.1787/51825505-en>.

¹²⁸ Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market; Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market.

¹²⁹ C-62/19, Star Taxi App SRL v. Unitatea Administrativ Teritorială Municipiul București prin Primar General and Consiliul General al Municipiului București, 3.12.2020.

¹³⁰ C-390/18, criminal proceedings against X, interveners: YA, Airbnb Ireland UC, Hôtelière Turenne SAS, Association pour un hébergement et un tourisme professionnels (AHTOP), and Valhotel, 19.12.2019.

¹³¹ C-434/15, Asociación Profesional Élite Taxi v. Uber Systems Spain SL, 20.12.2017.

Finally, the Court recently issued a ruling in the area of VAT, concerned to a 'remote' letting of property. In the Titanium case,¹³² a non-EU based legal person let a real estate property to a local customer, while relying on the services provided by a local real estate management company to act as intermediary for such property. In this case, the Court concluded that the non-EU legal person did not have a fixed establishment in the EU, since it did not have his or her own staff to perform services relating to the letting of the property.

Impacts. The problems related to the nature of the supplies carried out via platforms, and thus their place of supply, have been a major issue for the platform economy stakeholders. Although, there is a prevalent approach, which is to categorize platform services as electronically supplied, there are differences across Member States. It is also likely that the variation in interpretations could become more significant in the future. The difference not only creates a regulatory complexity for digital platforms, but could also lead to double taxation (and/or double non-taxation) and to an inappropriate re-distribution of VAT revenue across Member States. Though the lack of CJEU cases confirms that such problems have hardly materialised yet, the likelihood of the problems emerging in the future is high. Along with the fragmentation of the approach pertaining to the taxable status of providers, fragmentation of measures regarding the nature and place of supply is thus likely to have major impacts on the legal certainty for platform stakeholders and the functioning of the Internal Market.

4.3.6. Other platform economy tax policies

More and more fiscal provisions – both substantive and procedural – dedicated to platforms are being developed in the Member States. Indeed, in addition to the VAT rules discussed above, there are other important fiscal issues regarding the treatment of the platform economy, indirectly linked to the VAT related aspects, and namely:

- 1) Digital taxes;
- 2) Tourist taxes;
- 3) Reporting obligations (other than DAC7).

Besides, other areas of national intervention on platform economy stakeholders include special income tax schemes, other simplifications, as well as the collection of taxes through platforms. Yet, other Member States have introduced revenue thresholds, below which taxpayers can benefit from a variety of simplifications, including VAT exemptions (as in Belgium). These other aspects are summarised in Table 21.

Digital tax

The analysis shows that, in the analysed sample, **four Member States (Austria, Spain, France and Italy) have already introduced a tax on the turnover derived from certain digital services.** Yet, the OECD/G20 agreement on the Inclusive Framework on Base Erosion and Profit Shifting, as part of unilateral measures towards challenges arising from the digitalisation of the economy, requires all parties to remove all Digital Services Taxes and other relevant similar measures.¹³³

In **Austria**, since 2020 online advertising services have been subject to a 5 percent digital tax paid by online advertising providers. The chargeability of the tax was limited to companies that provide or contribute to online advertising services in return for payment and generate yearly sales of online advertising services of at least EUR 25 million in Austria and at least EUR 750 million worldwide.

¹³² C-931/19, Titanium Ltd v. Finanzamt Österreich, 3.6.2021.

¹³³ *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*, 8 October 2021.

A similar approach to a digital tax has been adopted in France. Therein, the tax on digital services is established on sums received in consideration for the supply in France of the following services:

- the provision, by electronic communications, of a digital interface that allows users to contact other users and to interact with them, in particular for the supply of goods or services directly between these users (intermediation services: for example, marketplace, dating site);
- advertising targeting services provided to advertisers (or their representatives). These services include the sale of user data collected online for targeting purposes, user data management services and services for the purchase, storage and delivery of advertising, advertising monitoring and performance measurement.

Subject to the tax are the companies for which the annual amount of payments received for taxable services exceeds, during the preceding calendar year, EUR 750 million for services provided worldwide and EUR 25 million for services provided in France. The tax amounts to 3 percent of the receipts received for such services.¹³⁴ A similar rate to that in France also applies in **Italy** and **Spain**. However, the thresholds of services provided domestically is lower and amount to EUR 5.5 million (Italy) and to EUR 3 million (Spain). The apparent similarities in the design of these national taxes within the analysed sample result from the Commission Proposal for a Directive on the EU Digital Service Tax.¹³⁵

Tourist tax

In five Member States (**Austria, Czechia, France, Italy and the Netherlands**) **users of vacation rental services provided via a platform are also subject to a tourist tax**. However, it should be noted that the tourist tax generally levied on accommodation, especially in tourist destinations, is not exclusively attributed to accommodation services facilitated by digital platforms.

An exception in the sample is Austria, where platform operators have additional obligations in relation to the assessment and collection of tourist tax. In principle, the lessor is liable for payments of the tourist tax in Austria. Under certain circumstances, however, the platform operator may also be liable for this tax if a relevant agreement was signed between the provider of the accommodation service and the platform.

National reporting obligations (other than DAC7)

It is also important to highlight the **additional reporting obligations that four of the sampled Member States, Austria, France, Italy and Spain, have imposed**.¹³⁶ This is a particularly sensitive issue, especially in the context of the planned reporting obligations under DAC7. The evolution of national legislations in different directions will

¹³⁴ The tax base is the amount, excluding VAT, of the receipts received in consideration of taxable services provided in France, regardless of the method of payment and the location of the payer. This amount is itself determined by applying to the total amount of receipts paid during a given year a percentage representing the share of services related to France.

¹³⁵ Proposal for a Council Directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services, 21.3.2018, COM(2018)148.

¹³⁶ Within sampled countries, a reporting obligation also exists in Denmark for owners of holiday homes, owners / tenants / cooperative owners of a residence, or owners / lessors of vehicles / boats renting their assets through sharing economy platform. The obligation is however not targeted at platforms. Reporting obligations for platform also exist in Belgium, Bulgaria, Finland, and Greece.

undoubtedly pose a challenge for platforms to adapt, in particular in the context of the DAC7 rules to be introduced from 2023.

The provisions that were introduced in Austria as of 2020 oblige platforms to keep records for the supplies they facilitate.¹³⁷ This record keeping obligation applies to every transaction as long as the consumption of goods or services takes place on the Austrian territory, and namely to the following type of supplies:

- Supplies of goods, if the dispatch or transport ends in Austria and the customer is a person listed in Art 3 para 4 Austrian VAT Act 1994 (e.g. a consumer or a small entrepreneur);
- Supplies of services to non-taxable persons (B2C, C2C), if the place of supply is Austria.

If the total amount of the supplies that have to be recorded pursuant to Sec 18 para 11 Austrian VAT Act 1994 exceeds EUR 1 million yearly – i.e. the value of the underlying supplies, the records have to be submitted electronically to the tax authorities by January 31st of the following year, at the latest. If the threshold is not exceeded, the records only have to be submitted at the request of the tax authorities. The records must be kept for ten years from the end of the year in which the supply was made.¹³⁸

A slightly different approach applies in France, where reporting obligations have also been introduced for goods and services consumed in France. As in Austria, platform operators are required to declare the income of their providers to the French Tax Administration (FTA) once a year. This requirement applies to companies which, such as platform operators, connect people remotely, by electronic means, for the sale of a good, the supply of a service or the exchange or sharing of a good or service established in France or abroad, provided that they have providers making sales or rendering services located in France for VAT purposes. However, platform operators are exempted from providing data for transactions without any lucrative objective and with shared costs with the recipients, or from the sale of some second-hand goods (furniture, household appliances, cars in particular).¹³⁹

The obligation comes with potentially severe sanctions for non-compliant platforms. For non- or late submission or omission of revenue, the penalty is 5 percent of the revenue not communicated. A similar penalty applies if the platform fails to (properly) share the annual summary statement of revenues with its users. For omissions or inaccuracies in the data reported, the penalty is EUR 15 per omission, but this is capped to EUR 10 000. Finally, and most importantly, a joint and several VAT liability provision is introduced: if the supplier does not charge, declare or pay the VAT, the platform becomes liable unless it takes appropriate action (e.g. suspending the supplier's account).

Similarly to France, reporting obligations for distance sales of goods and services taking place have also been introduced in Italy (as of 2019). The reporting obligations introduced by the Law Decree No. 34 of 30 April 2019 require the online interfaces that facilitate distance sales to submit data for each supplier carrying out these types of supplies to the relevant tax authorities on a quarterly basis. The transmitted data should include, *inter alia*, personal data, the tax identification number if applicable, and the total number of units sold in Italy. The sanction for lack or incomplete submission of the required data on distance sales entail additional tax burdens for platform operator. The

¹³⁷ Sec 18 para 11 Austrian VAT Act 1994.

¹³⁸ See: Recording Obligations for Electronic Interfaces (Platforms), [https://www.bmf.gv.at/en/topics/taxation/vat-assessment-refund/Recording-Obligations-for-Electronic-Interfaces-\(Platforms\)-.html](https://www.bmf.gv.at/en/topics/taxation/vat-assessment-refund/Recording-Obligations-for-Electronic-Interfaces-(Platforms)-.html).

¹³⁹ The amounts relating to these activities are covered by the transmission if a single provider carries out more than 20 transactions exceeding the overall value of EUR 3,000 per year.

online marketplace is deemed liable for VAT on distance sales if it does not prove that the supplier paid the VAT.¹⁴⁰

In Spain, as of 2019, the persons and entities who facilitate the renting of the properties located in Spain for tourism purposes must submit to the national tax authorities relevant data. The data include personal data of the property owner as well as of the persons renting it, information identifying the property, the duration of the rental period and the remuneration received (if the rental is free of charge, this must also be reported). The intermediaries are required to report the data irrespective of the channel through which the property is promoted and rented, including collaborative platforms. Penalties, calculated on the basis of the volume of data not provided to tax authorities, are imposed on non-compliant intermediaries.¹⁴¹

Impacts. As for the other national policies examined above, while the tourist tax seems to have little significance for the development of the platform economy, the digital tax and the additional reporting obligations introduced in some Member States are considered by the platforms as an obstacle and a source of large-scale compliance costs. However, the impact of the OECD/G20 agreement, which should lead to their abolition, should address the concerns from digital taxes. As for reporting, multiple obligations and their fragmentation across Member States hinder the automation of data processing. This, in turn, has a substantial impact on compliance costs borne by digital platforms operating with very large databases of users and transactions.

¹⁴⁰ See Agenzia Entrate – Distance sales of goods:

<https://www.agenziaentrate.gov.it/portale/web/guest/cose-vendita-a-distanza-di-beni>.

¹⁴¹ See: Royal Decree 1070/2017: <https://www.boe.es/buscar/doc.php?id=BOE-A-2017-15838>.

Table 21. Measures for the platform economy in 12 analysed Member States

Country		AT	CZ	DE	DK	EE	ES	FR	HU	IT	NL	PL	SE
Special taxes/fees applicable to platform	Digital Tax	YES	-	-	-	-	YES	YES	-	YES	-	-	-
	Tourist Tax	YES	YES	-	-	-	YES	YES	-	YES	YES	-	-
	Withholding Tax	-	-	-	-	YES	-	-	-	YES	-	-	-
	Other	-	-	-	-	-	-	-	Environmental product charge	-	-	-	Congestion tax
Special schemes of income taxation applicable to platform economy stakeholders		-	-	-	Introduced in July 2021	-	-	-	-	-	-	-	-
Special reporting obligations; special taxes and schemes for income taxation to be introduced in the future		Special reporting obligations	Digital Services Tax (DST) - expected date is 1 July 2021.	-	-	-	Special reporting obligations	Special reporting obligations	-	Special reporting obligations	-	-	-

Source. Authors' own elaboration.

4.4. Other EU measures relevant to the platform economy

Over the recent years, issues relating to the digital economy have become the subject of lively discussions in the context of possible changes to fiscal policies, also linked to the use of digital data.¹⁴² The above legal analysis is thus complemented by considering such policies, which may have a major complementary impact on stakeholders and the platforms themselves in the near future. In particular, this section describes the following EU policies – proposed, adopted, or implemented, as well as the ensuing national arrangements:

- 1) VAT e-Commerce Package;
- 2) DAC7;
- 3) Digital Services Tax and Enhancement of Corporate Income Tax Efficiency;
- 4) European Data Governance;
- 5) Digital Services Act;
- 6) Digital Markets Act;
- 7) Regulation on promoting fairness and transparency for business users of online intermediation services;
- 8) Central Electronic System of Payment Information;
- 9) Directive on improving working conditions in platform work.

4.4.1. The VAT e-commerce Package

In order to ensure the smooth functioning of the e-commerce in the EU, including fair competition from non-EU stakeholders, and to reduce the compliance costs of such transactions, the 'VAT e-Commerce Package'¹⁴³ has been adopted and is being introduced gradually in the EU. The VAT e-Commerce Package entered into force on July 1, 2021.

According to the new rules, businesses operating electronic interfaces such as marketplaces are, in certain situations, deemed for VAT purposes to be the supplier of goods sold to customers (destination) in the EU by suppliers using the marketplace or platform. Consequently, they have to collect and pay the VAT on these sales. The non-Union scheme for supplies of Telecommunications, Broadcasting and Electronic (TBE) services by taxable persons not established in the EU remains optional but is extended to all types of cross-border services supplied by non-established suppliers to final consumers in the EU.

The Union scheme for intra-EU supplies of TBE services is extended to all types of B2C services as well as to intra-EU distance sales of goods and certain domestic supplies facilitated by electronic interfaces. The extension to intra-EU distance sales of goods goes hand in hand with the abolition of the current distance sales threshold, in line with the commitment to apply more precisely the VAT destination principle.

The new rules on distance selling and the provision of non-TBE services to consumers in other Member States will first of all affect the operation of marketplaces, or economic platforms more broadly, but as already noted, the study on platforms does not cover the changes introduced by the VAT e-Commerce Package. In fact, this study is intended to help reflect upon regulatory changes that will bridge the gap between the adopted VAT e-Commerce Package and legal issues arising under the platform economy.

¹⁴² See: European Parliament (2016), *Tax challenges in the Digital Economy*, study, IP/A/TAXE2/2016-04; European Parliament (2014); Report of the Commission Expert Group on Taxation of the Digital Economy.

¹⁴³ Council Directive (EU) 2017/2455 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods and Council Directive (EU) 2019/1995 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies of goods.

4.4.2. DAC7 – imposing reporting obligations on online platforms

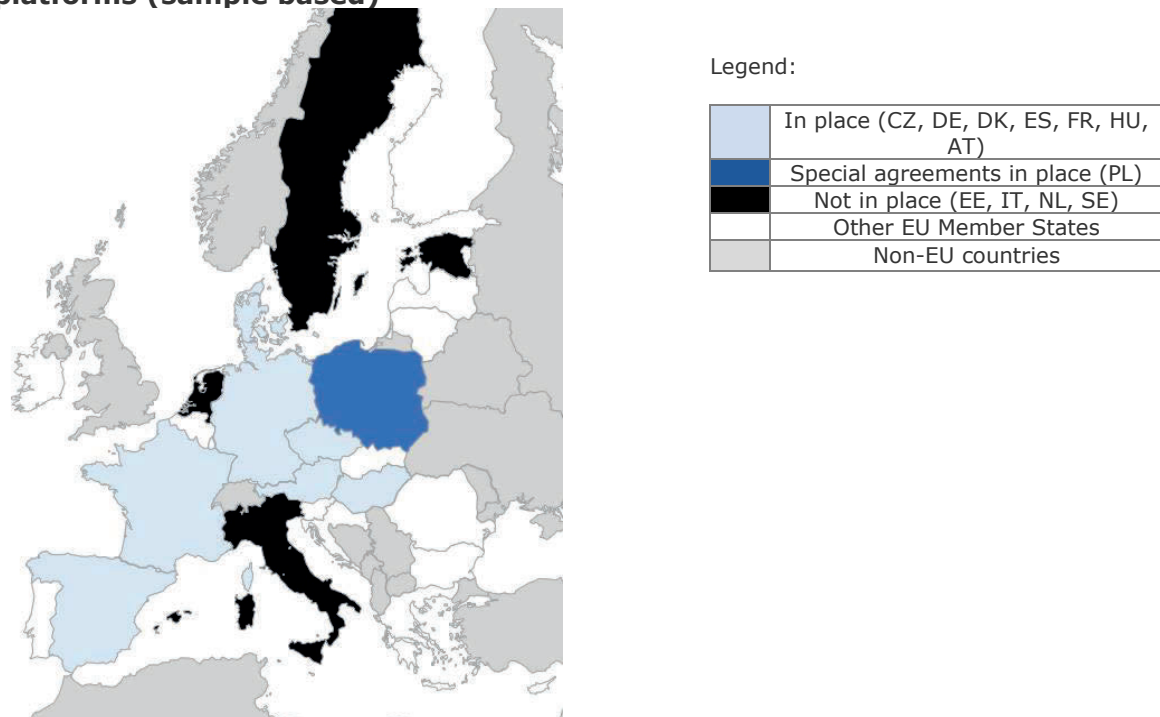
In July 2020, the Commission proposed an amendment¹⁴⁴ to the Directive on Administrative Cooperation to new areas in order to address the challenges posed by the digitalisation of the economy. On March 22, 2021, the Council adopted a new set of rules in this respect. The new rules impose an obligation on platform operators to collect and verify information relating to persons selling through their intermediation and the income obtained therefrom, and then to report the information collected to the Member State of establishment, which will in turn be able to exchange it with the other Member States concerned. The rationale of this provision is based on an IA which underlines the characteristics of the digital platform economy that ‘*make the traceability and detection of taxable events by tax authorities very difficult*’.

The main objectives of the new Directive are to ensure a fair and consistent functioning of the internal market while safeguarding Member States’ and EU revenues. More in detail, DAC7 objectives consist in:

- introducing a mandatory automatic exchange of information between competent tax authorities to enable them to collect adequate tax revenues, and
- harmonising the legal framework for platform operators reporting obligations to avoid high compliance costs arising from different national legislations.

In some of the analysed Member States, platforms are already required or will be required to provide information, as shown in Figure 25. The information obligations required by DAC7 will double the obligations, which are already in place. This issue is very sensitive because platforms handle gigantic data sets and can only deliver reporting obligations in an automated way. To date, fourteen Member States have already adopted domestic measures imposing reporting obligations on online platforms.¹⁴⁵

Figure 25. Current obligations to provide information on suppliers using platforms (sample based)



Source. Authors’ own elaboration.

¹⁴⁴ European Commission (2020), Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation, Brussels, 15.7.2020, COM(2020) 314 final.

¹⁴⁵ See: [CMS.law.tax. \(last accessed in June 2021\)](#)

Member States will automatically exchange information on income generated by sellers through digital platforms. This information would be available also for other taxes, including VAT. This will not only allow national authorities to identify situations where tax should be paid but will also reduce the administrative burden placed on platforms, who have to deal with several, different national reporting requirements.

It is expected that the intervention may lead to more than EUR 30 billion of additional revenue from direct taxes, overall in the EU, by 2025 (the expected date of entry into force of the relevant provisions is 1 January 2023). The costs for platforms are estimated overall at EUR 875 million one-off costs and circa EUR 100 million of recurrent costs.¹⁴⁶ Costs are estimated for all platforms and, on average, would be in the range of tens of thousands of euros per platform per year. These estimates are based on a number of assumptions and extrapolations; however, they give an idea of the scale of the problem and indicate the tax revenue potential inherent in the platform economy.

4.4.3. Digital Services Tax and Enhancement of Corporate Income Tax Efficiency

The Commission proposed in March 2018 two sets of measures: an interim solution – the Digital Services Tax¹⁴⁷ limited to digital businesses, and the Significant Digital Presence¹⁴⁸ proposal, intended as a long-term solution. Those proposals are currently on hold, pending the outcome of discussions at global level.

The global discussions on the reform of corporate tax systems due to the digitalisation of the economy are mainly taking place at the Organisation for Economic Cooperation and Development (OECD)/G20 Inclusive Framework, with a view to reaching a consensus-based global solution. The global agreement reached on October 8 by 136 countries was to bring stability to the global tax framework and avoid the multiplication of unilateral measures.

The nature of the international discussions has gone beyond focusing on the taxation of the digital economy, to cover broader issues. The OECD/G20 agreement aims at better aligning taxing rights with the new realities of value creation, i.e. by reallocating a share of multinationals' profits to market jurisdictions. In this respect, the global minimum effective taxation of the profits of multinational companies would help curbing tax avoidance and putting a floor to tax competition.¹⁴⁹

The draft legislation submitted by the Commission on the taxation of the digital economy has resulted from the observation that digital business models in the EU face a lower effective average tax burden than traditional business models. Based on stylised business models,¹⁵⁰ a cross-border digital business model would be subject to an effective average tax rate of only 9.5 percent. This compares to a rate of 23.2 percent for a cross-border traditional business. Similarly, the Expert Group on Taxation of the Digital Economy found that the effective VAT rate by digital businesses was lower because they locate their businesses in lower VAT-rate jurisdictions.¹⁵¹ A lower tax

¹⁴⁶ See: European Commission (2020), *Commission staff working document executive summary of the impact assessment tax fraud and evasion – better cooperation between national tax authorities on exchanging information*, Brussels, 15.7.2020, SWD(2020) 130 final.

¹⁴⁷ European Commission (2018), *Proposal for a Council Directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services*, Brussels, 21.3.2018 COM(2018) 148 final.

¹⁴⁸ European Commission (2018), *Proposal for a Council Directive laying down rules relating to the corporate taxation of a significant digital presence*, Brussels, 21.3.2018 COM(2018)147 final.

¹⁴⁹ See: *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*, 8 October 2021.

¹⁵⁰ European Commission (2016), *Effective tax rates in an enlarged European Union – Final report 2016*, Project for the European Commission, TAXUD/2013/CC/120.

¹⁵¹ Cf. Commission Expert Group on Taxation of the Digital Economy, Report, 28/05/2014, in particular § 2.3.2. This is no longer the case as regards TBE services from 1 Jan 2015.

burden for digital businesses can result in competitive distortions that contribute to a lack of a level playing field between different types of companies.

All these actions will undoubtedly have an impact on the functioning of platforms, especially those with an international dimension. It should be noted that some Member States, pending the achievement of an agreement at global level, have themselves introduced or are introducing a digital tax (such tax has been implemented or will so be in Italy, France, Austria, Hungary, Spain)¹⁵². Such actions, which are unilateral and not harmonised at the EU level, undoubtedly have a negative impact on the legal certainty of the operation of platforms in some Member States.

4.4.4. European Data Governance Act

The proposal for a Data Governance Act¹⁵³ is the first of a set of measures announced in the 2020 European strategy for data. The instrument aims to foster the availability of data for use, by increasing trust in data intermediaries and by strengthening data-sharing mechanisms across the EU. The regulation of data governance is expected to be a powerful engine for innovation and new jobs. It will allow the EU to ensure that it is at the forefront of the second wave of innovation based on data.

Businesses are expected to benefit from a reduction in costs for acquiring, integrating and processing data, and from lower barriers to enter new markets. They will also see a reduction in time-to-market for novel products and services. This will enable small and large firms alike to develop new data-driven products and services. Thus, the analysis of impacts will take into account possible effects of the proposed regulations on the development of platforms, especially those in the transport sector.¹⁵⁴

4.4.5. Digital Services Act

The proposed Digital Services Act¹⁵⁵ lays down a range of reporting obligations for online platforms with an aim to increase transparency of their functioning, tackle illegal activities conducted by their users and protect users' rights. The array of specific due diligence obligations imposed on platforms covers the provision of data access for independent auditors. In addition to that, 'very large online platforms' shall be obliged to take risk-management measures against spreading harmful goods or content. Such responsibilities will apply to online platforms providing their services to more than 10% of the EU population. The obligation for the monitoring of illegal content and a notification mechanism for citizens to notify about illegal content of goods and services is also imposed. Online marketplaces should adopt a 'know-your-business-customer' approach, to help identify sellers of illegal goods. In addition, transparency requirements on advertising and profiling conducted by the platforms and on content moderation are proposed. Online platforms deemed in breach of the new rules risk fines of 6 percent of their total global turnover in the preceding year, which could amount to billions of euros for the largest players. Each Member State will be obliged to appoint a Digital Service Coordinator, who will be supported by a new European Board for Digital Services. There will also be enhanced supervision and enforcement by the European Commission for very large online platforms.

¹⁵² European Commission (2020), *Tax policies in the European Union, 2020 survey*, DG TAXUD.

¹⁵³ Brussels, 25.11.2020 COM(2020) 767 final 2020/0340 (COD) Proposal for a Regulation of the European Parliament and of the Council on European data governance (Data Governance Act).

¹⁵⁴ The Commission recognises, among other things, the benefits associated with the proposed regulations thanks to real-time navigation see: European Commission, [Policy regarding European data governance](#).

¹⁵⁵ See: European Commission (2020), *Proposal for a Regulation of the European Parliament and of the Council on a Single Market for Digital Services (Digital Services Act) and amending Directive 2000/31/EC, 15.12.2020, COM(2020) 825 final*.

The new initiative of the European Commission could have an impact on competitiveness and growth of online platforms and thus the impact of the proposed regulations will be taken into account in the analysis of impacts exercise.

4.4.6. Digital Markets Act

Together with the Digital Services Act, the Digital Markets Act is at the core of the Commission's initiatives on the European digital strategy. The proposed Digital Markets Act identifies a new category of economic operators, i.e. large online platforms called 'gatekeepers'. A 'gatekeeper' is an economic operator meeting the following conditions: (i) it is a strong economic position, significant impact on the Internal Market and active in multiple EU Member States, (ii) it has a strong intermediation position, meaning that it links a large user base to a large number of businesses, and (iii) it has (or is about to have) an entrenched and durable position in the market, meaning that it is stable over time.¹⁵⁶ Such narrowly defined criteria for qualifying a platform as a gatekeeper aims at ensuring that the Digital Markets Act will be well targeted.

The new rules proposed by the Digital Markets Act will establish a set of obligations for gatekeepers and rights for their users, including the right to promote their offer and conclude contracts with their customers outside the gatekeeper's platform, as well as the right to access the data that business users generate in their use of the gatekeeper's platform. Moreover, gatekeeper platforms may no longer treat services and products offered by the gatekeeper itself more favourably, and prevent users from un-installing any pre-installed software or app if they wish so. The European Commission will carry out market investigations to ensure that new rules address the fast-changing landscape of digital markets. The proposal envisages fines and periodic penalty payments for non-compliant platforms. In case of systematic infringements to the regulations, additional enforcement steps could be allowed.

4.4.7. Regulation on promoting fairness and transparency for business users of online intermediation services;

In order to ensure the transparency and fairness in the digital markets, on 20 June 2019 the European Parliament and the Council adopted a Regulation on promoting fairness and transparency for business users of online intermediation services. The Regulation covers online platform intermediaries and general online search engines that provide their services to businesses established in the EU and that offer goods or services to consumers located in the EU. Such online platform intermediaries include third-party e-commerce marketplaces, app stores, social media for business, and price comparison tools. The regulations require online platform intermediaries: (i) to make their standard terms and conditions more transparent and easily available, and to announce changes thereto well in advance, (ii) not to prevent the business user from making its identity visible, (iii) to inform businesses about how they treat and rank goods or services offered by themselves or by businesses they control compared to third-party businesses, either in the terms and conditions or in a publicly available document, (iv) to provide a statement of reasons to businesses whose account is restricted, suspended or terminated, and to give 30 days prior warning unless in exceptional circumstances, and to preserve the data associated with business users' account, so this can be reinstated in case of errors, and (v) to set up an internal complaint handling system and to provide a list of specialised mentors for problem solving. The Regulation enables the organisations and associations representing business users' interest to act before competent national courts to stop or prohibit non-compliance with the Regulation by

¹⁵⁶ See: The Digital Markets Act: ensuring fair and open digital markets, https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/digital-markets-act-ensuring-fair-and-open-digital-markets_en.

online platforms.¹⁵⁷ Each Member State is responsible for laying down the rules setting out the measures applicable to infringements of this Regulation and their enforcement.¹⁵⁸

4.4.8. Central Electronic System of Payment Information

On February 18, 2020, the Council adopted a legislative package to request payment service providers to transmit information on cross-border payments originating from Member States and on the beneficiary of these cross-border payments.¹⁵⁹ Under this package, payment service providers offering payment services in the EU will have to monitor the beneficiaries of cross-border payments and transmit information on those who receive more than 25 cross-border payments per quarter to the administrations of the Member States (as from 1 January 2024). The objective of this measure is to give tax authorities of the Member States the right instruments to detect possible e-commerce VAT fraud carried out by sellers established in another Member State or in a non-EU country.

These regulations do not directly affect platform operators but may have an impact on reducing transactions by fraudsters using platforms for this purpose, and indirectly on increasing trust in the platforms themselves.

4.4.9. Directive on improving working conditions in platform work

In December 2021, the Commission presented its proposal aiming to correctly determine the employment status of people working through digital labour platforms,¹⁶⁰ an aspect which is closely linked to the problems discussed in this report, the Directive provides a list of control criteria to determine whether the platform- is an employer. This list of criteria contains: (i) an upper limit for the remuneration obtained, (ii) supervision of the performance of work through electronic means by platforms operators, (iii) restrictions to working hours or periods of absence, and restrictions to accept or to refuse tasks or to use subcontractors or substitutes, (iv) the existence of specific binding rules with regard to appearance, conduct towards the recipient of the service or performance of the work, and (v) restrictions to the possibility to build a client base or to perform work for any third party. If the platform meets at least two of these criteria, according to the Directive, it shall be legally presumed to be an employer of platform's providers.

This, in turn, would have an important impact on the VAT status of platforms' providers. It is estimated that between 1.7 million and 4.1 million people could be re-classified as employees.¹⁶¹ In this situation, the value added created by these employees would become effectively taxed at the VAT applicable to platforms' output. At the same time, compared to the current situation, these providers would no longer be considered as taxable persons. This would impact the administrative and compliance costs borne by

¹⁵⁷ See: Questions and Answers - EU negotiators agree to set up new European rules to improve fairness of online platforms' trading practices, [https://wayback.archive-it.org/12090/20190627035619/http://europa.eu/rapid/press-release MEMO-19-1169_en.htm](https://wayback.archive-it.org/12090/20190627035619/http://europa.eu/rapid/press-release_MEMO-19-1169_en.htm).

¹⁵⁸ See: Regulation (EU) 2019/1150 of the European Parliament and of the Council of 20 June 2019 on promoting fairness and transparency for business users of online, intermediation services, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R1150&from=EN>.

¹⁵⁹ See: Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112/EC as regards introducing certain requirements for payment service providers (OJ L 62, 2.3.2020, p. 7) and Council Regulation (EU) 2020/283 of 18 February 2020 amending Regulation (EU) No 904/2010 as regards measures to strengthen administrative cooperation in order to combat VAT fraud (OJ L 62, 2.3.2020, p. 1).

¹⁶⁰ Proposal for a Directive of the European Parliament and of the Council on improving working conditions in platform work, COM(2021)762, 9.12.2021. See also: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6605

¹⁶¹ See: <https://ec.europa.eu/social/BlobServlet?docId=25007&langId=en>

administrations (which would have less taxable persons to control), platforms and providers.

4.5. Gap analysis

The gap analysis defines the cases (i.e. the transactions) in which the platform operators already have obligations under the VAT Directive, in particular as resulting from the VAT e-Commerce package, or DAC7. The aim of the analysis is to identify the areas not yet covered by the legislation in force or forthcoming.

4.5.1. The deemed supplier provision

Businesses operating electronic interfaces, such as marketplaces or platforms will, in certain situations, be deemed, for VAT purposes, to be the supplier of goods sold to customers in the EU by companies using the marketplace or platform. Consequently, they will have to collect and pay the VAT on these sales. The deemed supplier rule applies in case of: (i) distance sales of goods imported to the EU with a value not exceeding EUR 150 (excluding excisable goods); and/or (ii) supplies of goods to customers in the EU, irrespective of their value, when the underlying provider is not established in the EU (both domestic supplies and distance sales within the EU are covered). The deemed supplier provision is not applicable to intra-Community distance sales of goods in case the supplier is established in the EU, as well as to sales by non-taxable persons and to sales to taxable persons.

To declare and pay the VAT due in other Member States, online marketplaces/platforms are able to register in a special electronic portal called the One Stop Shop (OSS). The import scheme (Import One Stop Shop, IOSS) is available for the declaration and payment of VAT on imported goods while VAT due on intra-EU distance sales and domestic sales by electronic interfaces can be declared and paid via the Union scheme (OSS)¹⁶².

Different scenarios are therefore possible as regards the possibility of extending the deemed supplier role to situations not covered by the current regulations. This could include the supply of services, which is not covered by this provision regardless of the nature and place of establishment of the supplier and customer. As for supply of goods, the deemed supplier could be extended to:

- C2B2C and C2B2B supplies, when the provider does not become a taxable person, or
- B2B2B supplies, or
- B2B2C supplies, when the provider is a taxable person established within the Community.

As an alternative to the deemed supplier regime, the gaps could also be filled by imposing other forms of liability on the platform for the underlying supply. The platform could act as a withholding agent or be jointly and severally liable for the VAT on the underlying supply.

4.5.2. Record keeping obligations (transactions covered by reporting)

Record keeping obligations, and the scope thereof, are regulated by the VAT Directive in **Article 242a** and the **DAC7**. The latter, as already indicated, will be in force as of 2023.

Article 242a of the VAT Directive. According to Article 242a of the VAT Directive, platforms are obliged to keep records of supplies facilitated by them. These records

¹⁶² For more information see: https://ec.europa.eu/taxation_customs/business/vat/vat-e-commerce_en.

must be sufficiently detailed to enable the Tax Authorities of the Member States where those supplies are taxable to verify that VAT has been accounted for correctly. The records should be kept for 10 years from the end of the year in which the transaction took place.

There are number of fundamental conditions to be for Article 242a to apply:

- the platform must 'facilitate' a supply of goods or services;
- the platform (or, rather, the services it provides) must not fall within the exceptions in art 54b(1) and (2) of the VAT Implementing Regulation;
- there must be a supply by the underlying provider – i.e. a transaction carried out for consideration;
- that supply must be taxable within the EU.

Article 54c of the Implementing Regulation¹⁶³ specifies what information platforms should keep in respect of their suppliers and their supplies. The platforms should inter alia keep:

- **Data on the supplier.** The name, postal address and electronic address or website of the supplier, including, if available (i) the VAT identification number and (ii) the bank account number;
- **Data on the transaction.** A description of the goods and services, their value, the information to determine the place and time of supply (e.g. the place where the dispatch or transport of the goods ends, and, if available, the order number or unique transaction number).

According to platform operators, the most complex data to retrieve and then store include the description of the goods / services exchanged (which the platforms may not always know in sufficient detail), and the information needed to determine the time of the supply. For accommodation services, the cadastre information of the rented real estate is deemed particularly costly to provide.

To meet the requirements of the VAT Directive and the Implementing Regulation, especially in correctly establishing the place of supply, the platforms should also keep the following data regarding the consumer, such as name, address, email address and additional data such as bank details or national tax number.

It seems that other information may be required by tax administrations, such as information contained in the invoice issued, e.g. by storing a copy of the invoice or by recording invoice elements in books and records, and namely the VAT rate applied, information on returns of goods and cancellations of sale. This may create an additional reporting burden for platforms.

Other reporting obligations may arise from the introduction of joint and several VAT liability by some Member States (e.g. Austria, France and Germany have already implemented this regulation) on platforms, which may require platforms to manage payments resulting from transactions. Compliance with these additional obligations is considered complex by platform operators.

¹⁶³ Council Implementing Regulation (EU) No 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax (recast) (OJ L 77, 23.3.2011, p.1).

For transactions to which the deemed supplier provision applies, the platforms should keep VAT records like a normal supplier. The extent of information it should keep depends on whether or not it uses special schemes.¹⁶⁴

DAC7. According to the DAC7 online platforms need to collect and verify the tax information of EU sellers who use their services and report taxable sales activities each year to local tax authorities, which will then transmit the information to other EU Member States. The transactions that should be reported include:

- immovable property rental, including residential and commercial property and parking lots;
- rental of cars, motorcycles, electric scooters;
- services carried out at the request of a user;
- sales of goods.

Transactions need to have a monetary value to be considered reportable, and need to be paid to the seller in a way that is verifiable by the digital platform. Reportable sellers are either EU tax residents (individuals or companies), who carry out taxable transactions according to the above definition, or sellers who rent out property that is located in the EU.

Sellers who have less than 30 transactions and for less than EUR 2 000 in total are excluded from the platform's reporting obligations.

Platform operators need to collect and report details on:

- seller's personal information;
- tax identification (TIN or VAT number);
- transaction amounts;
- financial accounts used;
- fees withheld by the platform operator;
- address of the rented property & rental periods.

This information needs to be reported by January 31 of the year after the reportable seller has used their services.

According to platform operators, the most challenging pieces of information include the user taxable status, the existence of an user's permanent establishment in the EU, the total amount of commission paid to the platform per each user on a quarterly basis, the information to determine the time of the supply, as well as, for accommodation services, the type of accommodation concerned.

In general, the DAC7 will be an important source of information not only for income tax purposes but may also be helpful for VAT purposes. However, its usefulness for VAT purposes may be limited. Firstly, the information will be reported for annual periods, secondly, it does not necessarily relate to the country of consumption (except for immovable property) and thirdly, the thresholds applied may not give the full picture. Hence the initiatives of some Member States, e.g. Austria, to introduce additional reporting obligations for VAT purposes.

¹⁶⁴ See: Explanatory Notes on VAT e-commerce rules, European Commission (TAXUD), September 2020, https://ec.europa.eu/taxation_customs/system/files/2020-12/vatecommerceexplanatory_28102020_en.pdf

PART B
IMPACT ASSESSMENT OF POSSIBLE
REVIEWS

5. PROBLEM DEFINITION

This section consolidates the findings from sectoral and legal analysis, as well as the results of the targeted consultation. It provides an assessment of the existence and magnitude of the problems at stake, and an analysis of the causal links between drivers, problems, and consequences (see Figure 26).

5.1. The platform economy

Digital platforms facilitate transactions by connecting two (or more) interdependent groups of users, i.e. providers and consumers. In these interactions, the provider offers access to assets, resources, time and/or skills, goods and/or services to the other party, in return for monetary consideration, explicit barter exchanges, or implicit barter/non-monetary transactions (e.g. when services are provided in exchange for access to personal data). The platform can either extract a share of the consideration, or offer its services for free to the parties, financing itself e.g. via targeted advertising made possible by the individuals' personal data and attention time spent on the platform.

The role of digital platforms in these transactions is to:

- 1) Aggregate supply and demand;
- 2) Provide the capacity to facilitate, and extract value from the direct interactions and transactions between users;
- 3) Collect, use, and process a large amount of personal and non-personal data in order to optimise, *inter alia*, the service and the experience of each user;
- 4) Provide the capacity to build networks through which any additional user will enhance the experience of all existing users – so-called '*network effects*';
- 5) Enhance the abilities to create and shape new markets within more efficient arrangements by relying on information technology as the means to achieve all of the above.¹⁶⁵

Digital platforms can be very different and their business model very flexible. Hence, and since there is no commonly acknowledged definition of the platform economy, the scope of the Study was defined broadly. '**Platform economy**' is the term used to describe a multi-sided model of transactions, where there are three or more parties involved. In these transactions, the role of the '**online/digital platform**' is to facilitate the connection between two or more distinct but interdependent sets of users (whether firms or individuals, whether carrying out an economic activity or not) who interact via Internet technology. In these interactions, one of the parties to the platforms offers access to assets, resources, time and/or skills, goods and/or services to the other party, in return for monetary consideration or, in certain cases, by barter/non-monetary exchanges. In most of the cases, these users could be named as '**providers**' and '**consumers**', respectively. A platform usually charges a fee for the facilitation of the transaction.¹⁶⁶

Classification of platforms. Digital platforms can be distinguished over various dimensions: services provided, types of users, and sectors to which they belong.

Two groups of digital platforms were distinguished based on the supplies which they facilitate:

1. Platform facilitating trade in goods, and
2. Platform facilitating trade in services or temporary access to assets.

¹⁶⁵ OECD (2019), *The Sharing and Gig Economy: Effective Taxation of Platform Sellers: Forum on Tax Administration*, OECD Publishing, Paris.

¹⁶⁶ The scope proposed above includes, fully or partially, other related business and transaction models which have recently emerged, namely the sharing economy, collaborative economy and gig economy, which are often used interchangeably.

As for the types of users, the platforms can be distinguished into four categories (see Table 22) depending on whether they link businesses or private consumers. Most often, digital platforms allow for more than one type of interaction, meaning that providers or consumers could be both businesses and individuals.

Table 22. Possible relation between providers and users

Recipient	Supplier	
	Business (B)	Consumer (C)
Business (C)	B2B	C2B
Consumer (C)	B2C	C2C

Source. Author's own elaboration.

In terms of sectors, seven sectors and 18 sub-sectors have been identified as those with a significant presence of platform-based activities. These are e-commerce, transport, accommodation, real estate, finance, professional and household services, and advertising, as shown in Table 23.

Table 23. Typology of platforms used throughout the report

Sector	Sub-sector	Type
E-commerce	Marketplace of goods	Goods
Transport services	Ride on demand	Services or temporary access to assets
	Ridesharing	
	Car sharing	
	Delivery services	
	Trip booking	
Accommodation	Residence renting	
	B&B and hotel accommodation	
	Home sharing	
	Home swapping	
Real estate	Rental and sales intermediation	
Finance (crowd funding)	Reward-based funding	
	Equity funding	
	Debt funding	
Professional and household services	On-demand household services	
	On-demand professional services	
	Search engines	
Advertising	Social media	

Source. Author's own elaboration, based on European Commission (2018), Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States and PwC (2016), Assessing the size and presence of the collaborative economy in Europe.

Clusters of platforms. Based on the analysis of the population of platforms in the EU, four clusters can be identified.

Cluster #1, predominant players. This includes 11 platforms with more than EUR 1 billion revenue in the EU27, and a size that is 100 times larger than the average platforms. Those players occupy the preeminent position in their market and generate more than four fifths of total platform revenue. They operate in a large number of Member States.

The following clusters include platforms below EUR 1 billion revenue, split according to the number of Member States in which they operate:

- Cluster #2: Platforms operating in all or nearly all Member States – 195 platforms;
- Cluster #3: Platforms operating in a small sub-group of Member States (3 to 12 Members States) – 749 platforms; and
- Cluster #4: Platforms operating in a single state or two countries – 530 platforms.

5.2. Problem drivers

Five drivers were identified as root causes of the problems.¹⁶⁷ While they generate problems related to the VAT treatment of the platform economy, these drivers, mostly related to the platform business model, are largely exogenous to the VAT framework, and could also be understood as constraints to the current and future VAT-related policies. The five identified core driving forces and constraints to the VAT treatment of the platform economy are:

- 1) The increasing scale of the platform economy.
- 2) The multiplicity of business models and difficulties related to their classification.
- 3) The multi-sided nature and complexity of the platform business models, and the consequences of the ensuing network effects
- 4) The variation of the VAT rules across types of services.
- 5) The dematerialisation of transactions.

Increasing scale of the platform economy

As reported in Section 3.5, the analysis led to the identification of about 1,500 digital platforms with a significant presence in the EU27 (about 1,800 also considering the UK). The largest number operate in the household and professional services, finance, and transportation sectors. In 2019, all digital platforms generated about EUR 67 billion of revenue in the EU27 market, while their providers about EUR 191 billion. All in all, **the value of the digital platform ecosystems in the sectors considered excluding the value of transactions facilitated by platforms in the advertising sector reached about EUR 258 billion.** Other than e-commerce, the largest value is created in the accommodation and transportation sectors.¹⁶⁸ In per capita terms, an average EU citizen spends, on average more than EUR 150 per year on digital platforms.

Additionally, and importantly, **the scale of the platform economy has increased at a very fast pace for the last years.** Considering the aggregate growth rate of the seven sectors involved, platforms' revenue grew three times, or 32 percent per year between 2015 and 2019.¹⁶⁹ The revenue increased more than seven times in the transportation sector, and more than three times in the finance sector. This results from the capacity of platforms to aggregate the supply of a vast number of small and micro operations, which, often, would not be sufficiently large to support an own business, and to match this supply to a new (i.e. not previously satisfied) market demand. Such a rapid growth was also caused by the technological advancements of web technologies and a number of societal changes (the last of which being the change in consumer habits following the COVID-19 pandemic).

Overall, the ecosystem of the platform economy accounted for about 1.9 percent of GDP in EU27 in 2019. The growth of the platform economy has vastly increased and will continue to augment the scale of the problems related to its VAT treatment.

¹⁶⁷ See: European Commission (2017), *Better Regulation Guidelines, Commission Staff Working Document*, SWD (2017) 350.

¹⁶⁸ The advertising sector is also very large, but no estimate on the value generated by their provider could be obtained

¹⁶⁹ 2020 data are severely affected by the COVID-19 pandemic, which led to accelerate the growth for e.g. the e-commerce and finance sector, while significantly depressing the accommodation sector (for which 2020 revenue were lower than in 2015).

Multiplicity of business models and difficulties related to their classification

The platform business models differ from each other in several important aspects for tax purposes. The varying elements include: (i) the number of transaction parties / sides, (ii) the roles of each side in value creation, (iii) which side bears responsibility and risk, (iv) the organizational and the regulatory autonomy of the transaction sides, (v) the employment relationships, (vi) the direction of information exchange, and (vii) the remuneration mechanism and roles in payment facilitation.

As emerging from the targeted consultation, **the platform business model typically include: (i) matching users, (ii) exchanging users' contact details; (iii) handling payments; and (iv) partially handling complaints.** According to the targeted consultation, only a fraction of digital platforms has also a price setting role, uses own resources in the provision of the underlying services, handles invoicing and accounting on behalf of providers, or provides alternative services or goods in case of problems.

These differences in business models are crucial for defining appropriate tax rules. As the properties of business models vary across sectors of economic activity, one-size fits all solutions could be markedly constrained. The difficulty in assigning proper tax rules is not only related to the multiplicity of criteria differentiating the models. In addition, companies often used mixed (or multiple) models, which hinders classification and application of proper tax rules.

Multi-sided nature and complexity of the platform business model, and associated network effects

Transaction nets in the platform economy could be very complex which causes additional problems for defining and applying relevant VAT rules, including the determination of the status of the providers or the nature of the services. The problem is more pronounced when transaction parties are located in different countries and involve parallel provision of various types of services. An example for the latter is the typical 'home delivery' services that link three parties – the restaurant, the driver and the consumer; cases of the former can be found for a 'trip booking' service that links many providers with consumers, often located cross-border.

The multi-sided nature of the platform business models also generates network effects. The use of online technology allows platform to link and match a very large number of providers and users. This, on the one side, affects the competition in the market for platforms, generating barriers to entry and lock-in effects. On the other side, when network effects are large enough, they put platform providers at an advantage compared to traditional supply channels. Network effects are not a problem *per se*, but this advantage, may raise questions of whether platform providers can or should also access advantageous VAT schemes which were originally designed for small players who were largely excluded from the benefits of scale and network effects. In addition, the economies of scale resulting from the network effects are a key factor driving the growth of the platform economy (see 'Driver 1)' above).

Variation of VAT rules across types of services

The different nature of the different types of services and the resulting variation of VAT rules across types of services is a root cause of the problems related to identifying VAT rules for complex business models. As a consequence, variation of VAT rules across types of services causes variation of interpretations across Member States. The Study Team could identify 10 different types of transactions from a VAT perspective, as shown in

Table 24.

Table 24. Applicable VAT rules depending on transaction characteristics (general rules)

#	Payment of facilitation fee	Provider	Platform	Consumer	Platform service classification	Facilitation service – place of supply	Facilitation service – effective rate ¹⁷⁰	Underlying service
1	By provider	Registered as a VAT payer	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT collected in the place of establishment or permanent location of the provider	As applicable to the underlying service or final goods/services in the transaction chain	VAT collected in the place where the service was supplied
2	By provider	Non-taxable or exempt from VAT	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT collected in the place of establishment or permanent location of the provider	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
3	By provider	Registered as a VAT payer	Registered as a VAT payer	Taxable or non-taxable person	Intermediary service	VAT collected in the place of establishment or permanent location of the provider	As applicable to the underlying service or final goods/services in the transaction chain	VAT collected in the place where the service was supplied
4	By provider	Small business (exempt from VAT)	Registered as a VAT payer	Taxable or non-taxable person	Intermediary service	VAT collected in the place of establishment or permanent location of the provider	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
5	By provider	Non-taxable person	Registered as a VAT payer	Taxable or non-taxable person	Intermediary service	VAT collected in the place where the underlying transaction is supplied (where accommodation is located or transport carried out)	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
6	By consumer	Registered as a VAT payer	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services or final goods/services in the transaction chain	VAT collected in the place where the service was supplied
7	By consumer	Taxable person, exempt from VAT	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted
8	By consumer	Non-taxable person	Registered as a VAT payer	Taxable or non-taxable person	ESS	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted

¹⁷⁰ The effective rate stands for the statutory applicable to the final product in the value added chain and tax burden associated with non-deductible VAT in the transaction chain.

#	Payment of facilitation fee	Provider	Platform	Consumer	Platform service classification	Facilitation service – place of supply	Facilitation service – effective rate ¹⁷⁰	Underlying service
9	By consumer	Taxable or non-taxable person	Registered as a VAT payer	Non-taxable person	Intermediary service	VAT paid in the place where the underlying transaction is supplied	As applicable to the facilitation services	VAT collected in the place where the service was supplied
10	By consumer	Taxable or non-taxable person	Registered as a VAT payer	Taxable person	Intermediary service	VAT paid in the place of establishment or permanent location of the user	As applicable to the facilitation services or final goods/services in the transaction chain	VAT exempt/non-taxable. Effectively, non-deductible input VAT of the provider is remitted

Source. Author's own elaboration.

Dematerialization of transactions

Many exchanges in the platform economy have a non-monetary character. Both transactions between users and transactions between users and the platform could take the form of barter exchange, or provision of access to the infrastructure or information without a monetary consideration. This complicates traditional assessment, monitoring and collection of VAT.

The five identified drivers create or exacerbate problems of the current VAT regulations, have negative consequences to basic functions of VAT and create additional costs of VAT collections for companies and administrations.

5.3. Problems

All in all, the drivers identified above result in current VAT rules that are not applicable in a clear, uniform and equal way to the platform business models across the EU. More specifically, **three general problem areas were identified:**

- 1) **Unclear and not harmonised VAT rules.** These rules pertain specifically to the following aspects: (i) **'taxable status of the provider'**, (ii) **'nature of services and place of supply'**, and (iii) **'reporting and record keeping obligations'**.
- 2) **Difficulties in enforcing VAT compliance in the platform economy.**
- 3) **Lack of VAT equality and neutrality.**

Unclear and not harmonised VAT rules

Under the problem area of 'unclear and not harmonised VAT rules', the **taxable status** problem refers to the difficulty to determine the taxable status of platforms' users, and specifically of providers. The taxable status is crucial for determining the tax obligations of the provider of services or goods underlying the platform's facilitation. The difficulty of determining the status of the provider arises due to problems with the interpretation of the concept of 'economic activity', as set out in Article 9(1) of the VAT Directive, which in turn determines whether certain transactions are within or out of the scope of VAT, and specifically with defining the continuity of supplies. This aspect, together with the condition of conducting the activity independently, is crucial for determining the status of the provider and constitutes the seminal source of the problem.

The issue with the taxable status does not only concern the correct characterisation of the provider. On top of that, the platform should know with sufficient certainty such status, as well as the status of its users (whether taxable or non-taxable persons). The platform needs this information to determine the correct place-of-supply of the facilitation services it provides and its invoicing obligations. In turn, this also determines on which party to the transaction the duty to pay VAT falls (e.g. whether reverse charge should apply or not). Collecting information from a large number of users is difficult, considering that they may not cooperate, may ignore further requests of information or do not provide updates on their status. At the same time, there may also be conflicting interests from platforms, since they may not have sufficient incentives to close or suspend accounts when the status of the user is unclear (unless this is clearly linked to VAT liabilities). The complexity was also witnessed by a recent case, in which a Member State contested the improper application of reverse charge to allegedly non-taxable persons against a large platform operator in the accommodation sector. The contested unpaid VAT is in the area of EUR 150 million.¹⁷¹

Then, the limited adequacy of broader place of supply rules for platform activities and the difficulty to determine whether specific services shall be classified as intermediation or electronically supplied services generate problems connected to the **nature of services and place of supply** of platform transactions, including both the facilitation services and the underlying supplies.

As discussed in more detail in Section 4.3 above, the most frequently applied approach consists in classifying platform's services as electronically supplied services, which may lead to tax liability in a Member State other than the actual place of consumption of the underlying service. Furthermore, for services supplied electronically, the special VAT collection and reporting regime using the OSS may be applied. However, it proves difficult to determine whether a service can be considered an electronically supplied service and, in particular, to determine its level of automation. This creates compliance and additional costs for digital platforms and providers, especially those operating cross-border. In the future, this may lead to disputes, double-taxation and uneven distribution of VAT revenue across Member States.

Reporting obligations on digital platforms were identified as another set of rules where harmonisation and clarification is needed. The issue is two-fold: (i) recently, a number of reporting obligations have been introduced for platforms, generating administrative burdens; (ii) these obligations, as well as the data format and compliance modalities, are, in certain cases, insufficiently harmonised, thus generating fragmentation costs.

Recently, the information and record keeping obligations for platform operators have been significantly extended by DAC7 obligations and Article 242a of the VAT Directive. According to the latter provision, platforms are obliged to keep records of supplies from and to taxable persons operating on their platform. Furthermore, some Member States have introduced additional information obligations that increase regulatory fragmentation. Certain pieces of information are difficult to retrieve for platforms, especially those going beyond the standard invoice content¹⁷² or pertaining to the description of the goods and services provided, or of the asset shared (e.g. cadastral information).

The introduction of these obligations generates ca. EUR 135 million of annualised regulatory burdens for platforms with most of the costs being borne at the implementation stage. These costs are mainly due to the setup of the IT systems for retrieving, archiving and exchanging data, as well as to the additional personnel tasked with supervising and carrying out compliance activities (ca. EUR 270 million).

¹⁷¹ See: <https://www.reuters.com/technology/italian-police-target-bookingcom-alleged-tax-evasion-2021-06-10/>

¹⁷² As determined by Article 226 of the VAT Directive.

Furthermore, other than the sheer costs, platform operators complain about the difficulties of obtaining certain data which are not available, whose accuracy could not be verified, or which could not be retrieved from the information that the platform exchanges with users. This is perceived as particularly detrimental when coupled with significant sanctions (e.g. joint and several VAT liability on the underlying transaction, a last resort measure foreseen in France). Still, without regulatory incentives, neither users nor platforms would likely collect and share these additional data for their own personal or business interest.

As for the risks of fragmentation, they come from the proliferation of supplementary domestic reporting obligations and the lack of technical specifications of the obligation under Article 242a. Whilst the VAT Directive and the VAT Implementing regulation provide the type of records to be kept, the format and the modality of their transmission was not determined. This risks creating additional fragmentation across Member States. Thus, there is a need to clarify (and harmonise) the format and the modality of transmission of the reporting obligations to tax administrations under Article 242a, to prevent unnecessary fragmentation costs.

Difficulties in enforcing VAT compliance

Difficulties in enforcing VAT compliance in the platform economy is perceived by stakeholders as a major area of legislative intervention. This aspect partly depends on the unclear and fragmented rules, as described above. However, it also depends on the specificity of the platform economy business models. In other words, such a problem would likely be an issue even if rules were clearer or harmonised.

The difficulties in enforcement are closely intertwined with the determination of the taxable status of suppliers (and transactions). The limited clarity and lack of harmonisation of those rules have a negative impact on the VAT compliance, among others. Still, the problem of the enforcement of VAT rules on many small operators goes beyond these rules and is inherently linked to the large number of small often unprofessional providers operating in the platform economy, which often remain *de facto* outside the scope of application of VAT.

Lack of VAT equality and neutrality

Finally, the equal tax treatment of similar economic activities, i.e. **VAT equality**, which then results in **VAT neutrality**, are the key principles of the EU VAT system. As the legal analysis depicted, there is a twofold problem related to VAT equality and neutrality for digital platforms, their users, and the competition between different business models:

- One part of the problem may relate to the lack of **channel equality and neutrality**, i.e. the unequal VAT treatment of supplies goods or services via traditional channels or digital platforms (i.e. 'non-equality'). This in turn affects neutrality, in terms of (i) the final price of similar services for final consumers, (ii) the choice of the supply channel by providers (platform-mediated or not); and (iii) VAT compliance costs.. The difference in the VAT treatment across channels today is related to the practical difficulties in determining and enforcing the taxable status of the supplier. The lack of definition of a taxable person operating via platforms, and the existence of VAT exemption for SMEs, which allow occasional and small-scale suppliers to bear none or lower VAT burden and compliance costs. However, while the VAT exemption is meant not to affect VAT neutrality due to the very low dimensions of the suppliers covered, the presence of network effects allow such VAT-exempt suppliers in the platform economy to effectively compete with larger VAT-registered suppliers in the traditional channels. Accordingly, the combination of network effects and the benefits from the VAT SME scheme could mean that small operators in the platform economy may be at an advantage compared to traditional standard suppliers.

- The second part of the problem relates to the **cross-border equality and neutrality**.¹⁷³ This is caused by the current functioning of the small business exemptions. Currently, competing small businesses selling their goods and services cross-border do not enjoy the exemption for their supplies and, as a result, their tax burden is higher than for local small companies. This part of the problem, however, is not part to the problem tree, as the issues connected with the cross-border equality and neutrality of the small business scheme have already been tackled by the new SME rules applicable from 2025.

The view from the targeted consultation

To get an indication of the political feasibility and desirability of different potential policy changes, the stakeholders' perception of certain issues pertaining to specific policy areas was analysed. The feedback received from the platform operators has clearly indicated three core issues (see Table 25). Most importantly, platform operators have reported significant difficulty in determining the tax status of the platform provider. This issue has also undoubtedly an impact on the correct determination of the place of supply for platforms' facilitation services, which depend on the status of the recipient. Another issue mentioned by almost half of respondents concern the nature of the facilitation services, whether electronically supplied or intermediary services. Furthermore, as discussed in Section 5.2 above, growing and fragmented reporting obligations are also often mentioned by stakeholders as a core issue, due to the significant IT setup costs associated, and the difficulties in retrieving and validating information which is not typically included in a standard invoice.

Table 25. Stakeholders' feedback on problem areas

Issue	Problem area	Share of stakeholders that acknowledged problems
Defining whether/when providers/users would qualify as VAT taxable persons	Unclear /not harmonised rules, Difficult enforcement, Lack of neutrality / equality	90%
Identification of the place of supply in cross-border transactions	Unclear / Not harmonised rules	55%
Defining whether services shall be classified as intermediation, electronically supplied services, services provided by the platform as undisclosed agent or as a main service	Unclear / not harmonised rules	44%

Source. Authors' own elaboration.

5.4. Consequences

The above problem areas result in a number of consequences which are harmful to the proper functioning of the Single Market (including both cross-border and intra-border competition), to the economic operators of the platform economy, as well as to Member States. In particular, **they generate unnecessary costs and burdens, lower and inappropriately distributed VAT revenue, as well as distortion of competition.** Impacts on VAT revenue could be significant: today, the VAT revenue from the digital platform ecosystem is estimated at about EUR 25.7 billion¹⁷⁴ per year for the EU27, i.e. 2.6 percent of total VAT revenue. Some variations in the scope of the taxed transactions

¹⁷³ External neutrality is understood as lack of impacts of tax frontiers on economic decisions. Source: Beretta, G. (2019), *European VAT and the Sharing Economy*; Das, A. (2015), *An Introduction to Operations Management: The Joy of Operations*.

¹⁷⁴ Excluding advertising.

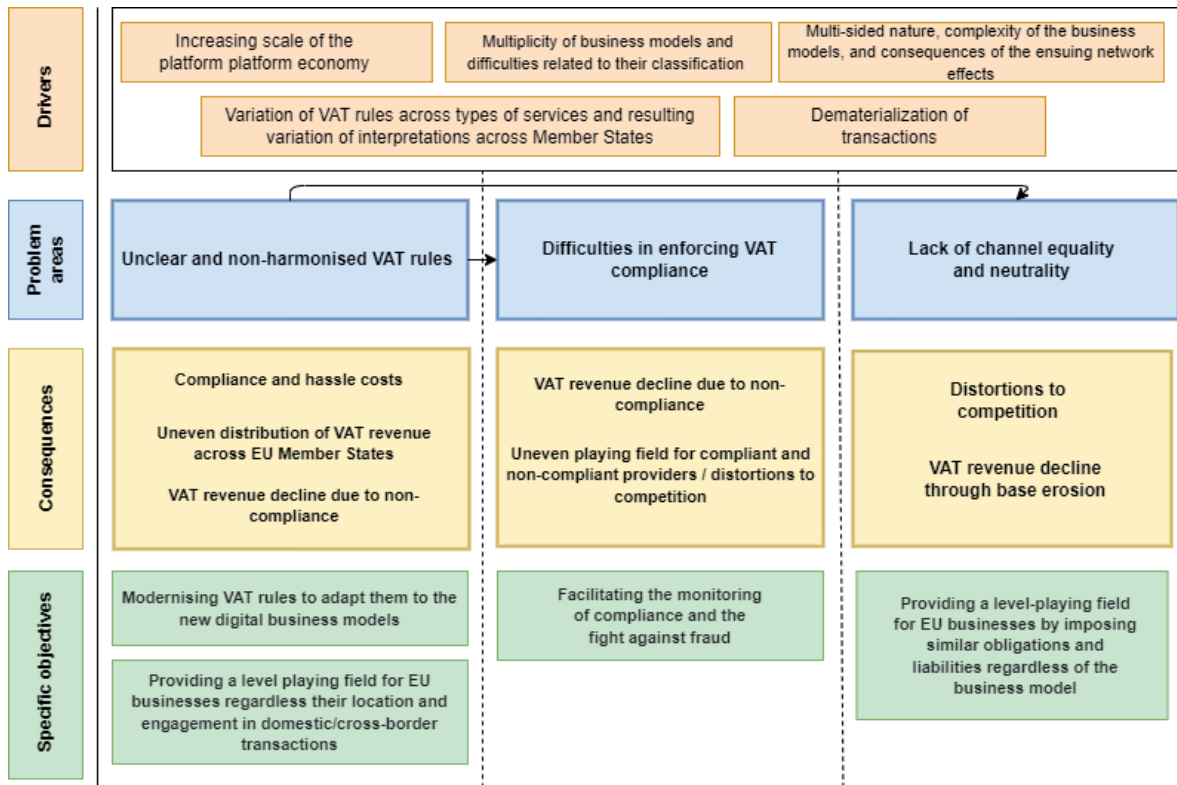
within such an ecosystem or the compliance rate of its actors could generate significant additional VAT revenue.

A summary of the consequences and their linkages with the problems identified is represented in Figure 26. The difficulties in the enforcement of VAT compliance in the platform economy result, in part, from the unclear rules, as well as the specificity of the platform economy. Also, low VAT compliance is a mediating factor for other consequences, since the level of compliance is one of the determinants of VAT revenue and effective tax burden on companies. Thus, the ultimate consequence of non-compliance consists in **lower VAT revenue and an uneven playing field for compliant vs. non-compliant companies.**

The lack of channel equality and neutrality is also a consequence of both the design of the VAT rules and the specificity of the platform economy. Such consequence stems, in particular, from the provisions (or lack thereof) related to the status of providers and the exemptions for small businesses. As for the former, the lack of clarity on the status of providers, together with a less than full enforceability and enforcement of the existing rules, leads to an unequal VAT treatment of similar services provided by suppliers within or outside the platform economy. Furthermore, this is coupled with the non-equal treatment of companies above and below the SME scheme thresholds, which has an indirect effect on companies in the traditional and the platform economy (the latter being more likely to be below the threshold). The difference in tax burden has an impact on the competitiveness of the traditional vs. digital platform channels, possibly creating **distortions of competition.** While the distortions introduced by the SME scheme are deemed to compensate for the excessive costs of compliance for micro taxpayers, the parallel enjoyment of significant network effects generated by the platforms may alter the level-playing field. In a nutshell, while taxpayers covered by the SME scheme had to rely on their limited means due to the small scale of their businesses, this is now overcome by the possibility to access the customer base intermediated by a platform and its facilitation services. Such an unequal treatment increases the incentives to operate in the platform economy while benefitting from the platform's scale and to remain under the VAT registration threshold, i.e. to escape VAT. This, in turn, leads to an **erosion of the tax base and to decreasing VAT revenue.**

Finally, the unclear and not harmonised VAT rules for the platform economy have a broad array of impacts. These impacts are related to the **legal uncertainty** around the VAT treatment of certain supplies, and the **regulatory fragmentation** due to the varying treatment across Member States. This, in turn, creates additional **compliance and additional costs** borne mostly by providers and digital platforms. On top of that, the design of the place of supply rules and difficulties in applying these rules have important **distributional impacts.** As in the case of cross-border transactions the determination of the nature of supplies affects the place of supply, this affects VAT revenue collected by Member States. In addition, no clarity of the rules facilitates non-compliance and **decreases VAT revenue.**

Figure 26. Problem tree



Source. Author's own elaboration.

6. POLICY OBJECTIVES AND OPTIONS

This section connects the problems, described in Chapter 5, with the objectives and the list of policy options under consideration. It starts by introducing the specific objectives relevant to this Part of the Study, and how they link to the general objective of the overall policy intervention. This is then followed by the presentation of the options and sub-options under consideration. The description of the policy options is sufficiently detailed to allow for the subsequent analysis of impacts, while still leaving some area for further refinement. Finally, the intervention logic, in Figure 33 at the end of this section, connects the problems, the policy options and how they should fulfil the objectives proposed.

6.1. Objectives

The **specific objectives** relevant for Part II of the Study elaborated in cooperation with the Commission include:

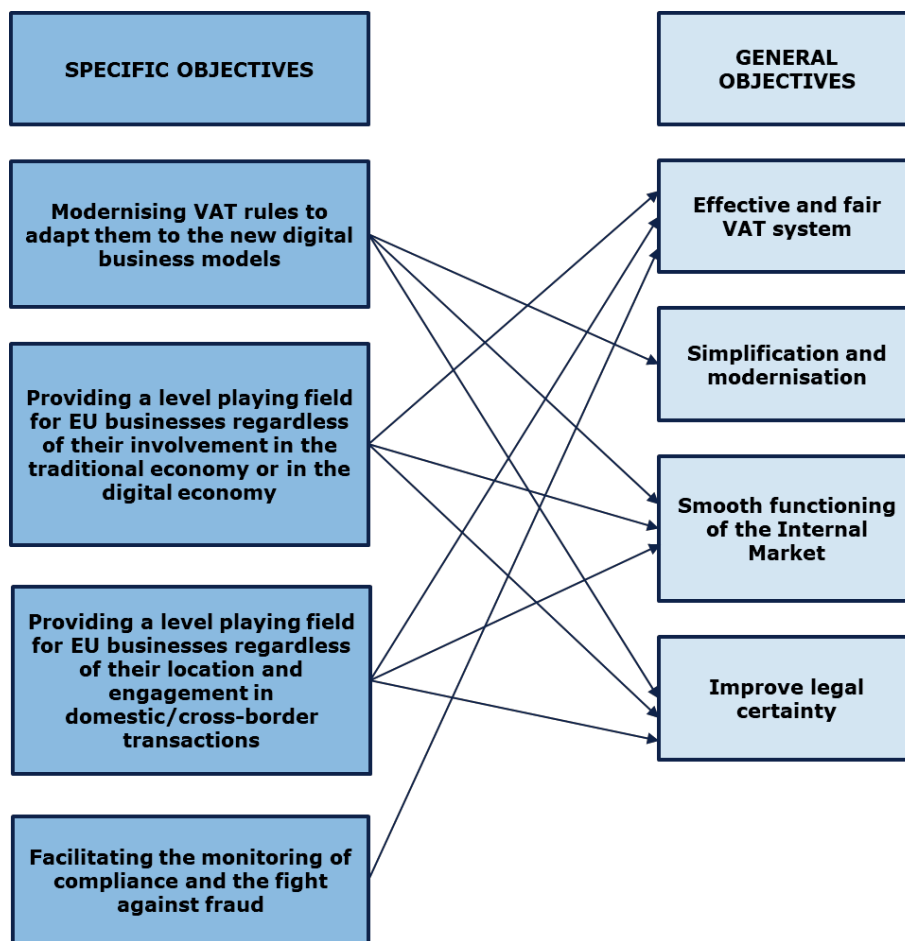
- 1) **Modernising VAT rules** to adapt them to new digital business models;
- 2) Providing a **level-playing field** for EU businesses by imposing similar obligations and liabilities regardless of the traditional or digital **business model**;
- 3) Providing a **level-playing field** for EU businesses by imposing similar obligations and liabilities regardless of their **location** and engagement in domestic or cross-border transactions; and
- 4) Facilitating the monitoring of compliance and the **fight against fraud** for Member States' tax authorities.

These **specific objectives** can be linked with the **general objectives**, as shown in Figure 27. The general objectives are as follows:

- 1) The smooth functioning of the **Internal Market**;
- 2) The need to ensure **effective and fair taxation** of the digital economy;
- 3) The **simplification and modernisation** of VAT rules to bring them in line with digitalisation and ease compliance with tax obligations; and
- 4) The need to enhance **legal certainty** for stakeholders.

More in detail, modernising VAT rules to make them fit for new digital business models directly contributes to the simplification and modernisation of the VAT rules. The creation of a level playing field, both across business models and Member States, contribute to the smooth functioning of the Single Market and to the effectiveness and fairness of the VAT system, while also improving legal certainty. Facilitating monitoring and enforcement is directly linked to the need to ensure an effective and fair VAT system.

Figure 27. General and specific objectives



Source. Authors' own elaboration.

6.2. Policy options

This section presents the list of policy options retained for further analysis and those discarded at an early stage.¹⁷⁵ The list builds upon the problem definition and the underpinning sectoral and legal analysis. It also takes into account the feedback received from public and private stakeholders, both during the targeted consultation and the Fiscalis workshops held in June and October 2021. The list has also been discussed with DG TAXUD in bilateral meetings, as well as with the joint GFV and VEG Sub-Group 'VAT aspects of the platform economy'.¹⁷⁶

6.2.1. Option A – Status quo.

Under the *Status quo* option, no legislative intervention to revise the VAT Directive and Implementing Regulation will be proposed to address the problems identified, i.e. the lack of clear and harmonised VAT rules for the platform economy, the difficulties in enforcement, and the insufficient VAT equality and neutrality.

Considering the likely evolution of the current situation, a number of Member States could introduce additional rules and guidelines on the VAT treatment of the platform economy. They are likely to consist in:

¹⁷⁵ Discarded policy options stage are discussed in various boxes throughout the section.

¹⁷⁶ The work of the sub-group was concluded by the adoption of the Report on the outcome of the work of the Sub-group 'Platform economy', GFV n. 108, 11.11.2021, taxud.c.1(2021)7834300.

- clarifications of the VAT treatment of certain transactions,¹⁷⁷ and
- the progressive introduction of reporting obligations at national level, in addition to DAC7 provisions which are being implemented.¹⁷⁸

This evolution would likely increase the fragmentation of the legal landscape that the platforms and their users are facing, contrary to a harmonised application of VAT rules. In these circumstances, the Commission could adopt non-binding clarifications, via Explanatory Notes or VAT Committee Guidelines. These could e.g. clarify whether and when certain economic activities are to be considered as 'occasional' or 'on a continuing basis', to then determine whether the provider should be considered a taxable person.¹⁷⁹ They could also provide a more precise indication as to when economic activities are deemed to be carried out 'independently' in the context of certain platform-mediated transactions.¹⁸⁰ These clarifications would need to be coordinated with the recent Commission initiative on improving the working conditions for platform workers. In particular, the latter initiative provided criteria about when a provider is to be considered an employee, thus falling outside the scope of VAT because of his/her lack of independence vis à vis the platform.¹⁸¹

Finally, the introduction of the above clarifications would likely need to be complemented with information campaigns and other educational activities carried out by tax authorities (including actions aimed at increasing spontaneous compliance) and platforms, which could inform providers of the applicable rules across different Member States and how these affect their status.

6.2.2. Option B – Clarification of VAT rules for the platform economy

Under option B, the policy changes would be circumscribed to adjusting the existing VAT treatment of the platform economy, without introducing a new specific VAT regime, as in options C, D and E below. These changes could be introduced in the VAT Directive and/or in the Implementing Regulation, in line with the current legal balance between general and detailed norms.

Option B aims at modifying the VAT treatment of the platform economy in three respects:

- 1) First, the **nature of the services supplied by the platform**¹⁸² to its providers needs to be determined,¹⁸³ to then identify which are the applicable **place of supply** rules;
- 2) Next, the VAT treatment of both the services supplied by the platform to the provider and the services supplied by the provider to the customer depends on

¹⁷⁷ E.g. on the status of the provider, the nature of the services provided by the platform and thus the applicable rules on the place of supply of the platforms' services.

¹⁷⁸ Cf. Sections 4.3.6 and 4.5.2 below.

¹⁷⁹ Cf. Articles 9 and 12 of the VAT Directive.

¹⁸⁰ Cf. Article 9 of the VAT Directive.

¹⁸¹ See: European Commission (2021), *Commission Staff working document impact assessment report accompanying the document Proposal for a Directive of the European Parliament and of the Council to improve the working conditions in platform work in the European Union*, SWD(2021) 396 final/2,

<https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10120>.

¹⁸² A platform would be defined in line with the rules in place for platforms facilitating e-commerce, i.e. Article 14a of the VAT Directive, as implemented by Article 5b of the VAT Implementing Regulation.

¹⁸³ The nature of the services would remain the same across different business models, i.e. when the platform supplies its services to the customers, or it supplies its services to the providers while charging the customers.

the **provider's status**, which may call for the introduction of a **rebuttable presumption** in that respect.

- 3) Finally, a clarification of the relative scope and modalities of compliance of the **existing and forthcoming reporting obligations for platforms**¹⁸⁴ may be in order.

B.1 Clarification of the nature of the services provided by the platform and their place of supply

Under this option, the Commission would propose a legislative amendment to the VAT Directive to clarify the nature of the services provided by the platform, and hence their place of supply. Two alternatives can be considered:

- 1) **Intermediary services.** Under the existing rules for intermediary services, the place of supply of such services tends to follow that of the underlying transaction, at least for B2C supplies. To achieve similar results, a new special provision for the place of supply of services provided by platforms should be included in the VAT Directive.¹⁸⁵ Such a provision should specify that the services provided by a platform to facilitate an underlying supply of services between its users should be the place where the underlying service is supplied.¹⁸⁶
- 2) **Electronically supplied services.** Under the existing rules, the place of supply of electronically supplied services to non-taxable persons is the place where that person is established (or has his permanent address or usually resides).¹⁸⁷ Should this approach be chosen, Annex II of the VAT Directive, as well as Article 7 of and Annex I to the VAT Implementing Regulation should be amended to specifically include among electronically supplied services the services provided by a platform to a non-taxable person to facilitate an underlying supply of services between its users.

Box 3. Assessment of the place of supply rules

The changes to the place of supply rules could affect the distribution of VAT revenues across Member States, and a quantification of such effects is provided in the following section. Still, the distributional impacts could not be used to gauge the relative merits of alternative approaches. The assessment rather concerns the feasibility of the place of supply rules considered, the degree of legal certainty that such a change would provide, the extent to which they align VAT revenue generation and the place in which such services are consumed, and the level of complexity or administrative burdens generated (e.g. whether they require multiple VAT registrations, also considering the possible role of the OSS).

Box 4. Nature of services and place of supply: discarded option

In this area, one option has been discarded at an early stage:

- **Create a dedicated rule in the VAT Directive regarding the place of supply of services rendered by the platforms to providers (B2B) and/or to final customers (B2C), as a separate transaction from the underlying supply.** This option introduces

¹⁸⁴ Such as under the DAC7 or Article 242a of the VAT Directive.

¹⁸⁵ Namely, in Section 3, Chapter 3 of Title V.

¹⁸⁶ For international passenger transport, currently, the place of supply is proportional to the distance travelled. This rule may be very difficult to comply with for platforms, which may not be aware of the exact route travelled by the underlying provider. Other alternatives could consider the place of departure, arrival, or the Member State in which the majority of the route takes place (based on theoretical distance between point of departure, arrival, and border crossing points, rather than the real route). Such aspect needs to be coordinated with the Commission initiative for the simplification of the place of supply rules for international transport, as envisaged in the 2020 Action Plan.

¹⁸⁷ Article 58(1)(c) of the VAT Directive.

a specific VAT treatment for the provision of services by platforms. This would require introducing a new category of transactions in the VAT Directive (e.g. 'services rendered by online platforms') with its own specific rules on the place of supply (e.g. that all services rendered by online platforms are taxed in the country where the customer resides or has its fixed establishment). However, such an approach falls in between two chairs with respect to simpler or more comprehensive approaches being considered. On the one side, the alternatives proposed above for the place of supply rules are simpler to implement, since they use existing regimes (intermediary or electronically supplied services) and require no fiction on the configuration of the various transactions. Also, by avoiding the introduction of a new category of transactions with dedicated rules, it avoids the creation of those disputes that typically arise 'on the border', i.e. due to the grey area in determining which services fall within or outside the new definition. On the other, if the aim of this approach were to be to introduce a new VAT regime for the platform economy, the problems identified would require a wider intervention – discussed in Options C, D and E – as opposed to just a review of the place of supply of the services rendered by the platforms.

B.2 Introduction of a rebuttable presumption on the status of platform providers

As discussed in the problem definition, the status of platform providers often falls into a grey area. This results from two difficulties:

- the provider's status (i.e. taxable person or not) may be hard to determine;
- the provider's status may not always be correctly communicated to the platform.

A taxable person with the right to deduct input VAT is likely to accurately communicate to the platform his/her status, so that he/she can receive a proper invoice and deduct the VAT on the services received.¹⁸⁸ However, this may not be the case when the provider is a taxable person without the right to deduct, or a private individual. Also, private individuals may not be aware of whether they would qualify as taxable persons or not. Furthermore, the status of the provider could also be revisited *ex post* following a tax control.¹⁸⁹

Such a grey area, compounded by the objective difficulties in obtaining sufficient information from providers,¹⁹⁰ could result in problems in determining the VAT treatment or the place of supply of: (i) the underlying service, and (ii) the facilitation services supplied by the platform to the provider. As for the former, it may result in the non-taxation of transactions which are wrongly treated as out-of-scope (e.g. if done by private individuals which should be treated as taxable persons). As for the latter, the uncertainty impacts on the determination of the place of supply. Namely, depending on whether the provider is considered a taxable person or not, the place of supply of the platforms' services may be in the country of establishment of the platform or of the provider. If such characterisation is incorrectly made, the platform could be liable for the VAT due in the appropriate Member State, and the associated interest and penalties.

To avoid such risks, a rebuttable presumption could be introduced, so that **the provider is considered not to be a taxable person unless he/she provides a VAT number to the platform**. Such a presumption would not fully address the problem, since, taxable persons may not have a VAT identification number. This is the case, for instance, for taxable persons covered by an SME scheme, which need not to register for VAT in 17 Member States.¹⁹¹

¹⁸⁸ Assuming that such services of course are taxed.

¹⁸⁹ E.g. DAC7, Art. 242a

¹⁹⁰ As discussed in Section 5.3 above. This could e.g. be the case when the tax authority determines that the provider should be considered a taxable person, based on a case-by-case analysis of the economic activities carried out or the information received via reporting obligations

¹⁹¹ Deloitte (2017), Report for the European Commission, *Special scheme for small enterprises under the VAT Directive 2006/112/EC - Options for review*, Final Report.

Therefore, providers who do not communicate the VAT number to the platform should also be required **to confirm that they are not a taxable person** (e.g. when registering to the platform or periodically). To facilitate compliance, i.e. to ensure that non-registered taxable persons provide an accurate information to the platform, the following supporting measures could be foreseen:

- In the short-term, the Commission should set-up an online repository of the cases in which a taxable person may not be assigned a VAT identification number in certain Member States,¹⁹² which platforms could check to verify whether the provider can be in one of such situations.
- In the long-term, the Commission should consider whether requiring all taxable persons to be assigned a unique identifier (be it a proper VAT number or not), thereby overcoming the current different approaches.
- Tax authorities should be able to cross-check the proper identification of the provider by verifying the information reported by platforms via Article 242a and DAC7.

Box 5. Status of platform providers and its rebuttable presumption: discarded options

In this area, two options have been discarded at an early stage:

- **A rebuttable presumption whereby the provider becomes a taxable person upon exceeding a set turnover threshold.** The enforcement of such an option presents significant feasibility problems. In particular, it would not be possible for platforms to monitor the revenue obtained over different platforms and sub-platforms. Also, it would lead to certain problematic characterisations of the provider. E.g. an individual may provide occasional supplies in different sectors (for example, short term rental and ride-on-demand transport services), which, once combined, would bring him/her over the threshold. Finally, the threshold could hardly be applied to platforms which operate in markets with high-value transactions (e.g. sales of properties or second-hand cars), since individuals may risk being considered as a taxable person from the very first, occasional, transaction.
- **A fiction for the place-of-supply rules whereby, for the supplies made by the platform to the provider, the latter is always deemed to be a taxable person.** This rule is considered incompatible with the underlying structure of the place of supply rules for the provision of services. In particular, i) it would lead to an unintended transfer of VAT revenue from Member States in which platforms are established to Member States in which providers are established; ii) it would lead to the application of a reverse charge to services provided to consumers, which is not feasible.

B.3 Streamlining of recordkeeping obligations

Based on Article 242a of the VAT Directive and Articles 54b and 54c of the VAT Implementing Regulation, as of 1 July 2021, platforms are required to keep records of supplies of goods and services to non-taxable persons which they facilitate. Such records should allow the tax authorities of the Member States in which these supplies take place to determine whether VAT has been accounted for properly. The records should not be submitted at regular intervals, but retained for 10 years from the end of the year during which the transaction was carried out and made available electronically on request.

In parallel to this obligation, under the DAC7, platforms are also required to collect and verify information relating to persons selling through their intermediation and the income obtained therefrom, and then to report the information collected to their Member

¹⁹² Taxable persons can usually opt out of the special regimes and thus obtain a VAT identification number.

State of establishment.¹⁹³ This is further compounded by additional reporting obligations which have been introduced or proposed at national level,¹⁹⁴ as well as by the adoption of the CESOP Directive¹⁹⁵ for providers of payment services.¹⁹⁶

Three main problems have been identified in this area, and namely:

- 1) Certain pieces of information are difficult to retrieve for platforms, especially those going beyond the standard invoice content¹⁹⁷ or pertaining to the description of the goods and services provided, or of the asset shared (e.g. cadastral information).
- 2) Certain information requirements are duplicated, i.e. the same information is requested by different legal acts (sometimes in different formats).¹⁹⁸
- 3) The modality for transmitting or granting access to the information required are different across the various legislative acts and Member States;

No fully-fledged policy option is proposed in this area for three reasons:

- 1) A full review of the recordkeeping obligations for platforms would extend beyond the VAT Directive and the Implementing Regulation, which are the acts concerned by the possible intervention.
- 2) Any streamlining measure would need to take into account of the recently introduced or forthcoming recordkeeping obligations, whose effects are yet too early to assess.
- 3) Any possible framework may become soon outdated, depending on whether an EU Digital Reporting Requirement is introduced, and on the feature of the reporting mechanism chosen.¹⁹⁹

In any case, in the following section, the Study Team provides a quantification of the current costs of certain recordkeeping obligations, and the possible impacts of harmonisation of the transmission modality by means of a One-Stop-Shop.

6.2.3. Options C to E - The deemed supplier regime

Under options C to E, **the platform would act as deemed supplier for certain transactions which it facilitates**. More in detail:

- Under **Option C – Narrow deemed supplier**, the deemed supplier role would be applied to platforms facilitating the **supply of certain accommodation and transport services** for monetary consideration.
- Under **Option D – Sectoral deemed supplier**, the deemed supplier role would be applied to platforms facilitating the **supply of all accommodation and transport services** for monetary consideration.

¹⁹³Or, in certain cases to the Member State where the revenue is generated, e.g. where the provider is established or the fixed establishment located.

¹⁹⁴ Cf. Section 4.3 above.

¹⁹⁵ Council Regulation (EU) 2020/283 amending Regulation (EU) No 904/2010 as regards measures to strengthen administrative cooperation in order to combat VAT fraud, Brussels.

¹⁹⁶ Cf. Section 4.4.8 above.

¹⁹⁷ As determined by Article 226 of the VAT Directive.

¹⁹⁸ However, it should be considered that certain information is collected for purposes other than VAT control (e.g. DAC7), only concerns certain transactions (e.g. Article 242a covering only B2C supplies), or is collected with a frequency unsuitable for the periodical VAT administration (e.g. for yearly obligations).

¹⁹⁹ For instance, any transaction-based reporting requirement may render some of the existing obligations obsolete, especially if it covers both B2B and B2C transactions. Cf. Volume 1 of the present Study.

- Under **Option E – All services deemed supplier**, the deemed supplier role would be applied to platforms facilitating the **supply of all services** for monetary consideration.

The sector coverage is summarised in Table 26 below.

Table 26. Typology of platforms used throughout the report, and the number of operators in sectors affected

Sector	Sub-sector	Option C- Narrow	Option D – Sectoral	Option E – All services
Transport services	Ride on demand	√		
	Ridesharing	-		
	Car sharing	-	√	√
	Delivery services	√		
	Trip booking	-		
Accommodation	Residence renting	√		
	B&B and hotel accommodation	-	√	√
	Home sharing	-		
	Home swapping	-		
Real estate	Rental and sales intermediation	-	-	√
Finance	Reward-based funding			
	Equity funding	-	-	√
	Debt funding			
Professional and household services	On-demand household services			
	On-demand professional services	-	-	√
	Social media			
Estimated no. of platforms in subsectors affected (entities, 2019)		214	355	1,707
Estimated FTE of providers in subsectors affected (2019)		526,737	867,588	1,573,195

Notes. √: covered by the deemed supplier regime; -: excluded from the deemed supplier regime. Source: Author's own elaboration.

Under Options C to E, certain measures considered under Option B should also be included or adapted. Namely:

- A new rule for the place of supply of the platform's services will be introduced, resulting from the analysis of the alternatives under sub-option B.1;
- A presumption will be introduced to determine the status of the provider, which in turn determines the scope of the application of the deemed supplier regime. This presumption needs to be different from the one described under sub-option B.2, as further discussed below.

The presentation of the options proceeds as follow. First, the scope and functioning of the regime is presented. Then, the analysis focuses on the working of the rebuttable presumption and introduces further considerations on the functioning of the scheme with respect to specific business models and its interaction with other parts of the VAT Directive.

Scope of the deemed supplier regime.

The deemed supplier regime should apply only when the underlying provision of services is for **monetary consideration**. Otherwise, it would be extremely complex to determine not only the value of the underlying supply – which is already a practical

difficulty that *de facto* prevents taxability in a number of platform markets, but, *a fortiori*, also the value of the other deemed and non-deemed supplies.²⁰⁰

The deemed supplier role will apply when the provider is:

- **a non-established person not identified for VAT purposes in the EU;** or
- when established in the EU is,
 - **a non-taxable person** (private individual) or
 - **a member of the 'Group of Four':** (i) taxable persons carrying out only supplies of goods or services in respect of which VAT is not deductible; (ii) taxable persons subject to the common flat-rate scheme for farmers; (iii) taxable persons subject to the SME scheme; and (iv) non-taxable legal persons.

The transactions covered by the deemed supplier regime will thus be:

- C2B2C and C2B2B, when the provider is not a taxable person; or
- B2B2C and B2B2B, when the provider is a taxable person, but it is either a non-established person not identified for VAT purposes in the EU, or belongs to the Group of Four.

Other transactions, i.e. those when the provider is a taxable person identified for VAT purposes in the EU and not belonging to the Group of Four are treated as normal supplies of services, i.e. follow the applicable standard VAT treatment.

Taxable persons belonging to the Group of Four are included to ensure that all platform-mediated transactions become taxable, whether the provider is a non-taxable person, a taxable person subject to VAT, or a taxable person exempt from VAT. This is in line with the main objective of these policy options, which is to ensure VAT equality and neutrality, rather than to improve VAT compliance. Their inclusion also prevents the risk of arbitrage once the deemed supplier system is in place, therefore ensuring that the provision is more future-proof.²⁰¹

Sectoral vs. services approach

By assessing the three options listed above – narrow, sectoral and all-services deemed supplier – the Study Team is able to estimate impacts generated by: i) a very narrow approach of the deemed supplier regime; ii) a broader application to the accommodation and transport sectors; iii) a very broad application to all services provided for monetary consideration. This analysis would thus estimate the minimum and maximum potential impacts of the introduction of this regime, therefore providing valuable insight even if its exact scope were to eventually differ.

²⁰⁰ A hybrid case is when the provision of service is against monetary consideration, but the consideration is set to cover the costs of the individual sharing its assets (e.g. ridesharing business models). The inclusion or exclusion of this class of transactions from the scope of VAT should be clarified (e.g. via Explanatory notes) regardless of whether the deemed supplier regime applies. In case, criteria for determining when a platform-mediated transaction is only aimed at sharing costs and could thus be excluded from the scope of application of VAT should be determined, such as some of the following: i) the platform has a strict control over the price of the underlying supply; ii) the determination of the price depends on objective criteria (e.g. distance, tolls) and it is not linked to other market or demand features (e.g. the increase of demand in peak times); iii) the consideration only or mostly compensates for variable costs and does not remunerate the capital, the work of the provider or generate additional profits; iv) the consideration is not sufficiently high to attract professional or quasi-professional service providers which use the platform as a significant source of income.

²⁰¹ For example, a consumer could register for VAT under the SME scheme, or set-up an NGO to continue offering exempt services via the platform.

Under Options C and D, the deemed supplier rule would thus only apply to part of the platform-mediated supply of services. This would be appropriate, considering that the introduction of the deemed supply regime is a radical change compared to the current VAT regime. Its introduction only for certain types of services would represent a second step after the inclusion of e-commerce, which became effective on 01.07.2021. It would thus be possible to see its effects only on certain platform markets rather than on all platform-intermediated services.

Under options C and D, the deemed supplier regime would only be applied to certain sectors, i.e. the accommodation and transportation sector. The selection of these two sectors takes account of the following features, as emerging from the sectoral analysis:

- 1) After e-commerce, these sectors represent the largest markets in the EU with a significant platform presence, in terms of revenue generated (between EUR 30 and 40 billion each).²⁰²
- 2) These sectors display a significant and growing number of business models where the nature of the provider is more controversial.²⁰³ This uncertainty may result in a number of transactions escaping VAT, thus in foregone VAT revenue for Member States and an uneven level-playing field for non-platform business models.
- 3) Unlike e.g. the advertising sector, in these sectors a limited number of transactions for non-monetary consideration take place.²⁰⁴
- 4) Unlike e.g. the finance sector, these sectors feature few exempt supplies, for which the deemed supplier would have more limited (and possibly) negative impact on VAT revenue.

Under Option C, the deemed supplier regime would apply only to certain services. The selection was based on the relative significance of transactions, in which the provider is a private individual or his/her status is unclear or controversial:

- 1) For accommodation, residence renting, which was indeed specifically targeted by the recently implemented Canadian legislation (see Box 8 below).
- 2) For transport services, ride on demand and delivery services;²⁰⁵ however, here the decision should be coordinated with the parallel Commission initiative on workers' rights in the sharing economy, which could take many current providers out of the scope of VAT.²⁰⁶

²⁰² Considering the ecosystem revenue.

²⁰³ I.e. it may be difficult to determine whether the provider should be considered a taxable person, an occasional provider, or an employee.

²⁰⁴ Transactions for non-monetary consideration would make the application of the deemed supplier rule more complex because of the need to identify an objective criterion to determine the value of the various transactions.

²⁰⁵ The scope of the deemed supplier under Option C was extended by including delivery services due to many similarities with the ride on demand services, including large share of exempt providers.

²⁰⁶ European Commission (2021), *Commission Staff working document impact assessment report accompanying the document Proposal for a Directive of the European Parliament and of the Council to improve the working conditions in platform work in the European Union*.

Box 6. Alternative VAT regime for platform-mediated transactions: discarded options

In this area, three options have been discarded at an early stage:

- **Adding a common simplified VAT scheme for persons providing their services via platforms by applying a flat VAT rate without input tax deduction.** Under this option, a new special scheme would be introduced for providers of platform services. The scheme would provide that person supplying services via platforms will be subject to a flat VAT rate without input tax deduction. The additional complexity in the VAT system and the limited impact on VAT equality and neutrality were the main factors to discard the option. Also, it would be difficult to apply, considering that a number of underlying supplies may be exempt (e.g. provision of real estate services). Accordingly, the option received little support from both platform operators and tax authorities.
- **Extending the deemed supplier role to all transactions.** Under this option, the deemed supplier regime would apply to all provisions of services intermediated by platforms, including when the provider is a taxable person non-exempt from VAT. This would represent a simplification, since there would be no need to determine when the supplier, and thus the transaction, needs to be covered by the deemed supplier scheme. Also, by eliminating the distinction between when the deemed supplier scheme applies, it would also avoid conflicts and grey areas with respect to other provisions (such as Article 28 of the VAT Directive or TOMS). However, it would not be in line with the problem as identified in Section 4.5 above, since, when the provider is a taxable person, there are no issues in determining its status and no negative consequences in terms of VAT revenue or fair competition. Therefore, such a solution would not be proportional, considering that more limited approaches would still address the issues identified.
- **Extending the deemed supplier role to all platforms involved in supplies to final consumers.** In this case, the scope of application would be determined by the status of the customer rather than the supplier. However, again, this would bring B2B* transactions from VAT within the scope of the new regime, which is not a proportional policy measure considering the issues identified.

Box 7. The Canadian approach to the taxation of platform-based short-term accommodation

On November 2020, the Canadian government proposed a new approach to the application of GST – the equivalent of VAT – to the growing digital and sharing economy. In particular, it aimed at introducing a deemed supplier regime for platform-based short-term accommodation. The policy aims to address the same issues with which the EU is currently faced, and in particular the fact that the local VAT/GST regime is not applied consistently in this sector ('difficulties in enforcing VAT compliance in the platform economy'), putting traditional business models at a comparative disadvantage ('lack of VAT equality and neutrality').

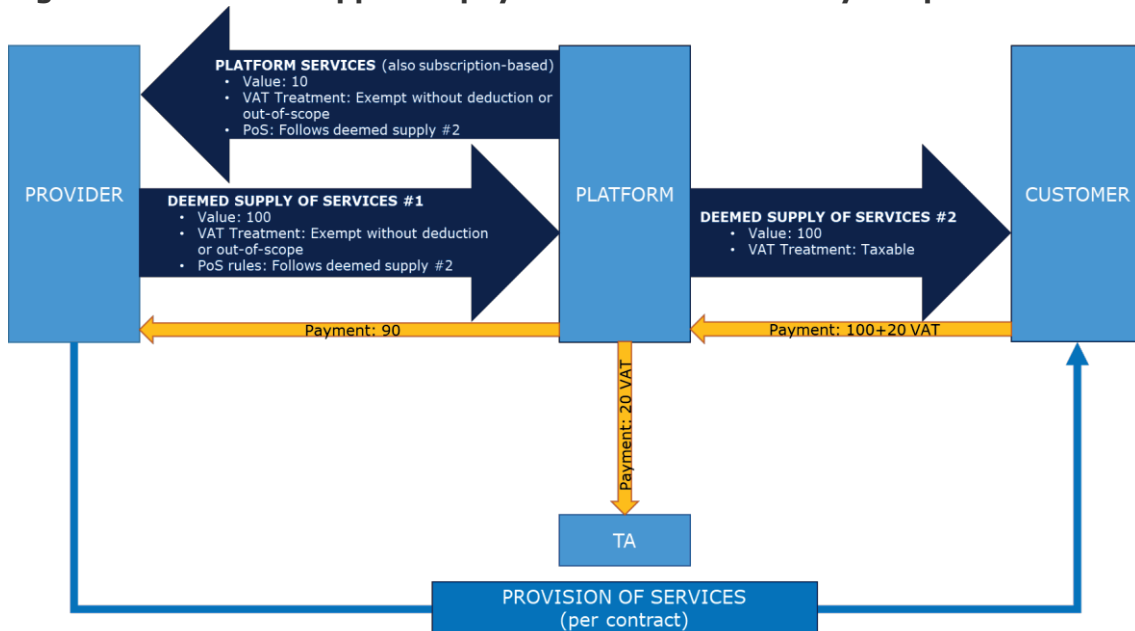
From July 2021, the supplies of short-term accommodation in Canada facilitated by a digital platform are subject to a deemed supplier regime. The transactions concerned include: (i) the rental of a residential complex, unit, or part thereof, thus excluding the rental of commercial properties (e.g. hotels, B&B's); (ii) provided by a supplier not registered for GST. The regime is applied to platforms above a certain revenue threshold (about EUR 20,000 per year, considering only transactions for which the deemed supplier regime applies), which would be required to register for GST in Canada. When the transaction is covered by the deemed supplier regime, the fees charged to the underlying suppliers by the platform would not be deemed a taxable supply.²⁰⁷

²⁰⁷ E&Y Tax News Update, "Canada announces specified GST/HST regime for e-commerce supplies", 4 December 2020; Shooner, J., Clusiau, V. for Stikeman Elliott, "Canada Imposes GST/HST Registration Requirements on Certain Non-Resident Suppliers, Including Streaming Services and Accommodation-Sharing Platforms, Effective July 1, 2021", 15 January 2021; Government of Canada, "Definitions for the digital economy", 07 May 2021; Government of Canada, "Budget 2021 – A Recovery Plan for Jobs, Growth, and Resilience, Annex 6: Tax Measures

The functioning of the deemed supplier regime

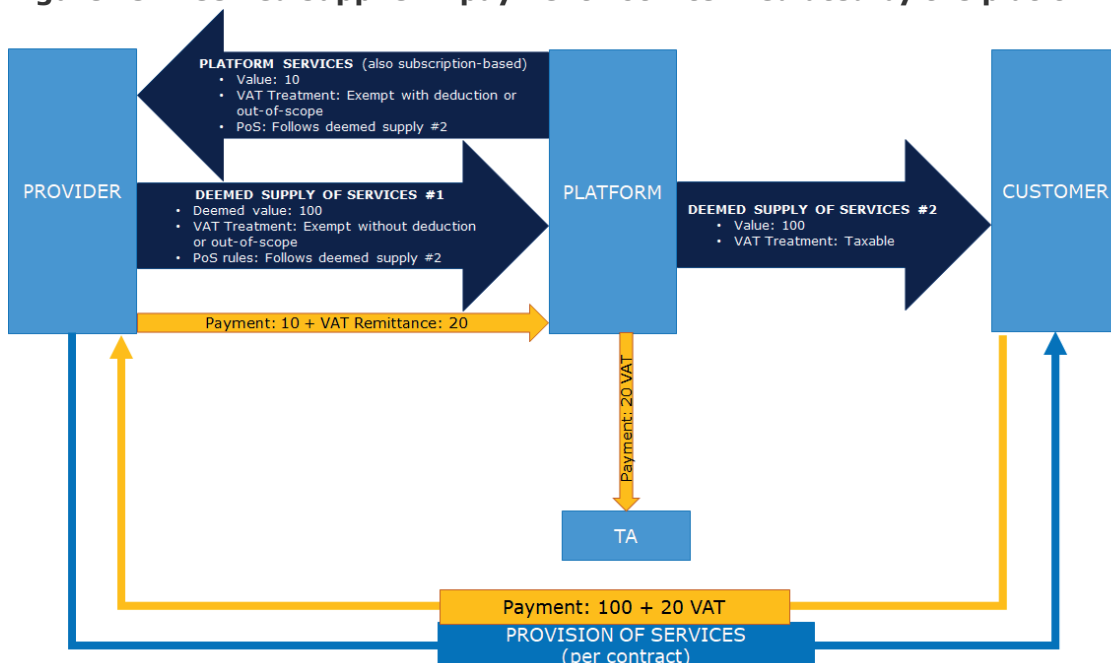
Figure 28 and Figure 29 provide a graphical representation of the transactions under the deemed supplier regime when the platform services are supplied to the provider and the resulting flow of payments and VAT revenues. Two schemes are provided, depending on whether the payment is or is not intermediated by the platform.

Figure 28. Deemed supplier – payment intermediated by the platform



Source. Authors' own elaboration.

Figure 29. Deemed supplier – payment not intermediated by the platform



Source. Authors' own elaboration.

– Supplementary Information”; Government of Canada, “FAQ - Application of the GST/HST in relation to electronic commerce supplies”, 12 March 2021; Government of Canada, “Platform-based short-term accommodation threshold amounts, GST/HST for digital economy businesses”, 30 June 2021.

Under the deemed supplier regime, the underlying provision of services from the provider to the user remains the legal transaction. For VAT purposes only, the underlying provision of services is split into two deemed supplies:

- 1) **Deemed supply of services #1**, from the provider to the platform. This transaction is VAT exempt without the right of deduction or out of scope (e.g. when the provider is a private individual). Its deemed value is equal to that of the underlying service provision, and its place of supply follows that of the *Deemed supply of services #2*.²⁰⁸
- 2) **Deemed supply of services #2**, from the platform to the customer. This transaction is taxable according to the regime applicable to the specific services supplied (i.e. taxable at standard or reduced VAT rate, or exempt). Its deemed value is equal to that of the underlying service provision.

Furthermore, a third supply – from the platform to the provider, is subject to a specific VAT treatment:²⁰⁹

- 3) **Platform services**. The provision of services from the platform to the provider corresponds to the fees earned by the platform for the intermediation. This transaction is exempt from VAT with the right of deduction, to avoid a build-up of non-deductible VAT, which would increase the price of the underlying provision. The value of this transaction depends on the contractual arrangement between the platform and the provider.²¹⁰ The same VAT treatment applies when the platform services are remunerated via subscription fees which are not linked to specific transactions. To avoid that the regime is not applicable to platforms established outside the EU, the place of supply of this transaction follows that of the *Deemed supply of services #2*.

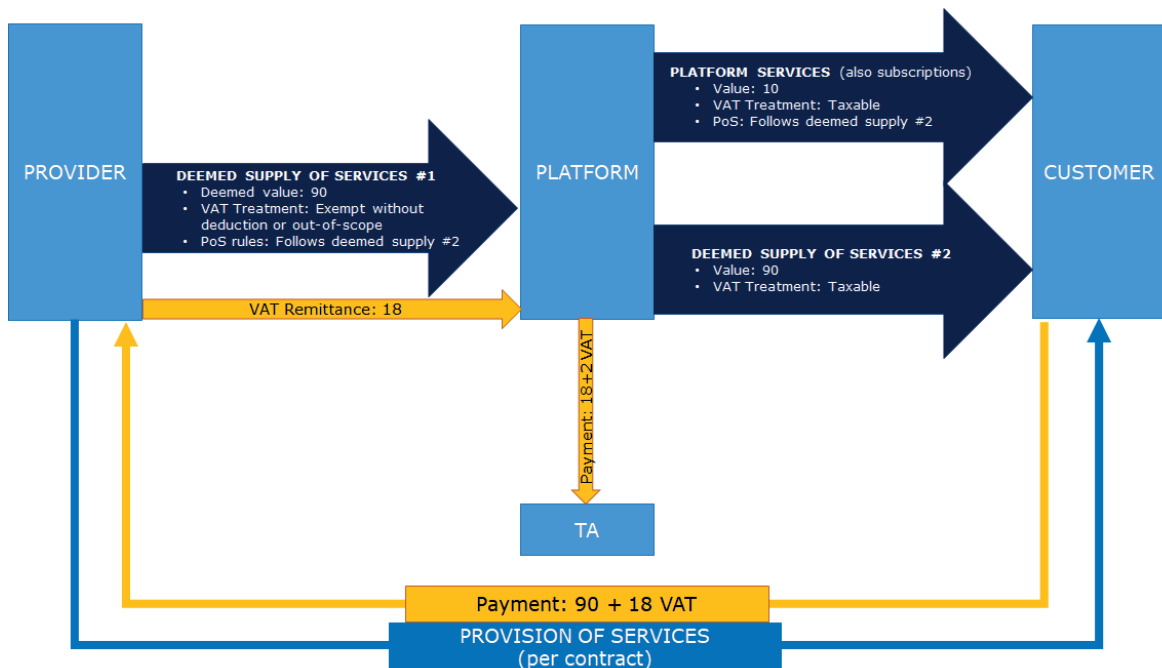
The deemed supplier regime works similarly when the platform facilitation services are supplied and charged to the customer. The main differences would be the following: (i) the provision of facilitation services to the consumer is a separate taxable transaction; (ii) the value of the deemed supplied transactions does not need to include the separately charged services. The scheme remains neutral to the platform, supplier and customer (they receive or pay the same price as if the facilitation services are supplied to the provider) and in terms of VAT revenue. The working of the regime when the platform facilitation services are supplied and charged to the customer is shown in Figure 30.

²⁰⁸ The fiction on the place of supply is to avoid that, for B2B2* transactions with platforms established outside the EU, the transaction falls outside of the scope of the VAT Directive and thus the deemed supply regime cannot be applied.

²⁰⁹ In multi-sided markets, platforms may opt for a pricing strategy that includes an explicit charge to consumers. This transaction would follow the normal VAT treatment and would not be included within the deemed supply regime.

²¹⁰ In the above schemes, the fees are set at 10 percent of the value of the transaction for exemplificative purposes.

Figure 30. Deemed supplier – platform facilitation services supplied to the customer



Source. Authors' own elaboration.

Presumption on the status of the provider

The deemed supplier regime requires introducing a presumption that allows platforms to determine when the regime is to be applied, i.e. when the provider acts as a taxable or non-taxable person. Though relevant for all providers, this issue is especially complex with respect to taxable persons belonging to the Group of Four, that includes taxable persons with a VAT number, without a VAT number, or with a VAT number obtained for specific purposes (e.g. because of being customers in a reverse charge transaction).

Two approaches to the presumption are possible:

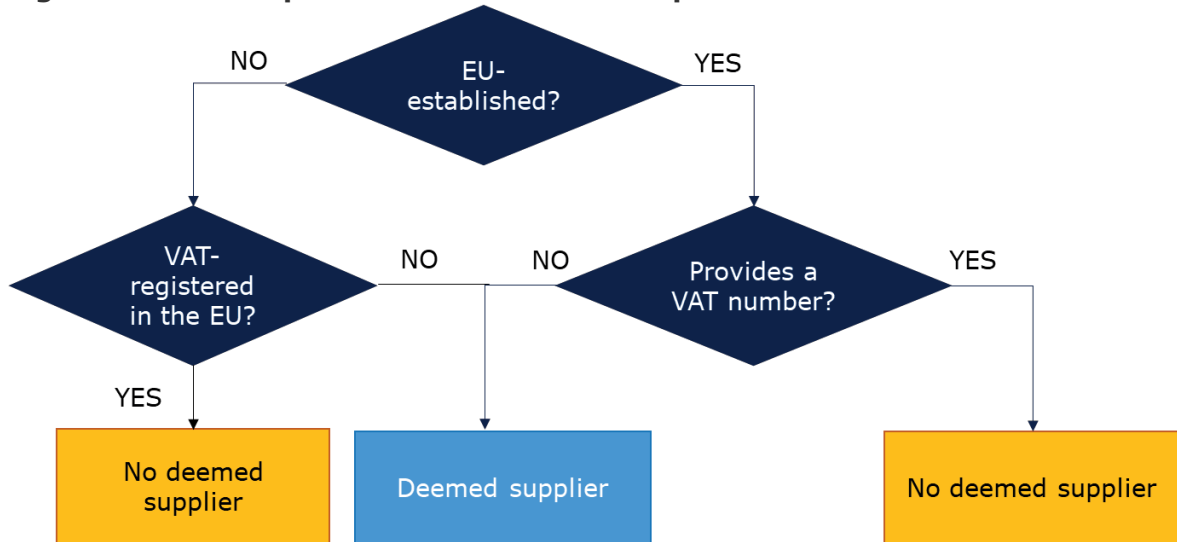
- 1) **VAT number only.** The provider would be asked to provide a valid VAT number to the platform. If he/she does, the deemed supplier regime would not apply and the platform would consider the provider a taxable person when providing services thereto. If he/she does not, the deemed supplier regime would apply and the platform would not consider the provider a taxable person when providing services thereto. This approach is the simplest possible, being only based on the provision of the VAT number. Still, members of the Group of Four with a VAT number²¹¹ would be excluded from the deemed supply regime, with possible consequences on VAT equality (see Figure 31 below).²¹²
- 2) **VAT number + further information on VAT chargeability.** To ensure that all Members of the Group of Four are covered by the deemed supplier regime, the provision of the VAT number is not sufficient, considering that this Group includes taxable persons both with and without a VAT registration. The presumption would then need to be complemented by the submission of further information to identify VAT-registered taxable persons which are members of the Group of Four. The easiest identifier would consist in asking the VAT-registered provider whether he/she normally charges VAT on its transactions; if it is not the

²¹¹ E.g. in Member States where taxable persons covered by the SME schemes are identified for VAT purposes, or in case they obtained it for intra-EU acquisitions or even domestic reverse charge provisions – cf. Article 256 of the VAT Directive.

²¹² As the VAT burden would depend on the possession of VAT number.

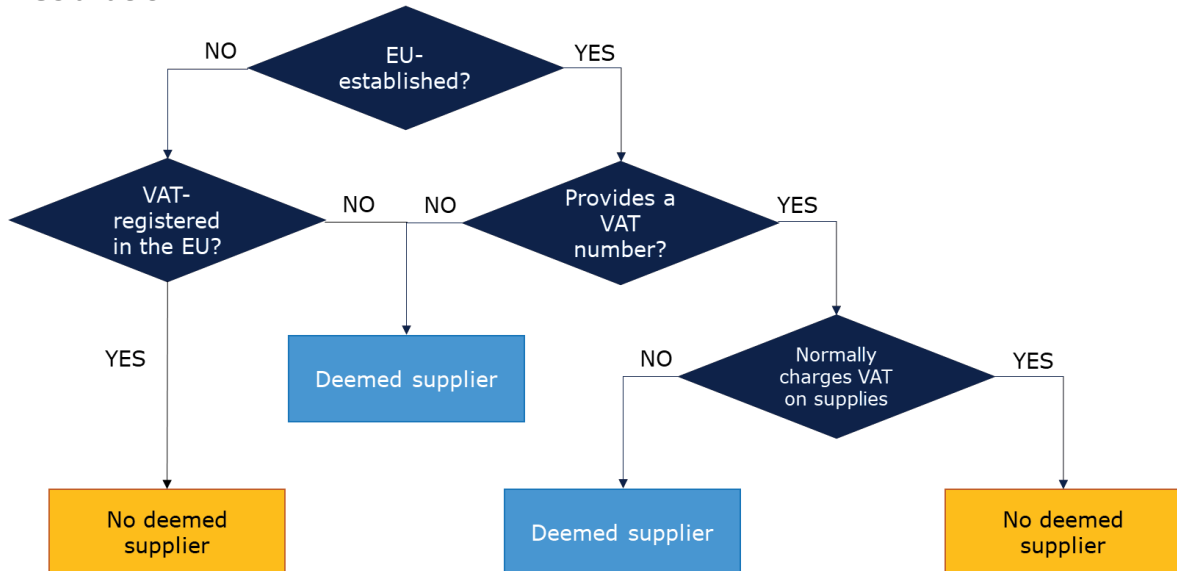
case, the provider would be classified a VAT-registered member of the Group of Four, and thus its supplies would fall within the deemed supplier regime. This declaration should be repeated periodically (e.g. yearly) to make sure that the platform is able to track changes to the provider’s status. In case further checks were needed, the declaration could be complemented by the provision of an invoice issued by the provider for similar services. The tax authorities could also ensure the proper compliance with such obligation by carrying out *ex post* checks, comparing the information supplied by the provider to/with that harvested via the recordkeeping obligations. The working of this approach is illustrated in Figure 32 below.

Figure 31. Presumption on the status of the provider – VAT number



Source. Authors’ own elaboration.

Figure 32. Presumption on the status of the provider – VAT number + Declaration



Source. Authors’ own elaboration.

Interrelation with the platform's right of deduction

The deemed supplier regime could concern **transactions which are exempt from VAT** in certain Member States, e.g. the rental of real estate or the provision of urban transport services, as well as transactions which are exempt from VAT in the Union, e.g. the provision of financial services. The deemed supplier regime could thus lead some platforms to become 'mixed' providers of taxable and exempt transactions, with the consequent application of the rules on proportional deduction.²¹³ The deemed supplier regime could include specific rules to address this situation, i.e. the possibility of segregating exempt transactions in a different company sector with separate accounts, with input VAT allocated to the company sector providing facilitation services.²¹⁴ If no specific solution is introduced, the deemed supplier regime should specify a rule on the treatment of the revenue from deemed supplies in the formula for the calculation of the *pro rata*.²¹⁵

Interrelation with the exemption for the rental of immovable property

According to Article 135(1)(l) of the VAT Directive, the leasing or letting of immovable property is exempt from VAT. However, the following paragraph excludes from the exemption among others, the provision of accommodation in the hotel sectors or sectors with similar functions, leaving the precise identification of the boundaries between exempt and taxed supplies to national legislation. According to Article 137(1)(d), Member States may introduce an option to tax, i.e. allow the taxable persons to apply VAT on these transactions on a voluntary basis.²¹⁶ Indeed, depending on the services offered by the supplier, **platforms often facilitate services which could be characterised as either 'pure' rental of immovable property, thus exempt, or accommodation services, hence taxed (often at a reduced rate).**

The complexity is compounded by the different choices that have been made by the national legislators. Two approaches are used by Member States (discussed in Box 8 below):

- **Letting of residential property is generally exempt;** or
- **Letting of residential property is exempt, unless the supplier also provides additional services** (e.g. cleaning, breakfasts), which would qualify the supply as accommodation services.

Box 8. National approaches to the exemption for short-term rentals vs. taxation of accommodation services

France, Greece, Italy and Spain, which are among the most popular touristic destinations in the EU and contribute to over 60 percent of the platform ecosystem value in the accommodation sector, exempt short-term rentals additional services are also provided. The same applies also to a number of other Member States. More specifically:²¹⁷

- in **Greece**, to benefit from the exemption, the supplier can only provide bed linen; the provision of any other service would qualify the supply as accommodation services, thus taxed.
- In **Italy**, a similar criterion is applied, though the change of bed linen during the stay could also qualify the supply as accommodation services.
- In **France**, the criterion is less restrictive for the supplier, who can provide up to two of the following services and still qualify for the exemption: (i) reception; (ii) breakfasts / meals; (iii) cleaning; and (iv) linen.

²¹³ Articles 173 and ff. of the VAT Directive.

²¹⁴ This solution would be VAT neutral for platforms, since their right of deduction and amount of deductible VAT would remain as in the current situation. Cf. Art. 173(2)(a)(b) of the VAT Directive.

²¹⁵ Cf. Article 174 of the VAT Directive.

²¹⁶ This provision is typically used by taxable persons leasing or letting immovable property to business customers, to avoid the build-up of non-deductible VAT. The option is available in all Member States, except for those which tax the letting of non-residential properties by default. Cf. VAT Compass, at § 7.2.2.

²¹⁷ International VAT Association and targeted consultation; VAT Compass at § 7.1

- Also in **Spain** the application of VAT depends on the additional services provided by the supplier, but there is no hard and fast rule and the VAT treatment is often decided on a case-by-case basis. The mere cleaning of the property in between different rental periods does not exclude the supply from the exemption.
- In **Germany** and **Luxembourg**, the short-term rental of residential properties for less than 6 months is excluded from the exemption when the suppliers provide additional services similar to hotels,
- In **Finland** and **Slovakia**, the supply of rooms is not exempt when carried out jointly with activities comparable to hotels.

As far as the other Member States are concerned, the short-term rental of residential properties is excluded from the exemption in other different cases:²¹⁸

- In **Austria**, the letting of residential property has been excluded from the exemption and it is taxed at a reduced rate.
- In **Czechia**, the letting of residential premises for less than 48 hours is excluded from the exemption; in **Lithuania**, the exclusion applies to rentals shorter than 2 months.
- **Malta** excludes from the exemption the short-term rental (less than 30 days), when the supplier is a taxable person in the course of an economic activity.
- In **Belgium**, certain short-term rental supplies are excluded, but the exemption still applies when the supplier is a natural person not using the building for his/her economic activities.

This VAT regime has clear implications on the current VAT revenue; more importantly for the present analysis, it also substantially affects potential revenue impacts from the application of the deemed supplier regime to accommodation services. Where short-term rentals are exempt, the deemed supplier regime could result in more moderate revenue impacts and even generate VAT revenue losses. A loss could emerge since the deemed supplies would become taxable, but exempt, and thus the VAT revenue collected currently on the output of platforms, i.e. their facilitation services, would be foregone. Yet, the platform providing exempt accommodation services would become unable to deduct its input VAT. To measure the revenue effects of maintaining or removing the exemption, a specific analysis is done within the context of Options C to E in the following section, as discussed in Box 9.

Box 9. The removal of exemption for short-term rentals

The European Commission could propose to remove short-term rentals from the exemption, at least when the circumstances would qualify the supply as provision of accommodation services. An intervention, which would increase the rationale for introducing the deemed supplier role for platforms in the accommodation sector, would likely need to cover both services facilitated by platforms and via other means (the traditional channels). Otherwise, a problem with channel equality and neutrality of such changes would emerge. However, such an option would have far-reaching impacts outside the platform economy, going beyond the boundary of the present analysis. Only the specific impacts on the platform economy and its interaction with the deemed supplier regime can be assessed in the following section.

Against this backdrop, such an intervention could be as follows:

1. **Short-term rentals are excluded from the exemption when provided jointly with additional services other than bed linen.** In this case, 'pure' short-term rental services provided via platforms would remain exempt, in line with the current wording of the VAT Directive, but creating possible inconsistencies with the deemed supplier regime, which aims at applying VAT on these transactions. Importantly, difficulties would emerge in determining the boundary between exempt short-term rental and taxed accommodation services, with the ensuing risk of circumvention. or
2. **Rentals shorter than a certain period of time (e.g. 3 or 6 months) are excluded from the exemption. In this case, all short-term rentals facilitated by platforms would de facto be treated as accommodation services,** while at the same time protecting long-term rentals from the application of VAT. This approach would be easier to apply and enforce, ensure the same treatment between platform-based and traditional business models, while

²¹⁸ Cf. VAT Compass, *ibidem*.

introducing a differentiated treatment for short-term rentals provided within or outside platforms.

Finally, in a dynamic perspective, once the deemed supplier rule is in place, **Member States may spontaneously reconsider their choice concerning the treatment of short-term accommodation rental services, thus moderating the impact of the deemed supplier role.**²¹⁹ In the current situation, the exemption is superfluous for certain suppliers, i.e. those who would anyhow qualify as private individuals or benefit from the VAT SME scheme. However, under the deemed supplier rule, these transactions would become taxable, and hence the opportunity cost of the exemption would increase for Member States, which may decide to restrict or remove it.

Other considerations on the working of the deemed supplier regime

Other than the general description of the regime provided above, below additional considerations concerning specific business models or the relations with other provisions of the VAT Directive are briefly sketched:

- 1) When the **payment is not intermediated by the platform**, the VAT on the underlying supply is to be remitted from the provider to the platform. This transaction should be outside the scope of VAT, as well as neutral for other fiscal and accounting purposes.
- 2) Under certain *B2B transactions, **the platform may be engaging in domestic transactions in a country in which it is not established and for which the reverse charge mechanism does not apply**. Therefore, it may be called upon to obtain a VAT registration in that country. To avoid this additional burden, these transactions should be made eligible for declaration via OSS, thus avoiding the registration. This possibility should be available when the following cumulative conditions apply: (i) the platform performs a deemed supply to a taxable person; (ii) the place of transaction is a Member State other than that in which the platform is established; and (iii) the reverse charge does not apply
- 3) In certain business models, **though the underlying provision of services is for monetary consideration, the provision of platform services is not**. In this case, the platform would have to pay VAT even though it received no monetary consideration at all from the transactions. Business models in which the platform receives no monetary consideration at all could be excluded from the deemed supplier regime, e.g. by recognising them as advertising / listing websites, or by introducing an appropriate definition of 'facilitation'.²²⁰
- 4) For platforms active in the provision of travel facilities (e.g. the joint provision of accommodation and transport services or other touristic attractions), there is a risk of overlapping between the new deemed supplier rules and **Tour Operators' Margin Scheme (TOMS)** regime.²²¹ As the TOMS regime is under review, a sufficient degree of consistency should be ensured between the intervention at stake and the revised TOMS. In particular, attention should be paid to when and at which conditions the services at stake would be covered by the TOMS provision. On the one hand, the deemed supply regime should not hamper the achievement of the objectives of the TOMS.²²² On the other hand, the TOMS

²¹⁹ See Interrelation between the deemed supplier role and exemptions from VAT above.

²²⁰ Certain platforms adopt a 'freemium' business model, in which the basic facilitation services for are provided for free, while more advanced facilitation services are remunerated. The transactions facilitated by a freemium platform would need to fall within the deemed supply regime, while this would be the case for transactions carried out by means of a platform which receive no monetary consideration at all.

²²¹ As per Articles 306 and ff. of the VAT Directive.

²²² Namely, simplification of VAT compliance for travel agents and tour operators, and the accrual of VAT revenue to the place where the touristic services are consumed.

should not represent an escape route that would defeat the objectives of the deemed supplier regime.

6.2.4. The intervention logic

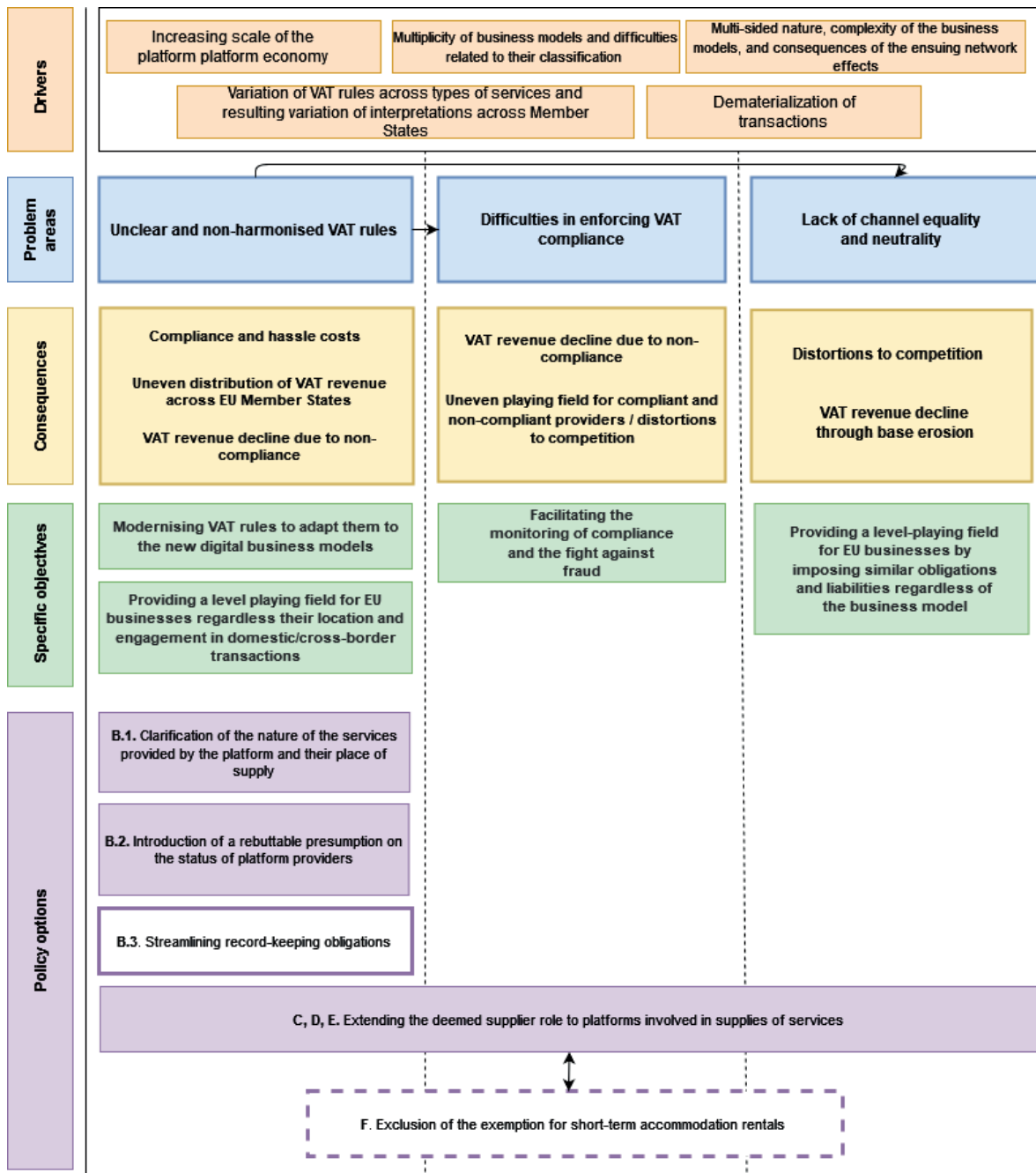
Figure 33 below provides the relation between the problem identified and their drivers, the objectives of the proposal, and the policy options considered. As discussed in the problem definition, the main issue with respect to the VAT treatment of the platform economy consists in the facts that current rules are unclear and non-harmonised, also because the standard VAT framework is poorly fit to the digital platform markets. In turn, this determines two other problems, i.e. the difficulties in enforcing VAT compliance, and thus to foregone revenue, and the insufficient channel neutrality and equality.

The sub-options B.1 to B.3 only address the first aspect of the problem, i.e. they aim at improving the clarity and fitness of the VAT rules to the platform economy, while also harmonising its treatment across the different Member States. In particular, they would directly reduce the variation of VAT rules across Member States and type of services. Furthermore, by introducing specific rules on the nature of the platform services and on the determination of the supplier status, they would help tackling the other problem drivers, i.e. those concerning the platform market and business models, by creating a specific VAT framework for a growing and diverse industry.

The deemed supplier options – C to E – also address the two other problems identified, i.e. the difficulties in VAT enforcing compliance and the lack of neutrality and equality between different business models. They do so, first, by bringing a certain number of transactions within the scope of VAT and by moving part of the responsibility for ensuring compliance from a vast number of dispersed providers to a smaller number of platforms. Secondly, they do so by ensuring that providers in the platform market are subject to VAT, in line with the standard treatment of traditional business models. The revenue impact of the implementation of Options C to E, as explained above, would largely be moderated by the current VAT exemption of certain short-term rental services, currently in place in the main EU tourist destinations.

From the intervention logic, it emerges that only the deemed supplier addresses all problem areas. However, this does not automatically imply that it is the only appropriate policy solution. Such an assessment needs to be based upon the full-fledged analysis of impacts, presented in Section 7 below.

Figure 33. Intervention logic



Source. Authors' own elaboration.

7. ANALYSIS OF IMPACTS

7.1. Introduction

This chapter discusses the impacts of the policy options that were retained for in-depth analysis. The scrutinised policy options were classified in two broad groups and consist of five legislative scenarios, overall:

Group #1. Current treatment and narrow interventions:

- (A) Dynamic baseline scenario (status quo);
- (B) Clarification of VAT rules for the platform economy, and namely:
 - (B1) Clarification of the nature of the services provided by the platform and their place of supply;
 - (B2) Introduction of a rebuttable presumption on the status of platform providers;
 - (B3) Streamlining of recordkeeping obligations.

Group #2. Deemed supplier role for digital platforms:

- (C) for the supply of certain accommodation and transport services;
- (D) for the supply of accommodation and transport services;
- (E) for the supply of services for monetary consideration.

Each legislative scenario was assessed for expected impacts in terms of:

1. VAT revenue (in the EU as a whole and shifts of revenue between Member States, including both direct effects of changes in tax rules and through impacts on VAT compliance).
2. legal certainty and administrative burdens borne by economic operators and administrations,
3. impacts on competition linked with the impact on equality and neutrality of VAT.

Overall, the methodology employed to estimate the impacts consists of four main analytical elements, namely:

- **VAT liability simulation model** for each Member State. More specifically, the model used to estimate VAT revenue from the platform economy for the sectoral analysis was calibrated to reflect changes in tax rules under projected policy scenarios and adapted to forecasted increase in the tax base. The model consists of equations parametrised for each Member State and each sector, separately for providers' and platforms' services.²²³
- **Standard Cost Model (SCM)** to estimate administrative burdens of regulatory interventions based on personnel's time (in FTE) and IT investment associated with the provision of information, as reported by platform operators.

²²³ See Annex C for detailed description of the model equations.

- **Comparative analysis of the VAT burden and impact on prices** in the platform economy and competing businesses in the traditional economy.
- **Qualitative assessment of legal certainty and other regulatory costs** (that could not be quantified using the SCM) based on the legal analysis, sectoral analysis and legal analysis, as well as the results of the targeted consultation.

The mapping of the assessed impacts across the scenarios is summarised in Table 27 below.

The analysis of impacts, including under the dynamic baseline scenario, covers only the sectors affected by the policy options. As a result, the advertising sector, including both social media and search engines, as well as many real estate platforms which operate only as advertisers, are not covered by the analysis.²²⁴ In addition, the analysis excludes marketplaces already covered by the provisions of the e-Commerce Package, i.e. e-commerce operators.

²²⁴ The vast majority of platforms in the real estate sector function similarly to advertising platforms in the sense that they do not participate in the final transaction between the provider and consumer.

Table 27. Mapping of impacts assessed, by type and option

Symbol	Option/sub-option	Direct revenue impacts	Indirect revenue impacts (e.g. via changes in compliance)	Legal certainty and administrative burdens	Impact on competition (VAT equality and neutrality)
A	Dynamic baseline	Increase in VAT revenue due to growth of the platform economy	No changes to the provisions determining VAT compliance in the platform economy	Increase in costs related to inflation of reporting obligations, costs related to verifying providers' status. Legal uncertainties only partially tackled if guidelines are adopted.	No changes to the current VAT treatment
B.1	Clarification of the nature of the services provided by the platform	Shifts in VAT revenue between Member States	Negligible	Uncertainties around nature of services / place of supply. Once companies become familiar with harmonised rules, no impact on running administrative burdens	Positive impact on larger platforms by reducing the differences in VAT treatment across Member States
B.2	Rebuttable presumption on the status of platform providers	The option does not affect the tax base and rate, but only aims at properly characterising the platform facilitated transactions (see indirect revenue impacts)	Increase in VAT compliance primarily for cross-border facilitation of accommodation services	Uncertainties on the nature of provider only partially tackled. Additional burdens due to exchange of information / declarations.	Positive impact on larger platforms by reducing the differences in VAT treatment across Member States
B.3	Streamlining record-keeping	Not relevant	The option does not affect the nature and amount of obligations, but only how they should be complied with, hence with no expected impacts on tax control	Increase in legal certainty reduce administrative burdens (in particular familiarisation, litigation costs)	Negligible
C	Deemed supplier: supply of certain accommodation and transport services	Increase in revenue due to broader tax base	Potential gains from increased VAT compliance	Possible new burdens linked to the administration of the deemed supplier regime. (incline with the scope) Possible new uncertainties linked to the boundaries of the system (decline with the scope).	1) Rebalancing of the competition conditions between traditional and platform-based distribution channels, by eliminating the tax-induced advantage of occasional and very small suppliers operating via platforms. 2) Impact on the variation of VAT burden for small and occasional suppliers operating within or outside platforms.
D	Deemed supplier: supply of accommodation and transport services				
E	Deemed supplier: deemed supplier role applied to platforms facilitating certain additional services for monetary consideration				

Note. N/A – not applicable. Source. Author's own elaboration.

7.2. The current situation and narrow interventions (Options A and B)

7.2.1. Potential development of the platform economy (value at stake)

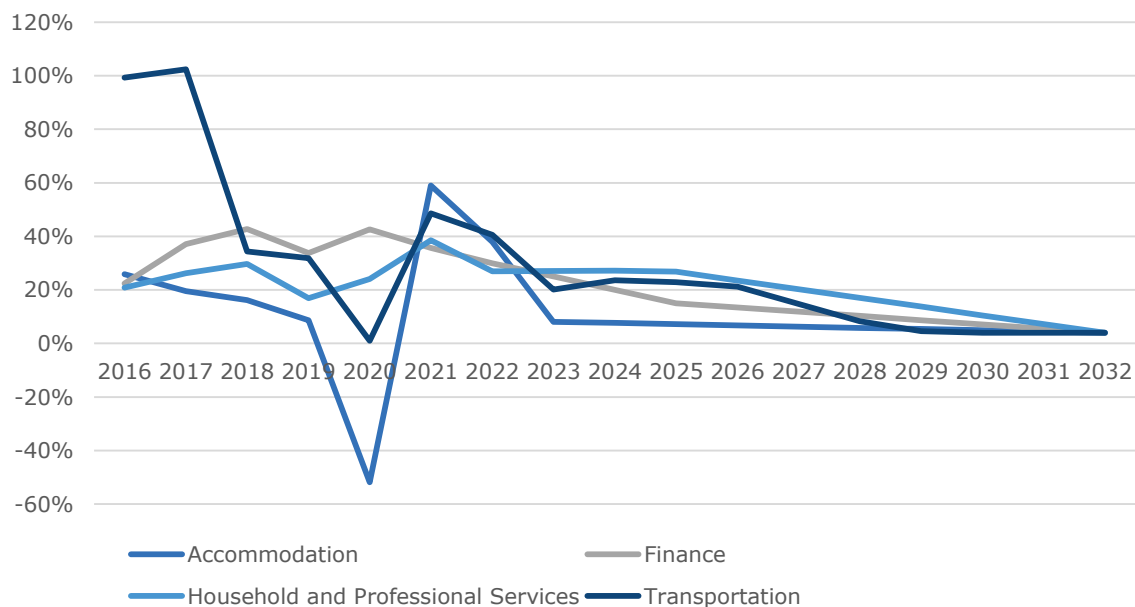
As discussed in Section 3.5.2, the scale of the platform economy in recent years followed an upward trend with two-digit growth rates varying across sectors from 17 (real estate services) to 67 percent (transportation services), on average per year between 2015 and 2019. In addition, considering that the rise of platform economy is a recent phenomenon, high but declining growth rates since 2017 have been observed. Yet, the ecosystem of the platform economy accounted for about 1.9 percent of GDP in EU27 in 2019, which, looking at growth rates in past years, is below the market saturation.

The shape of growth of the platform economy between 2016 and 2019 resembles that following the adoption of innovations, as described by the Bass model,²²⁵ which is one of the most thoroughly researched models in market forecasting. The shape of the market development described by the model follows two core processes – ‘innovation’ and ‘imitation’. As a result of both effects, during the early stages of the product/technology life cycle, the growth rates are first increasing and then begin declining as the ‘market’ becomes more saturated.

The growth trend in the platform economy was halted in some sectors in 2020 due to the pandemic. The most pronounced impact of the pandemic was visible in the accommodation sector (over 50 percent contraction) and in transportation sector (stagnation).

Against this backdrop, in line with experts’ forecasts, two-digit growth rates of the platform economy are projected for 2021 and 2022, resulting from the continuation of trends and rebound of growth rates in sectors affected by the pandemic in 2020. For the remaining years, based on past trajectories, expert projections and insights from innovation diffusion theories, the growth of the platform economy is expected to gradually decrease to converge to the economy-wide growth rates in about a decade.²²⁶ We assume that the growth rates will continue to decline at a constant pace down to 4 percent in 2032 which is the average nominal GDP growth rate forecasted for the EU27 between 2023 and 2032 (See Figure 34).

Figure 34. Projections of platform economy development



²²⁵ Bass, F., (1969), *A new product growth for model consumer durables*, Management Science. 15 (5): 215–227.

²²⁶ See Annex D for all growth rates and detailed description of revenue sources.

Source. Authors' own elaboration.

7.2.2. VAT revenue

This subsection presents the estimated development of VAT revenue in the dynamic baseline scenario and discusses potential shifts to this revenue between Member States in consequence of potential harmonisation of the nature of services provided by digital platforms (under Option B.1). In addition, this subsection looks at potential indirect revenue impacts of introducing rebuttable presumption on the status of the provider and streamlining record-keeping obligations (under Options B.2 and B.3).

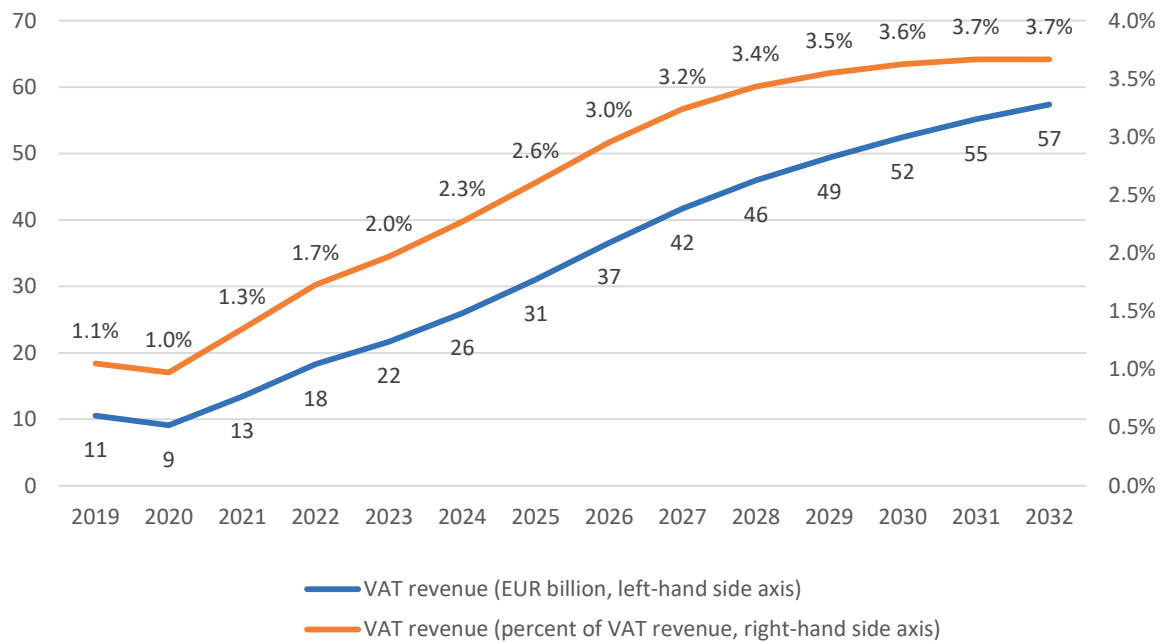
VAT revenue growth in the dynamic baseline scenario

Under the dynamic baseline scenario (status quo, Option A), no legislative revision of the VAT Directive and Implementing Regulations will be proposed. As discussed in Section 4.3, a number of Member States are expected to introduce additional rules and guidelines concerning the status of the provider and the nature of supplies facilitated by platforms. In addition to DAC7, reporting obligations at national level will be implemented progressively.

Accordingly, the VAT revenue in the dynamic baseline scenario will mostly be driven by the increase in tax base rather than by changes in tax rules or in the efficiency of VAT collection. Namely, the VAT revenue on services provided in the platform economy is expected to increase markedly faster than nominal GDP and total VAT revenue, in line with the growth projections for the platform economy described in Section 7.2.1. Between 2022 and 2028 the share of the VAT revenue from the platform economy is expected to increase between 0.19 and 0.35 percentage points per year reaching **2.6 percent of overall VAT revenue in 2025 and 3.6 percent in 2030** (see

Figure **35**). As the pace of growth of the platform economy will decline in the medium-term, the VAT revenue as a share of overall revenue will start stabilising in ca. 10 years' time. In nominal terms, VAT revenue in the platform economy will grow to about EUR 31 billion in 2025 and 52 billion in 2030.

Figure 35. Projections of VAT revenue growth in the platform economy (excluding advertising and e-commerce, EUR billion left scale, percent of total revenue right scale, 2019-2032)²²⁷



Source. Authors' own elaboration.

In addition to revenue growth resulting from the increase in tax base, the availability of information on transactions and providers in the platform economy resulting from reporting and record-keeping obligations is expected to increase the effectiveness of control activities and, as a result, VAT compliance. Though it is not possible to assess the magnitude of this enhancement (see Box 8), the improvements in compliance are expected to have a lower contribution to VAT increase than the increase in tax base discussed in this subsection.

Box 10. Non-compliance in the platform economy

Very few data could be collected on the scale of VAT non-compliance in the platform economy. This is due to both the recent evolution of this phenomenon and the typical time lag in audit activities, as well as to the way in which Member States collect statistics on VAT audit. Detailed audit information on the platform economy could be provided by two Member States. The value of irregularities assessed for digital platforms and providers in Country A stood for ca. 0.2 percent and in Country B – for ca. 2 percent of the estimated VAT liability. The available data points are thus too few to assess quantitatively the level of non-compliance in the EU, let alone possible changes due to changes to the reporting and record-keeping obligations.

Revenue shifts between Member States under Option B.1

Under Option B.1, two possibilities regarding the clarification of the nature of services and the place of supply are envisaged. Under the first alternative, the Commission will propose legislative amendments to the VAT Directive that will result **in the uniform classification of facilitation services as intermediary services**. By this amendment, the place of supply of facilitation services will become more closely linked to the physical place where the underlying services are consumed. The second possibility

²²⁷ Total VAT revenue is expected to increase at the pace of nominal GDP, at four percent on average between 2023-2032. In 2021 and 2022, we assume GDP growth and CPI in line with European Commission's Summer 2021 Economic Forecast.

that is assessed assumes that all platform facilitation services will be recognised **as electronically supplied services**.

The change in the qualification of some services compared to the current treatment would not lead to change in the overall VAT revenue from the platform economy. However, it would lead to revenue shifts between Member States. There are two drivers that would primarily drive the changes in revenue distribution: the specific types of services affected by the option and their characteristics. **The changes would mostly concern accommodation services.**

The type of service that would be most impacted is intra-Community cross-border trade in accommodation services in situations when the consumer is a non-taxable person and is responsible for the payment of the facilitation fee. If, in such case, the facilitation service is recognised as ESS, VAT on the facilitation services shall be collected in the place of residence of the consumer. If the facilitation service is recognised as an intermediary service, VAT shall be collected in the Member State where the property is located.

The second type of services with a major impact on revenue shifts between Member States is another subset of accommodation services: cross-border trade in accommodation services when the property owner is a non-taxable person and resides in a Member State other than that of the location of real estate he/she rents. In such a case, depending on whether the facilitation service is classified as ESS or intermediary, VAT is either collected in the Member State of owner's residence or in the place where the property is located.

Although the classification of facilitation services (intermediary or ESS) may somewhat impact the split of VAT revenue across Member States, **the impact on transportation and other services is considered as negligible compared to accommodation services**. This results, among others, from the exemption with the right to deduct granted to the supply of international transport services by most Member States.²²⁸

Against this background, three parameters are crucial for the assessment of VAT revenue shifts for the above-mentioned services in the scenarios of alternative rules on the place of supply applicable. These are: (i) percentage of transactions in the accommodation sector in which consumers pay the fee (estimated at 18.8 percent), (ii) share of facilitation services that are classified as ESS and intermediary services (estimated at 80.7 and 19.3 percent respectively), and (iii) cross-border ownership of rented apartments and vacation houses. Out of the three parameters, (i) and (ii) were estimated using detailed statistics provided by platform operators. Unfortunately, the evidence on cross border ownership and of rented real estate is rather scarce and outdated, and required extrapolating the information from various unconnected sources (discussed in Box 9). When matching the available data on foreign ownership of real estate in touristic regions and the number of nights spent by tourists in non-traditional accommodation service providers, the available information points out that this represents a small share of transactions. Based on the available information, it is estimated that, in monetary terms, transactions in accommodations services in which the provider is a non-taxable person and the location for the real estate is different than the residence of the owner account for ca. 1 percent of transactions (across all accommodation services).

²²⁸ Source: EC (2014), *Study on the economic effects of the current VAT rules for passenger transport* and legal mapping conducted by the Study Team.

Box 11. Available information on the cross-border ownership of rented apartments and vacation houses

According to the information from real estate registers, between 2010 and 2012, the fraction of the stock of homes purchased by foreigners in Spain was about 6 percent. In 2003, the share of foreign owners of real estate in Mediterranean region in France was estimated at ca. 12.8 percent. Despite growing popularity of apartments and vacation homes rented via platforms, they account for a moderate share of short-term rentals even in most popular tourist destinations. Overall, the count of person-nights spent in other locations than hotels, campsites, caravan or trailer parks (considered to be taxable persons at all times) in all rented locations was ca. 34.1 percent in 2019. Apartments and vacation homes rented by individuals contributed to a fraction of these stays and their value, and even more so if only non-resident owners were to be singled out. Therefore, in monetary terms, transactions in accommodations services in which the provider is non-taxable person and the location for the real estate is different than the residence of the owner are estimated at a very small share of the accommodation service market, tentatively set at one percent of transactions.²²⁹

All in all, **as a result of a unified treatment of facilitation services as intermediary** (both compared to the current state of affairs and to their classification as ESS), **a certain amount of revenue would be shifted to countries where the real estate is located rather where the owners or consumers are residing** (see Figure 36 and Figure 37). In absolute terms, the revenue shifting is not large: EUR 209 million if the intermediary services approach is chosen and EUR 50 million under the ESS approach.²³⁰ This corresponds respectively to 2.9 and 0.7 percent of the VAT revenue from platform-based accommodation services.

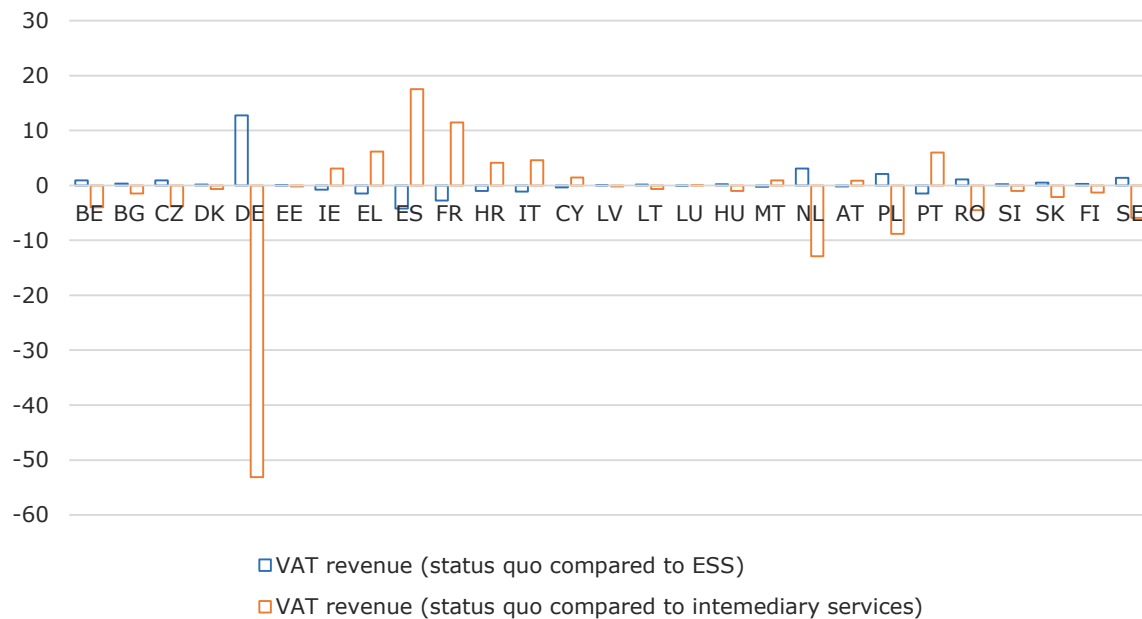
In terms of who is going to benefit under the two approaches, opting **for the intermediary service approach would benefit the touristic destinations, while the ESS would benefit the Member States of origin of the tourist. Impacts at national level would be moderate**, at best several tens of EUR million or few percentage points of the current VAT revenue from platform-intermediated accommodation services:

- As shown in Figure 36, under the intermediary services approach, compared to the current treatment, the largest negative impacts on VAT revenue would be observed in Germany of ca. EUR 53.1 million (on average per year between 2023-2032), which would account for about 0.02 percent of total VAT revenue in this Member State. In nominal terms, the largest gains would be recorded in Spain (EUR 17.6 million and 0.02 percent respectively). In relative terms, compared to the current situation, the largest gains would be observed in Malta (0.08 percent of total revenue) and Portugal (0.06 percent of total revenue).
- As depicted by Figure 36, the effect of opting for ESS would be reversed but lower in magnitude. This is related to the fact that the vast majority of transactions are already recognised as ESS, so such a harmonisation would affect the place of supply of a smaller fraction of transactions.

²²⁹ The estimate of one percent of transactions results from multiplying the expected ownership of rented real estate by foreigners in the EU (ca. 5 percent) and the share of apartments and vacation houses rental in the accommodation sector (ca. 20-25 percent).

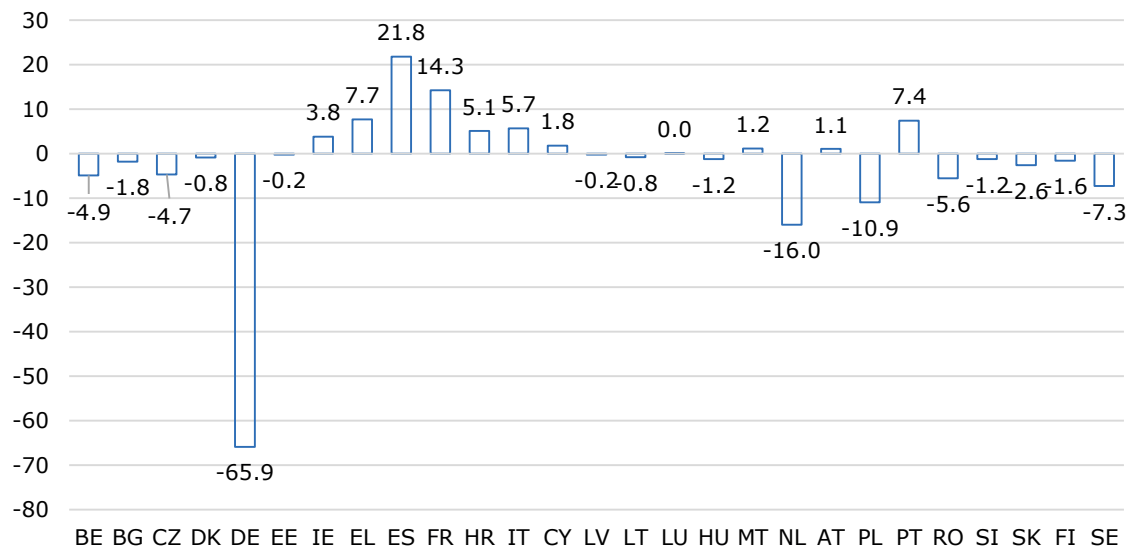
²³⁰ The flows are estimated as a sum of absolute changes in VAT revenue across EU27. The estimates reflect expected average per year between 2023 and 2032.

Figure 36. Revenue shifts between Member States (average per year between 2023 and 2032, EUR million)



Source. Authors' own elaboration.

Figure 37. Difference in estimates of VAT revenue, ESS vs. intermediary services (average per year between 2023 and 2032, EUR million)



Source. Authors' own elaboration.

Potential indirect VAT revenue impacts of introducing a rebuttable presumption on the providers status (Option B.2)

Option B.2 introduces a rebuttable presumption, so that the provider is considered not to be a taxable person unless he/she provides a VAT number to the platform. Such a presumption would not fully address the problem if the provider is a taxable person without a VAT registration. Hence, providers who do not communicate the VAT number to the platform should also be required to confirm that they are not a taxable person (e.g. when registering to the platform or periodically). To facilitate compliance, i.e. to

ensure that non-registered taxable persons provide an accurate information to the platform, the supporting measures described in Section 6.2.2 should be foreseen.

One of the objectives of introducing such a presumption is to eliminate the possibility of not remitting the VAT due on the facilitation services because of the improper characterisation of the taxable status of the provider. Specifically, VAT could not be collected when the facilitation service is considered an intermediary service, because of the different place of supply rules between B2B and B2C transactions. In these cases, the incorrect classification of the provider as a taxable person in cross border transactions could lead to inappropriate application of reverse charge to non-taxable persons and the non-payment of VAT, either in the country of origin or destination (see Section 5.3). Potential risks are most pronounced for accommodation services due to the relatively large value of such services and the higher, on average, rates applied than in the case of international transport services.

A rebuttable presumption so that the provider is considered not to be a taxable person would eliminate such a possibility of misclassification and unremitted VAT. Unfortunately, the impact of introducing the presumption could be calculated only in terms of its maximum potential, as the information on the status of providers in the current situation is not sufficiently accurate.²³¹

All in all, in 2019, the share of nights spent in so-called 'other rented locations'²³² accounted for 34.1 percent of nights spent in rented accommodations in the EU. A conservative assumption could be taken that flats owned and rented by non-taxable persons stood for substantially less than 34.1 percent of the transaction value in the accommodation sector. To approximate the share of accommodation services, the shares of platform turnover specializing in renting such a real estate could be used. This share was estimated at ca. 25 percent, which is broadly in line with the aggregate statistics published by Eurostat. Assuming that all these properties were rented by non-taxable persons, **the rebuttable presumption would affect transactions that generated potential VAT liability of EUR 120 million per year in 2019 in the EU27.** Considering the growth rates in the platform accommodation industry, **such a presumption could substantially increase VAT collection by ca. EUR 185 million on average between 2023 and 2032.**²³³ This is the maximum potential of option B.2; the achievable gains would be lower, depending on the real share of platform-mediated transactions in which the supplier is a taxable person.

7.2.3. Regulatory costs

As described in more detail in Section 5.4, **there are two important areas where the administrative burdens for digital platforms are expected to be significant.** These are: (i) **reporting and record-keeping obligations**, and (ii) **procedures related to recognising the taxable status of the provider.** This section discusses the costs that are expected to be borne in the above-mentioned areas under the dynamic baseline scenario and under Option B.

The estimates of the costs are based on the SCM. The main input to the model, the investment costs (mostly for the required IT investment) and the personnel's effort calculated in FTEs, comes from the targeted consultation of digital platforms. Overall, the EU27 revenue of the platforms that provided responses to the questionnaire on

²³¹ The information used, which comes from the targeted consultation, might indeed incorporate the potential misclassification issues, and therefore not represent an accurate description of the current situation. Still, the information that was obtained is sufficient to estimate the share and value of transactions at risk.

²³² Which consist of (i) holiday homes for children and other holiday homes, (ii) visitor flats and bungalows, (iii) cottages and cabins without housekeeping services, and (iv) youth hostels and mountain refuges

²³³ Forecast based on the assumed growth rates of the platform economy revenue. See Annex D.

regulatory costs accounted for ca. 43 percent of the total EU value of facilitation services in the meaning of Article 54b of the VAT Implementing Regulation. Due to the sensitive nature of the information, the figures provided by platform operators are only reported in aggregate form.

The responses to the questionnaire were provided by large platform operators, potentially able to exploit economies of scale, i.e. bearing lower unit costs due to the scale of their operation. Due to uncertainty around costs that will be borne by small operators (Cluster #2, #3 and #4), it was assumed that their fixed costs will range from 10 (Cluster #2, #3) to 100 times (Cluster #4) of costs per EUR 1 reported by Cluster #1 platforms. This is consistent with their scale of operations, which is typically one to several orders of magnitude lower compared to very large platforms. All costs are presented in nominal terms as a sum of one-off adaptation costs and operating costs between 2023 and 2032. In other words, it is assumed that all adaptation cost will be fully depreciated in about a decade.²³⁴

Reporting and record-keeping obligations (status quo)

The costs involved in reporting and record-keeping obligations in the dynamic baseline scenario covered by this analysis are related to the obligations resulting from the introduction of **Article 242a** of the VAT Directive and the forthcoming implementation of the **DAC7 and CESOP Directives**. They also cover **country specific obligations** that have been introduced since 2018 and will be introduced in the coming years.

As the main goal of the analysis is to assess the impact of Article 242a and the clarification of its relative scope, the costs covered by the analysis refer only to the platforms providing facilitation services in the meaning of Article 54b of the VAT Implementing Regulation.²³⁵ As a result, platforms offering their facilitation in the advertising and partially the real estate sector are not covered.²³⁶ In addition, the analysis excludes marketplaces, given the focus of the Assignment on the parts of the platform economy not already covered by the VAT e-Commerce Package.

The adaptation costs depend to a large extent on the number of Member States that introduced or will introduce additional domestic obligations. So far, in recent years such obligations were introduced by eight Member States, which are Austria, Belgium, Bulgaria, Denmark, Finland, France, Greece and Ireland. As the obligations included in the DAC7 and CESOP Directives will become operational shortly (in 2023 and 2024, respectively), it is expected that no additional Member State will impose new obligations in the future. Should this not be the case, the estimated administrative burdens would be higher.

The adaptation costs that are presented in this section were already partially borne and will continue to be borne in parallel to the gradual implementation of new obligations at the EU level. As pointed out by interviewees, **the one-off costs incurred take into account all the expected changes by platform operators and cannot be easily attributed to single requirements or legislative acts**. The one-off adaptation costs cover the time of employees spent on familiarising with the requirements, matching the

²³⁴ An alternative approach of calculating net present value for all costs would require additional assumptions regarding the time of bearing the costs as well as assuming the pace of their depreciation. In the light of many uncertainties regarding the development of the platform economy, to limit the number of assumptions, the Study Team decided for a simpler approach.

²³⁵ Specifically, the estimates do not cover platforms, whose facilitation service is restricted to the processing of payments in relation to the supply of goods or services, listing or advertising of the goods or services and redirecting or transferring of customers to other electronic interfaces where goods or services are offered.

²³⁶ The vast majority of platforms in the real estate sector function similarly to advertising platforms in the sense that they do not participate in the final transaction between the provider and consumer.

requirements with the available data, setting onboarding flows²³⁷, performing data reconciliation, and requesting missing data from providers and setting platforms to exchange information internally and with external vendors. The sum of these costs expected by platform operators that provided answers to the questionnaire was ca. EUR 22 million. **The total one-off cost for all facilitation services covered is expected to reach ca. EUR 270 million, approximately.**²³⁸

The operating costs incurred because of the reporting obligations will hinge on the methods of submitting information, thus the costs for the dynamic baseline scenario could only be approximately projected. These costs will consist mostly of the effort of analysts supervising the data collection and cleaning process, as well as compiling and submitting the information. Information on the expected resources devoted to this task, covering ca. 43 percent of platforms revenue in the EU, was ca. 30 FTEs.²³⁹ Overall, the assessed costs for all platform facilitations' services would be ca. 360 FTE in the EU27, accounting for the larger impacts of such rules on the larger number of smaller platforms. **In monetary terms, the average operating cost per year between 2023 and 2032 would be EUR 108 million.**²⁴⁰

The overall administrative burdens generated between 2023 and 2032, including the one-off and operating costs, would be ca. EUR 1,350 million, that is ca. EUR 135 million per year (see Table 28). This corresponds to ca. 0.2 percent of the average yearly revenue for platform economy operators and 0.3 percent of yearly VAT revenue in the platform economy in relevant sectors.

The estimates of the total costs of all information obligation are ca. two times higher than the estimates of administrative costs for platform operators presented in the DAC7 Impact Assessment, and this can be explained by the wider spectrum of requirements considered.²⁴¹ Therein, one-off implementation costs was estimated at EUR 250 million, whereas recurrent administrative costs were expected to reach EUR 30 million.

Table 28. Summary of regulatory costs attributed to reporting and record-keeping obligations (EUR million)

Fixed cost	Running costs										Total
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
269	92	95	98	102	105	109	113	117	121	125	1,345

Source. Authors' own elaboration.

Reporting and record-keeping obligations (Option B)

Under Option B, it is assumed that the burden of record-keeping obligations under Article 242a will be reduced by the introduction of a OSS for sharing relevant data on request from domestic tax authorities.

²³⁷ i.e. setting the process of gathering information from new users.

²³⁸ The lower bound estimates assume proportional fixed costs borne by large and small operators. Upper bound estimates assume that costs borne small operators per EUR 1 transaction value will be five times larger.

²³⁹ More specifically, the reference is the revenue from providing facilitation services in the meaning of Article 54b of the VAT Implementing Regulation.

²⁴⁰ To calculate the yearly costs related to information and record-keeping information used, the information on *Mean annual earnings by sex, age and occupation* [EARN_SES18_28_custom_736081] from Eurostat was used. It was assumed that the costs of employment of analysts involved in the process was the average in the EU27 gross salary for 'Technicians' inflated by 25 percent overhead. The increase in labour costs was assumed to follow the growth of nominal GP.

²⁴¹ European Commission (2020), *Tax fraud and evasion – better cooperation between national tax authorities on exchanging information accompanying the document: Proposal for a Council Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation*, SWD(2020) 131 final.

Such an amendment will not impact the availability of data needed for tax control activities. At the same time, such simplifications would substantially reduce the effort needed to compile and submit the information. The potential scope of cost reduction corresponds to the current running costs of compliance, that were estimated at ca. EUR 35 million per year. It could be estimated that a OSS for sharing the data and the elimination of the information that would require manual intervention in compiling the datasets could bring **savings in relevant compliance costs up to ca. 25 percent of estimated recurring burdens. This would amount for EUR 9 million on average and EUR 88 million in total between 2023 and 2032** (see Table 29).

Table 29. Summary of regulatory costs reduction attributed to streamlining of reporting obligations (EUR million)

Running costs										Total
2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
8	8	8	8	9	9	9	10	10	10	88

Source. Authors' own elaboration.

Providers' status (status quo)

The administrative burdens due to verifying the status of providers have mostly a recurrent nature. The burdens vary substantially between platforms, due to differences in business models applied. Based on the targeted consultation, some platforms mostly operate on the basis of presumptions on the providers' status. Other platforms follow procedures for obtaining and verifying information to classify providers by their status. These procedures often differ across Member States.

The burdens involved in verifying the taxable status of providers, apart from the collection of VAT identification numbers, include the effort in obtaining other evidence directly from the providers and in analysing the history of transactions to verify material conditions. Yet, these procedures account only for a fraction of costs pertaining to the verification of the providers' status (ca. 14 percent of total costs). According to the interviewees, **the core costs are related to the regulatory fragmentation and changes in the treatment of providers across time.** The internal costs of reviewing, monitoring and interpreting the legal framework on the identification of the taxable status of providers across Member States were estimated to account for ca. 50 percent of the entire regulatory burden in this area. External fees related to legal advice and litigation, accounted for ca. 36 percent. **In monetary terms, total yearly burdens accounted for ca. EUR 52 million per year on average between 2023 and 2032, and ca. EUR 516 million in the entire analysed period, in total** (see Table 30).²⁴²

Table 30. Summary of regulatory costs attributed to verifying provider's status (EUR million)²⁴³

Running costs										Total
2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
44	46	47	49	51	52	54	56	58	60	516

Source. Authors' own elaboration.

Providers' status (Option B)

A rebuttable presumption on the providers' status would allow to reduce substantially the costs attributed to this obligation. More in detail, all costs related to additional

²⁴² To calculate the costs, the information on *Mean annual earnings by sex, age and occupation* [EARN_SES18_28_custom_736081] from Eurostat was used. It was assumed that the costs of employment of analysts involved in the process was the average in the EU27 gross salary for 'Technicians' inflated by 25 percent overhead. It was assumed that the cost on a FTE for interpreting guidelines was equal to gross salary of a Professionals with 25 percent overhead.

²⁴³ The lower bound estimates assume proportional costs for large and small operators. Upper bound estimates assume that costs for small operators per transaction value are five times larger.

checks would be eliminated. In addition, all internal and external costs related to interpreting guidelines and provisions because of regulatory fragmentation and changes of applicable rules would also be erased. The external costs related to legal advice and litigation costs are expected to drop by ca. 50 percent.

Overall, the costs would be reduced by 75 percent and the savings would amount to EUR 388 million (see Table 31). As a result, the total yearly costs related to verifying providers status would reduce to EUR 39 million on average per year between 2023 and 2032.

Table 31. Summary of regulatory costs reduction attributed to rebuttable presumption on providers' status (EUR million)

Running costs										Total
2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
33	34	35	37	38	39	41	42	43	45	388

Source. Authors' own elaboration.

7.2.4. Legal certainty

Under the **status quo (option A)**, as a result of the lack of explicit provisions on the platform economy in the VAT Directive and the new measures introduced by the Member States, **the regulatory landscape will remain uncertain and fragmented**. In particular, the facilitation services by digital platforms will continue to be recognised either as ESS or intermediary services depending on the underlying services, and the solutions adopted will differ across Member States. There will also be no further guidance on the identification of the taxable status of the platform users, and such an uncertainty will not be tackled.

The introduction by the Commission of non-binding clarifications by means of Explanatory Notes or VAT Committee Guidelines on certain aspects of the VAT treatment of the platform economy **could reduce legal uncertainty**, with positive impacts on economic operators – both platforms and their users – and on the level-playing field within the Internal Market. A proper estimation of the economic impacts of these clarifications would require a precise indication as to their content – for example, the share of current providers which should be considered as taxable persons following the guidelines. However, at the moment, there is no detail on the content of any non-binding clarifications that could serve to better specify the dynamic status quo. Furthermore, there is no information to foresee whether and to what extent Member States would agree on such Guidelines and on whether and how they would consequently change their domestic policies (considering the non-binding nature of such Guidelines).

Option B.1 directly targets one of the two major areas of uncertainty in the VAT treatment of the platform transactions: the nature of the facilitation services and, consequently, their place of supply. Both the intermediary and the ESS approaches are robust from a legal perspective and neither of them is superior in terms of legal certainty. The choice among the two approaches rather depends on their effects on the place of supplies for B2C platform facilitation services:²⁴⁴

- Under the intermediary approach, the place of supply of B2C facilitation services tends to follow that of the underlying transaction.
- Under the ESS approach, the place of supply of B2C facilitation services is the place where customer is established, has his/her permanent address or usually resides.

²⁴⁴ B2C supplies of facilitation services by the platform take place both when the services are provided to the consumer and when the provider is not a taxable person – occasional suppliers.

The intermediary approach would bring the place of supply in line with the approach already foreseen for the B2B supplies of intermediary services,²⁴⁵ for the supplies of intermediary services connected to immovable property,²⁴⁶ and the B2C supplies of intermediary services connected to accommodation.²⁴⁷ Therefore, **the intermediary approach would seem more consistent with other provisions in the VAT Directive** determining the place of supply for similar services. Furthermore, **it would bring VAT revenue closer to the place of consumption**, rather than to the place of residence of the customer (with the consequent distributional effects discussed above). However, **both approaches would tackle the existing legal uncertainty to a large and similar extent**.

Under the intermediary services approach, an issue could arise on the treatment of **underlying complex supplies**, i.e. supplies which include various services (e.g. letting of immovable property or accommodation, transport, other leisure activities). Under the current rules and case law,²⁴⁸ the determination of the VAT treatment requires the identification of the main supply vs. the ancillary supplies, and the application of the VAT treatment of the main supply to the entire transaction. This issue is not among those most often mentioned by platform operators. This uncertainty could be reduced by introducing in the VAT Implementing Regulation a number of criteria to determine which are to be considered the main and the ancillary supplies for services intermediated via platforms. One possible solution could consist in introducing a number of presumptions concerning the most common types of services intermediated by platforms, e.g. that all complex supplies including accommodation services should be treated as accommodation services. Alternatively, other objective criteria (e.g. based on the relative monetary value of the various components) could be introduced.

Option B.2 aims at tackling another legal problem, and namely **the uncertainty on the taxable status of the provider**. The problem is addressed by requiring the provider to supply his/her VAT number; if a VAT number is not provided, he/she would be required to confirm not to be a taxable person (e.g. an SME under the VAT registration threshold).

The presumption would increase legal certainty for platform operators. In particular, once they are provided with the VAT number or a confirmation that the recipient of their services is not a taxable person, the rebuttable presumption would diminish their legal risks linked to the incorrect characterisation of the supplier, and thus of the place of supply rules.

An issue remains with respect to the working and enforceability of such a provision. When a taxable person receives a cross-border supply of facilitation services by the platform, this is typically subject to the reverse charge regime. Recipients of services under reverse charge not registered for VAT purposes should obtain the registration.²⁴⁹ To avoid complying with such an obligation, a non-registered taxable person could have an incentive not to provide accurate information to the platform, thus risking defeating

²⁴⁵ Article 46 of the VAT Directive.

²⁴⁶ Article 47 of the VAT Directive.

²⁴⁷ Article 31 of the VAT Implementing Regulation. For intermediary services connected to the provision of accommodation, the place of supply for B2B transactions in the place in which the customer is established.

²⁴⁸ See for example: CJEU judgement of 25 February 1999, CPP, C-349/96, EU:C:1999:93; CJEU judgement of 11 February 2010, Graphic Procédé, C-88/09, EU:C:2010:76; CJEU judgement of 17 January 2013, BGŻ Leasing, C-224/11, EU:C:2013:15; CJEU judgement of 18 January 2018, Stadion Amsterdam, C-463/16, EU:C:2018:22. See also: CJEU judgement of 6 July 2006, Talacre Beach Caravan Sales, C-251/05, EU:C:2006:451; CJEU judgement of 6 May 2010, European Commission v French Republic, C-94/09, EU:C:2010:253; CJEU judgement of 4 March 2021, Frenetikexito, EU:C:2021:167; CJEU judgement of 2 July 2020, Blackrock Investment Management (UK), C-231/19, EU:C:2020:513.

the purpose of the presumption. This problem is not specific to the platform economy, as it already concerns any non-registered taxable persons receiving cross-border services. However, its magnitude is likely larger in the sectors at stake, considering that a significant share of facilitation services in the platform economy are provided on a cross-border basis. To counter this risk, reference should be made to the information on platform users reported periodically under the EU and national legal frameworks. The information so obtained should be matched with the existing tax authority databases, to make sure that non-registered taxable persons do not provide false information to platforms. Importantly, a significant incentive for compliance and means for enforcement would result from the implementation of some form of real-time reporting on intra-EU transactions,²⁵⁰ so that the Member States of destination could immediately verify whether the VAT due under the reverse charge regime was paid and the provider had obtained a registration number to this purpose.

Option B.3 has a positive impact on legal certainty, by increasing the quality of the legal framework. This would be achieved by avoiding duplicated reporting requirements for platform operators as resulting from the interaction between article 242a of the VAT Directive, DAC7 and CESOP, and a simplification of the method for submitting the information (in particular, by considering the possibility of introducing an OSS to this purpose).

7.3. The deemed supplier regime (Option C, D and E)

This section analyses the impacts of the deemed supplier role under three alternative scopes, which are: (i) **a narrow approach** of the deemed supplier regime, which would cover only certain accommodation and transport subsectors, and namely residence renting, ride on demand and delivery services; (ii) **a broader application** to the accommodation and transport sectors; (iii) **a very broad application** to all services provided for monetary consideration.

The major impact generated is the direct VAT revenue effect of broadening the tax base. The potential range of the impacts resulting from increased VAT compliance and the impacts on competition are also assessed. This is concluded by an assessment of the deemed supplier regime on regulatory costs and legal certainty.

7.3.1. VAT revenue

The core objective of introducing the deemed supplier role for platforms is to create VAT liability in transactions that currently remain untaxed, i.e. services provided by non-taxable persons and other providers not charging VAT on their transactions, so-called 'exempt providers'.²⁵¹

To calculate the impacts of changes in VAT obligations, the VAT liability simulation model is used; it is discussed in more detail in Annex C. The calculation hinges on calibrated value of model parameters, and specifically on the shares of transactions provided by exempt and non-taxable providers. As there was no source that would cover the entire platform ecosystem (e.g. data from business registers) these parameters were calibrated using information shared with the Study Team by digital platform operators.

The VAT revenue impact of the deemed supplier role is driven by: (i) the broadening of the tax base and (ii) by the difference between the rates applicable to the facilitation and underlying services. On the latter aspect, under the status quo the facilitation services are subject to VAT. Therefore, the VAT effectively collected for platform-facilitated provision of services with exempt or non-taxable persons consists of (i) hidden VAT on providers' inputs and (ii) the VAT rate applicable to the facilitation service. Under the deemed supplier options, the liability consists only of the output VAT

²⁵⁰ See Volume 1 of the Study.

²⁵¹ Such as small taxable persons covered by the SME scheme.

on the provision of the underlying service, since the facilitation service becomes VAT exempt.²⁵² In some cases, the underlying service might be exempt²⁵³ or taxed at a very low rate,²⁵⁴ which could lead to decrease in the VAT revenue compared to the dynamic baseline scenario.

Option C and D

Under Option C, it is assumed that the deemed supplier role will cover transportation and accommodation services that are more frequently provided – compared to other sub-sectors – by exempt or non-taxable persons, i.e. residence renting, ride on demand and delivery services. In such case, the deemed supplier role would cover ca. 25 percent of accommodation services and nearly 95 percent of transportation services. As providers of other accommodation and transport services (e.g. hotel and B&B operators) mostly consist of taxable persons, the revenue impacts of Option C would be nearly the same as for Option D, that assumes covering all transportation and accommodation services.

The introduction of the deemed supplier role for accommodation and transportation services is expected to increase EU-wide VAT revenue by **ca. EUR 500 million in 2023 and by EUR 1.4 billion in 2032** (see Figure 38). **On average, revenue gains between 2023 and 2032, would amount to ca. 0.1 percent of total VAT revenue in the EU27 and ca. 2.3 percent of the estimated VAT revenue in the platform economy.**

The VAT revenue impacts are positive for the transportation services and slightly negative for accommodation services. EU-wide VAT revenue losses resulting from the introduction of the deemed supplier role in the accommodation sector are related to the VAT treatment of vacation rentals in four Member States among the most popular tourist destinations in the EU. In France, Greece, Italy and Spain, which contributed to over 60 percent of the platform ecosystem value in the accommodation sector in the EU27, the rental of such accommodation is, generally, exempt from VAT.²⁵⁵ This means that under the deemed supplier regime, the VAT due on the facilitation services would no longer be due, and this would not be compensated by additional VAT due on the underlying services.²⁵⁶

In nominal terms, the largest gains would be observed in Germany, of EUR 583 million on average per year, respectively. In a handful of Member States, due to exemption or low rates applicable to accommodation and transportation services the impact would be negative: Denmark (EUR 15 million loss), Ireland (EUR 158 million loss), Luxembourg (EUR 1 million loss) and Sweden (EUR 2 million loss).

²⁵² It is assumed that the value of non-deductible input VAT of providers under the deemed supplier regime resulting from the exemption without the right to deduct of transaction between the platform and the provider (deemed supply #1) will be marginal. As a result of the introduction of the deeming provisions, providers with a substantial value of input VAT will get a strong incentive to enter the VAT regime to be able to deduct their input VAT.

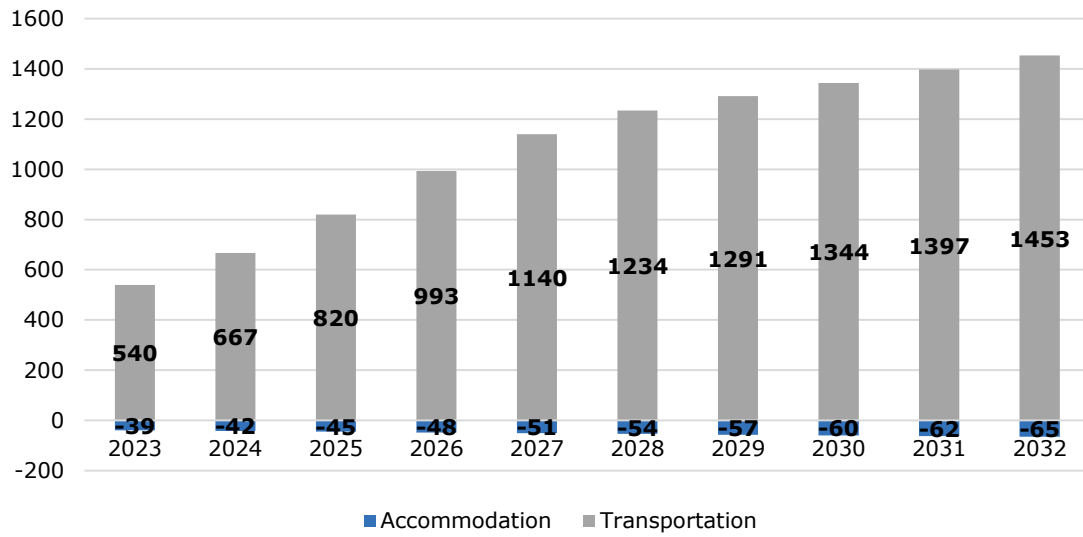
²⁵³ E.g. passenger land transport in Ireland.

²⁵⁴ E.g. passenger transport in Luxembourg.

²⁵⁵ In accordance with the Article 135(1)(l) of the VAT Directive. The rentals are exempt unless additional/supporting services are supplied. The qualification varies across Member States.

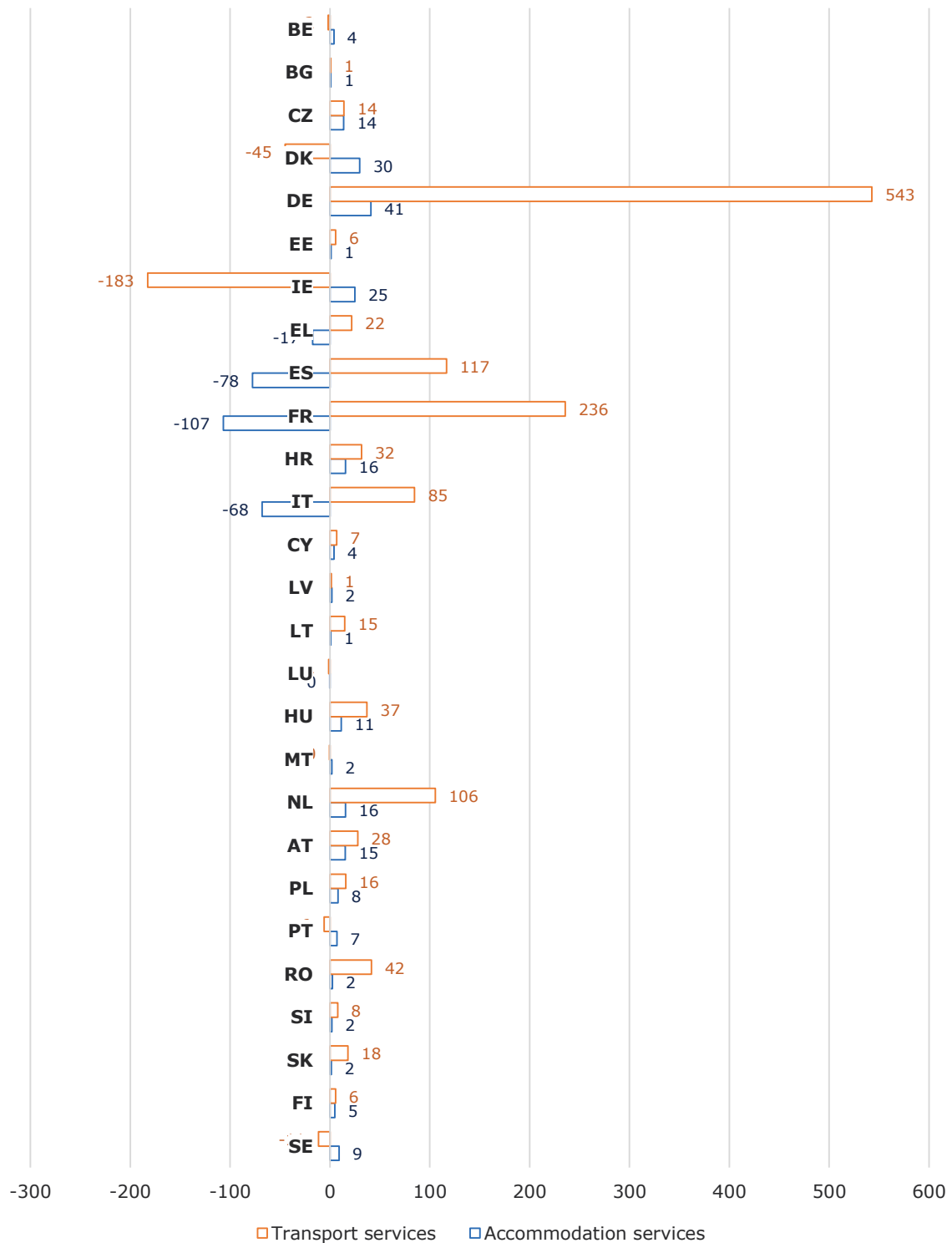
²⁵⁶ If short-term rentals become taxed at the rate applicable to other hotel and accommodation services, the EU-wide impact of implementing the deemed supplier regime would be positive and amount to ca. EUR 600 million on average in the EU27 between 2023 and 2032. See further below in this Section.

Figure 38. Revenue gains from introducing deemed supplier role for platforms in accommodation and transportation sectors (EU27, EUR million)



Source. Authors' own elaboration.

Figure 39. Revenue impact of deemed supplier role for platforms in accommodation and transportation sectors, by Member State (average per year between 2023 and 2032, EUR million)



Source. Authors' own elaboration.

All in all, the changes in VAT revenue are linked with the three following mechanisms:

- 1) **Revenue gains from taxing the output of currently untaxed providers** (e.g. private individuals, Members of the Group of Four, non-EU established providers), which will be observed in both counterfactual cases, i.e.:

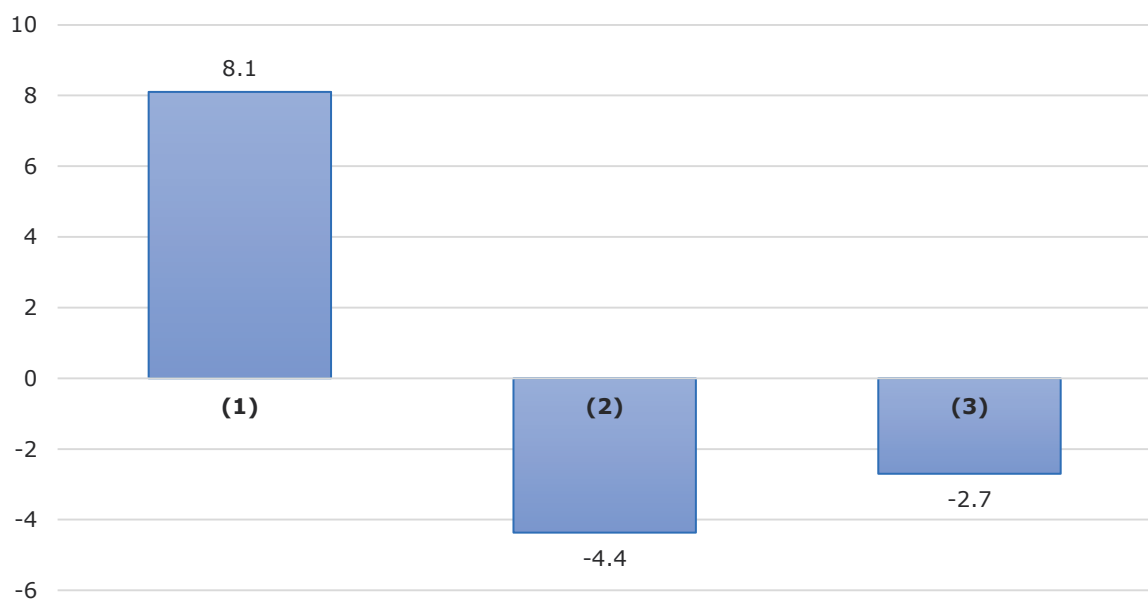
- Untaxed providers do not register for VAT and thus become subject to the deemed supplier regime;
- Untaxed providers register for VAT or set up his/her establishment in the EU (to escape the deemed supplier regime and gain the right to deduct).

This gain is directly linked to the rate applicable to the respective services, thus not observed in case services are exempt (e.g. in case of short-term rentals in France, Italy, Greece and Spain).

- 2) **Revenue losses due to the gain of the right to deduct** if an untaxed provider registers for VAT.
- 3) **Revenue loss due to lower rate applicable to value added created of platform operators, and potential inability to deduct input VAT if the deemed supply is exempt** (as platforms' output will effectively become taxed at the lower rate applicable to accommodation and transport services, or subject to exemption without the right to deduct).

As visualized in Figure 40, EU-wide average gains from taxing output of the providers will exceed EUR 8 billion on average between 2023 and 2032. Yet, this effect will largely be cushioned by foregone revenue due to the loss of the right to deduct of providers that will decide to register for VAT (ca. EUR 4.4 billion) and the loss related to the treatment of the facilitation services (ca. EUR 2.7 billion).

Figure 40. Revenue impacts of the three mechanisms under the deemed supplier role for platforms in accommodation and transportation sectors (average per year between 2023 and 2032, EUR billion)



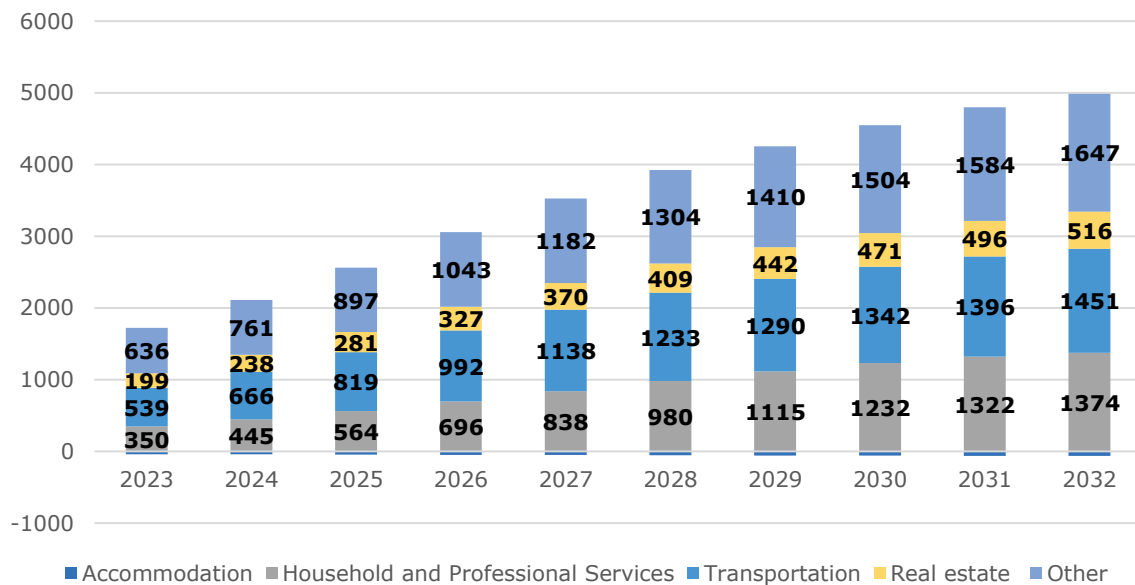
Source. Authors' own elaboration.

Option E

Under Option E it is assumed that the deemed supplier role will cover all services for monetary considerations facilitated by digital platforms. In such a case, the increase in VAT revenue compared to baseline would more than double. On average between 2023 and 2032, **the increase in VAT revenue would account for EUR 3.5 billion, 0.3 percent of total VAT revenue and 7.9 percent of the estimated VAT revenue in the platform economy** (see Figure 41). The impact of other types of services than transport and accommodation is relatively large, as household, professional and other services are typically taxed at markedly higher rates.

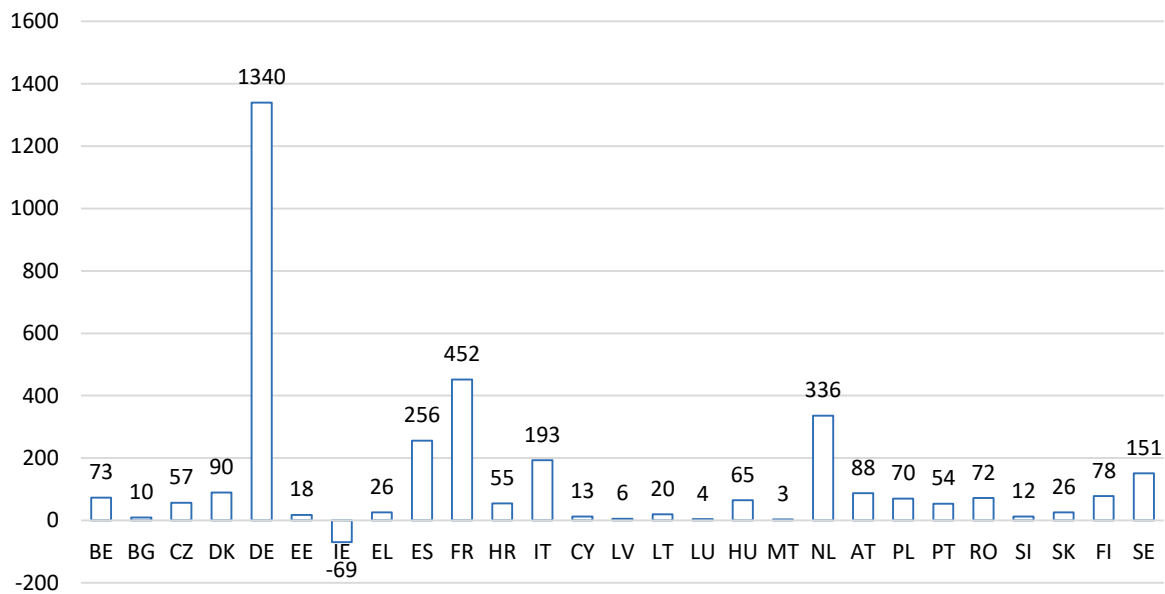
The largest revenue gains, in nominal terms, were projected for Germany (ca. EUR 1.3 billion on average per year) and France (ca. EUR 0.5 billion on average per year) (see Figure 41). **In relative terms, as a percent of VAT revenue on facilitation services, the largest gains of above 10 percent would be observed in 13 Member States** (Bulgaria, Czechia, Denmark, Germany, Estonia, Croatia, Latvia, Lithuania, Hungary, the Netherlands, Romania, Slovakia and Finland). This is related to the scale of the platform economy in these Member States and rates applicable to services primarily facilitated by digital platforms.

Figure 41. Revenue gains from introducing broad deemed supplier role (EU27, EUR million)



Source. Authors' own elaboration.

Figure 42. Revenue impact of broad deemed supplier role, by Member State (average per year between 2023 and 2032, EUR million)



Source. Authors' own elaboration.

Potential increase in VAT revenue due to increased compliance

As the scale of the VAT non-compliance in the platform economy is unknown, point estimates of the indirect revenue impacts cannot be provided and the impact of the deemed supplier options compliance could only be assessed in general terms. Despite all the unknowns, it could be expected that **the reduction of the number of taxpayers in charge of paying VAT from millions of providers to thousands of platforms – and the market concentration of most transactions in few of them – will increase markedly the ability of tax administrations to monitor VAT liability.** Moreover, the evasion of VAT payments by understating turnover and remaining below the VAT registration threshold, which is one of the main sources of non-compliance in the platform economy pointed out by tax authorities, will no longer be possible under the deemed supplier regime.

To estimate possible ranges of the improvement of non-compliance, a sensitivity analysis is shown in Table 32. It allows to compare potential gains in non-compliance, matching this information with the different scopes of the deemed supplier options. A low increase in compliance (5 p.p.) would generate between EUR 1 and 3 billion of additional VAT revenue, depending on the scope of the deemed supplier regime. A moderate (10 p.p.) or high (20 p.p.) increase in compliance would generate, respectively, EUR 2 to 6 billion and EUR 4 to 11 billion of additional VAT revenue. The impact on compliance is likely larger for Option C, which include services more often / mostly provided by private individuals or entities with low turnover or on an occasional basis. The increase in compliance for Options C and D are more likely to be moderate to low.

Table 32. VAT revenue increase for alternative improvements of VAT compliance in the platform economy (average per year between 2023 and 2032, EUR billion)

	Increase in VAT compliance by 5 pp.	Increase in VAT compliance by 10 pp.	Increase in VAT compliance by 20 pp.
Option C – deemed supplier role for residence renting, ridesharing and delivery services	0.9	1.7	3.5
Option D – deemed supplier role for all accommodation and transportation services	1.4	2.8	5.6
Option E – deemed supplier role for all services against monetary consideration	2.8	5.6	11.1

Source. Authors' own elaboration.

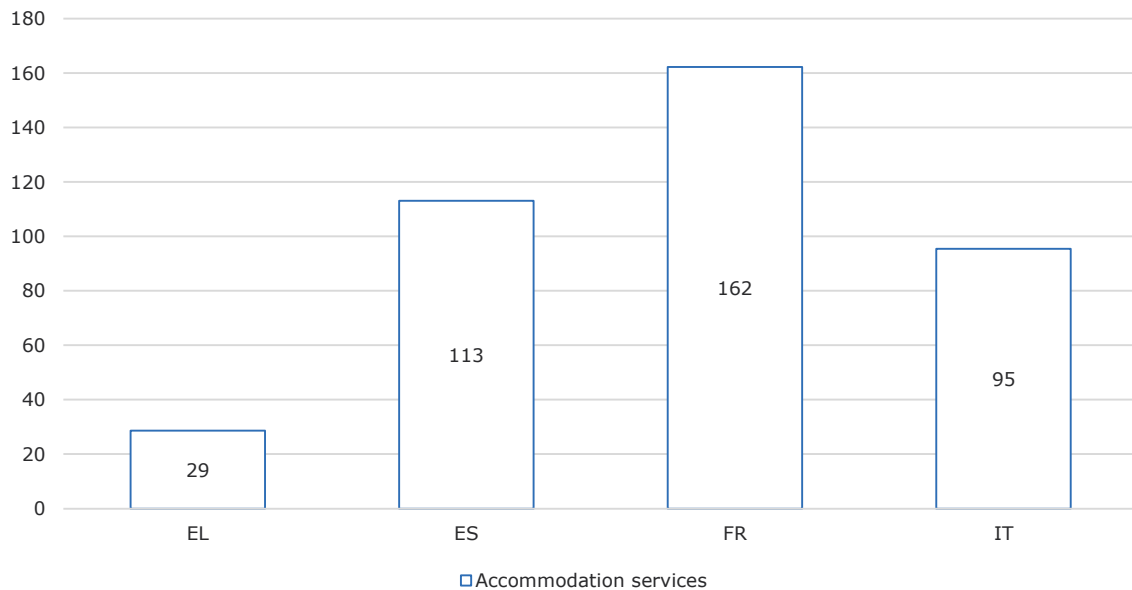
Exclusion of the exemption for short-term accommodation rentals

This section presents the **estimated revenue impacts of the exclusion of the exemption for short-term accommodation rentals**. More specifically, it focuses on the revenue changes resulting from changes in the VAT treatment of services facilitated by platforms in four major tourist destinations: France, Greece, Italy and Spain. Although the exclusion of the exemption on short-term rental goes beyond the scope of the platform economy, these partial estimates of the revenue impacts reflect nearly the entire value of the impacts, as the market-share of short-term rental outside the platforms is relatively low.²⁵⁷

Revenue impact without the deemed supplier regime. The exclusion of the exemption, in other words taxing short-term rentals at the rate applicable to other accommodation services and granting them the right to deduct input VAT, would bring significant revenue gains for the Member States in question. The average yearly impact between 2023 and 2032 would amount to EUR 400 million, i.e. 0.1 percent of the overall VAT revenue in these countries (see Figure 43).

²⁵⁷ This is largely limited to services facilitated by traditional travel agencies and services *de facto* facilitated by platforms but breaching the rules to evade the payment of the facilitation fee.

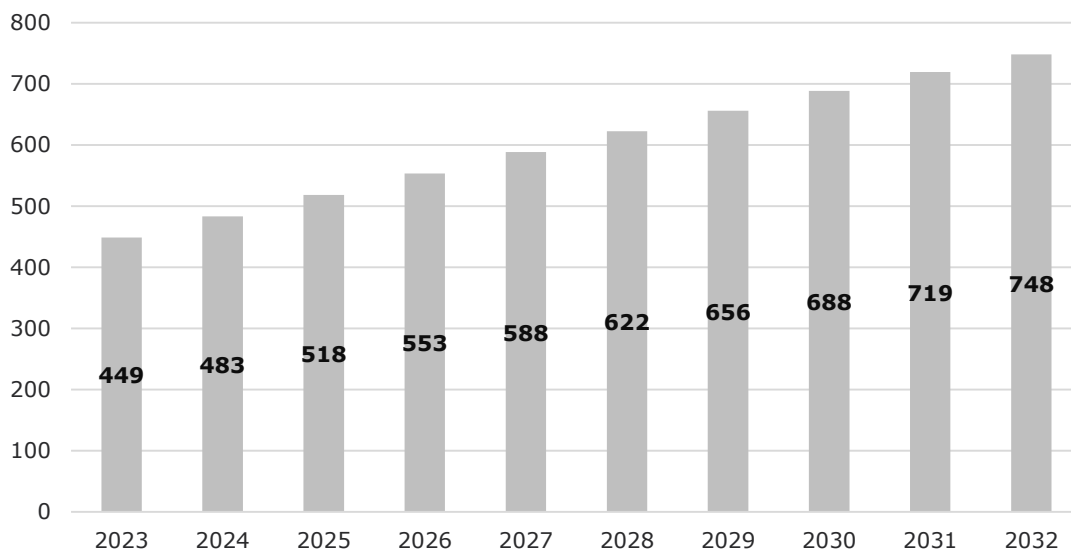
Figure 43. Revenue gains from excluding the exemption of short-term accommodation rentals (by Member State, EU27, average yearly estimates between 2023 and 2032 EUR million)



Source. Authors' own elaboration.

Incremental revenue impact of the deemed supplier regime. If short-term rentals become taxed at the rate applicable to other hotel and accommodation services, the EU-wide impact of implementing the deemed supplier regime in the accommodation sector would be significantly larger than shown in the assessment Option C to E. In France, Greece, Italy and Spain, the deemed supplier regime would generate ca. EUR 600 million on average per year between 2023 and 2032 compared to ca. EUR 50 million loss in case the current treatment in France, Greece, Italy and Spain is maintained (see Figure 44 **Errore. L'origine riferimento non è stata trovata.**).

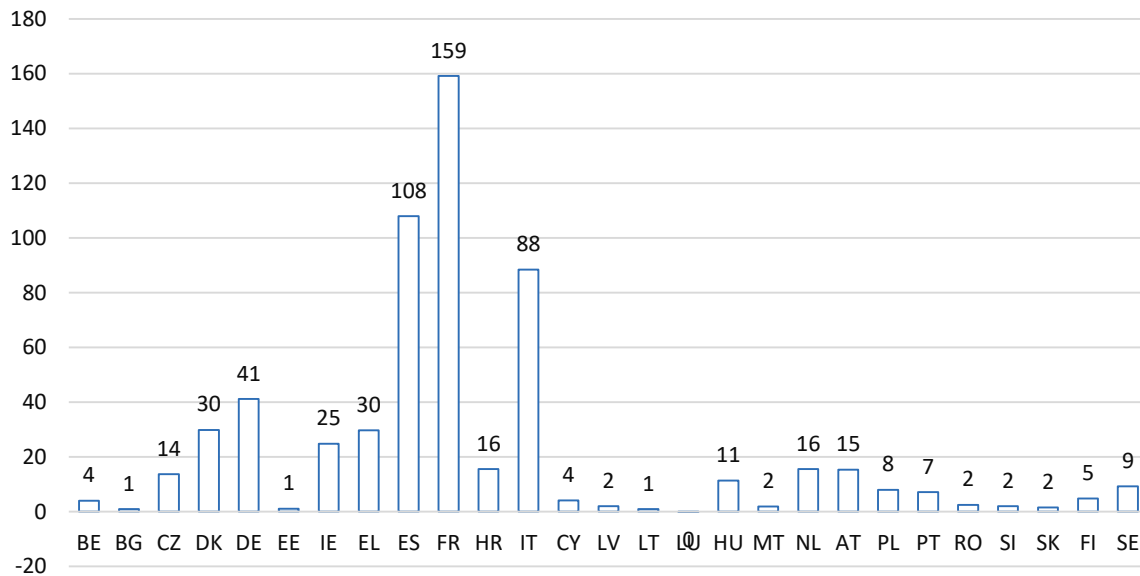
Figure 44. Revenue gains from introducing deemed supplier role for platforms in accommodation and transportation sectors + exclusion of the exemption – alternative estimates (EU27, EUR million)



Source. Authors' own elaboration.

The implementation of deemed supplier regime in France, Greece, Italy and Spain would bring nearly EUR 400 million of additional VAT revenue. **The revenue gains from introducing the deemed supplier on short-term rental would be twice the gains from the removal of the exemption without deemed supplier** (see Figure 42 and Figure 44 **Errore. L'origine riferimento non è stata trovata.**).

Figure 45. Revenue gains from introducing deemed supplier role for platforms in the accommodation sector - alternative estimates (by Member State, EU27, average yearly estimates between 2023 and 2032 EUR million)



Source. Authors' own elaboration.

In a different perspective - compared to the situation when the deemed supplier is introduced and the exemptions maintained, the incremental revenue gain of the exclusion would be around EUR 650 million per year in the four Member States concerned. More in detail, EUR 266 million in France, EUR 47 million in Greece, EUR 156 million in Italy and EUR 185 million in Spain, on average per year between 2023 and 2032 (see Figure 39 and **Errore. L'origine riferimento non è stata trovata.**).

7.3.2. VAT equality, neutrality and competition

In the current situation, **VAT impacts differently companies operating via traditional business models or via platforms**, depending on the applicable VAT regime. Four cases can be identified:

- 1) traditional suppliers, subject to VAT;
- 2) traditional suppliers, not subject to VAT (e.g. private individuals and Members of the Group of Four and in particular taxable persons covered by the VAT SME scheme²⁵⁸);
- 3) platform suppliers, subject to VAT;
- 4) platform suppliers, not subject to VAT (e.g. private individuals and Members of the Group of Four).

The deemed supplier regime will affect the competition conditions in the markets covered by changing the VAT treatment of certain supplies. First and foremost, **it will increase the number of supplies of services subject to VAT**. Namely, VAT will become chargeable also on the transactions covered by the item 4) above, i.e. the

²⁵⁸ Flat-rate farmers that also supply accommodation services are also likely to represent a non-negligible group of concerned taxable persons.

services facilitated by platforms which are supplied (i) by private individuals (currently outside the scope of VAT), or (ii) by members of the Group of Four (currently exempt).

As a consequence, the new rule will have a direct effect on the impact of VAT on providers, and thus on the competition among the various players and business models. The anticipated effects are two-fold:

- **All services facilitated by platforms in the markets covered by the deemed supplier regime will become subject to VAT.** Depending on the extent to which the tax is passed onto customers, this will increase the price of services facilitated by platforms or reduce the margins for the suppliers, reducing the tax advantage they enjoyed hitherto.²⁵⁹ Hence, **the deemed supplier regime will level the playing field between the traditional and platform-mediated business models.** In a nutshell, traditional suppliers will no longer be at a competitive disadvantage compared to the platform suppliers which were previously exempt. Such a competition has often been considered unfair and the VAT exemption did play a role in determining a price differential, at least in the B2C market. Importantly, under the existing rules, the VAT exemption was somewhat intended (e.g. for taxable persons covered by the VAT SME scheme or for 'true' occasional providers) and partly resulted from the lack of compliance by and enforcement against private individuals which would have been required to obtain the status of taxable persons.
- In parallel, **the deemed supplier regime will introduce a tax-driven price differential between VAT-exempt and out-of-scope suppliers within or outside platforms.** Namely, Members of the Group of Four and private individuals will provide services subject to VAT when operating via platforms, but their supplies will remain untaxed when operating via a traditional business model. This affects the level-playing field for these specific types of suppliers, putting the platform-business model at a disadvantage.

A quantitative comparison of the two effects is not possible, given that no sufficient data are available on the prevalence of the various cases listed above and, most importantly, on the likely market dynamics once the deemed supplier regime is in place (discussed below). However, **the elimination of the VAT advantage enjoyed by certain platform suppliers does increase competition equality**, since, at the moment, the application of VAT to similar transactions (e.g. accommodation services supplied by traditional hotels vs. peer-to-peer suppliers) is uneven. VAT is not the only legal factor determining a competitive advantage for platform suppliers – others being the different regulatory framework applicable to professional and private suppliers, as well as the higher risk of income tax evasion for the latter. Still, VAT can have a direct distorting effect on the final market price for services competing in the same (or very close) relevant markets. The deemed supplier regime cancels this distortion.

On the other hand, **the different treatment of VAT-exempt suppliers operating outside or via a platform is likely to be an unintended negative effect of the deemed supplier regime.** Still, a word of caution is in order. The exemption granted by simplified regimes, such as the VAT SME scheme, can be justified on two grounds. First, it is a simplification measure, insofar as the simplified schemes remove or greatly reduce the costs of compliance for micro companies. Secondly, the distortion introduced – the taxable persons covered can offer VAT-free services in competition with operators subject to VAT – is considered negligible, given that micro entities are too small to significantly affect market competition. However, as the deemed supplier regime makes most of the compliance effort fall on the platform, the application of VAT does not result

²⁵⁹ According to the available evidence, a significant share of the tax would be passed onto customers, thus with a likely increase on the price of the underlying services. Cf. Bibler A.J., Teltser K.F. and M.J. Tremblay (2021), *Inferring Tax Compliance from Pass-Through: Evidence from Airbnb Tax Enforcement Agreements*, *The Review of Economics and Statistics* Vol. 103 No. 4, pp. 636–651.

in additional regulatory costs for micro companies, and the simplification is preserved. Secondly, these micro companies enjoy the economies of scale and network effects generated by the platform; hence, **this leads to consider whether it is appropriate that they also enjoy the VAT exemption or, rather, whether its removal reduces the risk that the exemption does distort the markets at stake.**

Other than by directly affecting the costs of providers, and indirectly the final price of the services offered, the treatment foreseen by the deemed supplier regime could also influence the competition conditions indirectly via two other factors:

- **The right of deduction.** Typically, VAT chargeability comes with the right of deduction, partly compensating the impact of VAT on the final price, which is determined as the difference between the VAT due on sales and the VAT incurred on costs ('VAT net impact'); and
- **Compliance costs.** As discussed above, the simplified VAT regimes are designed i.a. to reduce the cost of compliance with VAT obligations. Taxable persons covered by the VAT SME regime are typically excluded from the application of certain obligations or have to comply in simplified forms. This concerns i.a. VAT registration, invoicing obligations, keeping of VAT ledgers and submission of VAT returns. The associated cost savings range between EUR 1,100 and 1,400 per year.²⁶⁰ This is *a fortiori* relevant for private individuals, who are out of the scope of VAT and thus do not bear compliance costs.

In a static perspective, **the deemed supplier regime does not affect these other competitive factors.** As discussed, taxable persons benefiting from simplified regimes and private individuals will not face additional compliance costs because of the deemed supplies, since VAT obligations are handled by the platform. Similarly, their right of deduction remains unchanged, as their deemed supplies are exempt without deduction. This is justified under various considerations. First, private individuals are out of the scope of VAT and would have to VAT register in order to deduct VAT; in the case of shared assets, it would also be difficult to apportion input costs between private and commercial uses.²⁶¹ Secondly, the main purpose of the VAT SME scheme is to simplify compliance for micro taxable persons, while the exercise of the right of deduction is often conditional to a fuller compliance with VAT information obligations (e.g. for passive invoicing, VAT returns).

However, in a **dynamic perspective**, the deemed supplier rule can change business behaviours. More in detail:

- 1) **Members of the Group of Four or private individuals, who make taxed supplies, could opt for VAT registration;** in this case, they could start deducting input VAT while bearing additional compliance costs;
- 2) **small professional operators qualifying for the VAT SME scheme supplying via platforms could move (part of) their business to the traditional direct sale channel,** in order to retain the VAT exemption.

²⁶⁰ Average and median savings from six Member States. Cf. Deloitte (2017), Special scheme for small enterprises under the VAT Directive 2006/112/EC - Options for review, Final Report, Annex G.

²⁶¹ Specifically for the accommodation sector, this also avoids the conundrum on how to apportion and deduct input VAT on renovation costs, which can be significantly higher than the expected VAT revenue, at least for occasional suppliers. Similarly, provisions should be introduced to prevent that occasional suppliers register for VAT just before starting renovation work and opt out from it afterwards only to reap the large input VAT deduction.

Both trends are likely to limit the negative impacts of the deemed supplier regime on the equality of competition between small operators operating within or outside the platforms.

With regard to the first dynamic effect, which is fully tax driven, **the choice for small and occasional suppliers to opt for VAT registration depends on the trade-off between the benefits from input tax deduction and the additional compliance costs.** Table 33 below shows the average output and input VAT in three sectors covered by the deemed supplier regime, based on the available information from the fiscal registers of eight Member States.²⁶² Although the rates and sectoral structures vary across countries, the ratio of input VAT to turnover appears to be stable.

Table 33. Output and input VAT as percent of turnover (net of VAT)

	Urban and suburban passenger land transport services (CPA: 47.9)	Holiday and other short stay accommodation services (CPA: M)	Professional services, household and other services (CPA: M, N, 95.2)
Covered by	Options C, D, E	Option C (partially), D, E	Option E
Input VAT	18.1%	12.2%	14.1%
Output VAT	14.7%	12.5%	20.8%

Source. Authors' own elaboration.

Considering the typical compliance cost savings for taxable operators covered by the VAT SME scheme – in the range of EUR 1,100 to 1,400 per year²⁶³ – **very small occasional suppliers are unlikely to register for VAT.** Table 34 below provides an estimate of the turnover threshold over which the input VAT gains overcome additional compliance costs. Importantly, the threshold does not capture additional hassle costs of VAT registration, but rational economic agents are likely to forego positive but very small monetary gains which require additional hassle from compliance with the VAT regulation. Hence, a more realistic threshold is shown at the bottom of the table, which is 25 percent higher than the minimum and generates a total gain of several hundred EUR following VAT registration. The threshold is around EUR 10,000 for passenger transport, EUR 14,000 for short-term accommodation and EUR 12,500 for professional services.

The incentive to VAT register is thus likely not to concern occasional or very small platform suppliers. However, **not-so-small suppliers which have a higher yearly revenue but still fall within the remit of the SME VAT scheme could register, mitigating any impact of the deemed supplier rule on market competition.** Importantly, for options C and D, this would also reduce the expected revenue impact, since the additional revenue from output VAT is nearly offset by the additional deduction, with a limited net impact on public budget. This is in line with the relatively lower expected revenue increase from introducing the deemed supplier regime for the transportation and accommodation services. **Lower statutory rates in these sectors reduce both the revenue and the competition impacts of the deemed supplier rule. Related to that, the impact on prices of final supplies would be modest.** A good example of a subsector where impact will be rather limited is urban transport, which is exempt in Ireland, Denmark and to some extent in Italy and where the median rate in the EU is around 10 percent. Similarly, most of Member States apply reduced rates to accommodation services (the median across the EU was ca. 10 percent in 2019) or exempt the mere provision of real estate.

²⁶² These Member States are Czechia, Croatia, Cyprus, Ireland, Lithuania, Malta, Poland and Slovenia.

²⁶³ See: European Commission/Deloitte (2016), *Special scheme for small enterprises under the VAT Directive 2006/112/EC - Options for review*, Publications Office of the European Union.

Table 34. Yearly turnover threshold for VAT registration of platform suppliers (net of VAT)

	Urban and suburban passenger land transport services (CPA: 47.9)	Holiday and other short stay accommodation services (CPA: M)	Professional services, household and other services (CPA: M, N, 95.2)
Covered by	Options C, D, E	Option C (partially), D, E	Option E
Turnover threshold (EUR/year)	6,100 – 7,700	9,000 – 11,500	7,800 – 9,900
Hassle-based threshold (EUR/year)	9,700	14,300	12,400

Source. Authors' own elaboration.

Focusing on the second dynamic effect, already today any provider needs to balance the costs of using a platform (i.e. the facilitation fees) with the benefits (i.e. the network effects or, in simpler words, the efficient access to a vast range of potential customers). Once the deemed supplier regime is in place, **the application of VAT on the final price comes on top of the existing cost-benefit balance and may spur more providers to use traditional channels.** Whether and to what extent this impact materializes depends also on the net VAT impact. In the traditional channel, this burden would be equivalent to hidden VAT, whereas in the platform this burden would be equivalent to output VAT.

Summing up. The deemed supplier rule would rebalance the competition conditions between traditional and platform-based distribution channels, by eliminating the tax-induced advantage of occasional and very small suppliers operating via platforms. However, it would also create a new cleavage, between very small and occasional suppliers operating within or outside platforms. However, such suppliers could opt for VAT registration in order to enjoy VAT deduction. This becomes likely above a certain turnover threshold, amounting to no less than EUR 10,000 per year.

7.3.3. Other indirect impacts

Finally, the deemed supplier rule may have an impact also on adjacent markets and employment. An example of the impact on other markets is discussed in Box 12, concerning the impact of accommodation platforms in the real estate market, and the possible effects of the deemed supplier regime. In addition, this section touches upon a potential impact of introducing the deemed supplier regime on employment.

Box 12. The impact of accommodation platforms on the real estate market

The rise of platforms intermediating accommodation services has had an impact on the business opportunities of homeowners, in particular for those who could rent an unused portion of their house, their secondary dwellings or their entire house (for certain periods of the year). These platforms, via their technology, user-friendliness and user experience, have reduced the costs for accessing the short-term rental market, while immensely increasing the visibility of the accommodation offered, which became accessible to a global public, 'just one click away'.

In a nutshell, the rise of platforms greatly reduces the barriers to entry in the short-term rental market, creating the possibility of a supply substitution from long-term to short-term rentals. The substitution will occur when an income gap exists, i.e. when the expected income in the short-term rental market exceeds that from the long-term rental market. For this to occur, two conditions need to be met: (i) the homeowner can command a higher price in the short-term rental market; and (ii) the demand, measured by the occupancy rate, is sufficiently sustained.²⁶⁴ These conditions are more likely to hold in touristic locations, including city centres and other touristic neighbourhoods. In European touristic city destinations, the gap can be very significant. In London,

²⁶⁴ Wachsmuth D., Weisler A., (2018) *Airbnb and the Rent Gap: Gentrification through the Sharing Economy*, SAGE Publishing, Thousand Oaks.

Paris or Amsterdam, the median price for two people and two nights is typically higher than EUR 250, and up to EUR 430 in Amsterdam.²⁶⁵ This implies that even with an occupancy rate of 10 days per month, the expected income is likely to be higher in the short-term rental market.

The rental income gap can thus cause 'some landlords to switch their properties from long-term rentals, which are aimed at local residents, to short-term rentals, which are aimed at visitors.'²⁶⁶ Since cities have a finite supply for housing, this causes scarcity in the long-term rental market, with fewer houses available for local residents, and at a higher price. Various econometric analyses identify positive and significant effects of the number of listings on major accommodation platforms on the price of rents and houses:

- Barron, Jung and Proserpio estimate that, in the US, a 1 percent increase in listings is associated with a 0.018 percent increase in the rental price and a 0.026 percent increase in the housing price. The coefficients may seem small, but the number of listings grew exponentially between 2015 and 2019 – i.e. prior to COVID-19. The aggregate impacts have thus been large and accommodation platforms are estimated to have contributed to about 20 percent of the increase in rental prices and 15 percent of the increase in housing prices;
- Coyle and Yeung find that a 1 percent increase in listings is associated with a 0.22 increase in the rental index in the UK, while no significant effect can be found in Germany (possibly due to the different regulation in the rental market);²⁶⁷
- Sheppard and Udell estimate that, in New York, a doubling of listings is associated with a rise in property value of 6-11 percent;²⁶⁸ and
- Garcia-Lopez *et al.* focus on the market in Barcelona, finding that the platform activities increase rents by 1.9 percent and house prices by 5.3 percent, while reducing the number of resident households. In areas with a higher than average penetration, the rent increase is up to 7 percent.²⁶⁹

Own analysis of the capacity of real estate listings for short-term rental offered via the largest residence renting platform points to its significant share and likely a large impact on both accommodation services and the real estate market. In Paris and Barcelona, two very popular tourist destinations, where short-term rentals enjoy VAT exemption under certain criteria, the capacity of listings was estimated at ca. 11,500 and 16,000 beds, respectively. This means that short-term rentals account for ca. 13 percent of the tourist base in Barcelona and ca. 5 percent in Paris. At the same time there are ca. 7 beds per 1000 inhabitants in both analysed cities.²⁷⁰

The price pressure generates changes to the urban landscape, similar to the so-called 'gentrification' process. While the gentrification process refers to the substitution of low-income residents with high-income residents following an increase in housing prices (e.g. after a re-qualification process), in this case the gentrification is better identified as 'touristification', since local residents are substituted by tourists. The 'touristification' reduces the number of long-term residents in certain urban areas, progressively forcing them to move to other less costly parts of the city, eroding the social fabric in touristic neighbourhoods and determining changes in the

²⁶⁵ Gyódi, K., & Nawaro, Ł. (2021) *Determinants of Airbnb prices in European cities: A spatial econometrics approach*. *Tourism Management*, 86, 104319.

²⁶⁶ Barron K., Kung E., Proserpio (2019) *Research: When Airbnb Listings in a City Increase, So Do Rent Prices*. *Harvard Business Review – Economics*.

²⁶⁷ Coyle, D., & Yeung, T. (2016), *Understanding Airbnb in fourteen European cities*. The Jean-Jacques Laffont Digital Chair Working Papers, 7088, 1-33.

²⁶⁸ Sheppard, S., & Udell, A. (2016), *Do Airbnb properties affect house prices*. Working paper Williams College Department of Economics.

²⁶⁹ Garcia-López, M. À., Jofre-Monseny, J., Martínez-Mazza, R., & Segú, M. (2020), *Do short-term rental platforms affect housing markets? Evidence from Airbnb in Barcelona*. *Journal of Urban Economics*, 119, 103278.

²⁷⁰ The numbers were derived via manual search of the websites by aggregating the number of beds in real estate available for rent in low-season period in 8-months' time. The numbers were compared to Eurostat figures - Number of bed-places in tourist accommodation establishments [URB_CTOUR].

economic landscape.²⁷¹ To counter this risk, a growing number of EU and US cities have introduced regulations aimed at limiting the availability of short-term rental supplies, e.g. by introducing licenses or limits to the number of days which an apartment can be rented per year.²⁷²

The phenomenon is exacerbated by professional or multiple providers, who operate several listings on platforms. These include both landlords with multiple properties, as well as professional investors, who buy or rent apartments or whole buildings in the most touristic areas of cities for short-term rentals. Multiple and professional investors represent more than 70% of the listings on the major accommodation platforms in some of the most affected cities, such as Barcelona and Lisbon.²⁷³

Obviously, the emergence and growth of accommodation platforms also generate positive impacts for local neighbourhoods, including: (i) the creation of tourism-related jobs; (ii) the spreading of tourism towards residential neighbourhoods previously 'left-aside'; and (iii) the increase in home value and expected income for local homeowners. The negative impacts apparently become visible and significant only in areas with a very high penetration rate of accommodation listing, or a sudden growth thereof. Importantly, the problems partly subsided – as emerging from the attention received from the news – after the COVID-19 pandemic and the resulting significant curb to tourism flows, especially in cities.

The deemed supplier rule would result in the application of VAT to all supplies of accommodation facilitated by platforms. In particular, suppliers which were previously exempt – private individuals acting on an occasional basis, Members of the Group of Four, and individuals and companies eluding VAT registration – will now have to charge VAT on the underlying supply. This is likely to reduce the negative externalities generated in touristic areas via two mechanisms. First, part of the additional VAT will result in an increase in the price for final consumers, thereby reducing the demand for accommodation services facilitated via platforms. Second, part of the additional VAT will result in reduced income for the supplier, thus diminishing the rental income gap and the attractiveness of the short-term rental market.

The growth of the platform economy has also substantially changed the outlook of the labour markets in the EU. As discussed in Section 3.5, the estimates of this study point to ca. 3.8 million FTE jobs in the platform economy created in 2019, whereas the DG EMPL study points to 28.3 million people engaged in work through digital platforms in the EU in 2021.²⁷⁴ The same study shows that these individuals spend on average 12.6 hours per week on paid duties in the platform economy. A very large share of platform workers are thus part-time, a part of which would be unable to work full-time and via standard employment contracts, means that the jobs created by the platform economy cannot be fully substituted by traditional channels.²⁷⁵ At the same time, despite this fact, the growth of the platform economy had a negative impact on employment of traditional business – which are typically more labour intensive – in sectors where the platform channel successfully competes with traditional business models.

As However, labour impacts are driven only to a minor extent by changes in the VAT treatment.²⁷⁶ In line with the net VAT impact presented in Section 7.3.2, the expected

²⁷¹ See: Politico, *EU cities contemplate life with less*, 16 April 2021 (last accessed on February 2022); Guardian, *Airbnb Soaring rents and noisy parties: how Airbnb is forcing out Barcelona locals*, 20 February 2020 (last accessed on February 2022); BBC, *What Airbnb really does to a neighbourhood*, 30 August 2018 (last accessed on February 2022).

²⁷² Nieuwland, S., & Van Melik, R. (2020), *Regulating Airbnb: how cities deal with perceived negative externalities of short-term rentals*. *Current issues in tourism*, 23(7), 811-825.

²⁷³ Gyódi, K., & Nawaro, Ł. (2021), *Determinants of Airbnb prices in European cities: A spatial econometrics approach*. *Tourism Management*, 86, 104319.

²⁷⁴ European Commission/CEPS (2021), *Digital labour platforms in the EU: Mapping and business models*, Publications Office of the European Union.

²⁷⁵ As an example, platform workers are more frequently found in households with dependent children (see: JRC (2020), *New evidence on platform workers in Europe*, Science for Policy Report).

²⁷⁶ Firstly, the vast majority of the providers are taxable non-exempt persons bearing the same net VAT impact as is borne by competing business in traditional channels. Secondly, as shown in

impact of the deemed supplier role on the competition in the transportation and accommodation sector would be modest. As a result, modest would also be the impact on the labour markets and employment of different business models. More significant impacts could be recorded in the household and professional services sector where the difference in the net VAT impact is larger.

7.3.4. Regulatory costs

The introduction of the deemed supplier regime could require handling new information obligations or extend the scope of the existing ones. In particular,

- 1) It requires providers to submit and platforms to handle the VAT number and the confirmation on the status as a VAT-exempt taxable persons.
- 2) By increasing the VAT transactions carried out by platforms, it increases their invoicing costs and those linked to registering those new VAT-relevant transactions (e.g. in VAT ledgers or via with reporting mechanisms).
- 3) By having the platforms now engaged in a number of deemed supply transactions to the final customer, it may trigger the need to obtain a valid VAT registration in a Member State other than that of establishment.²⁷⁷

With respect to the submission of VAT number and the confirmation of the provider's status, this would represent a saving compared the current situation in which a presumption is not there and platforms, in case of doubts, should verify the status of the taxable provider. In Section 7.2.3 above, these savings were estimated at EUR 390 million over 10 years, or 75 percent of the total costs incurred for this activity by platforms.

The additional burdens for providers are likely limited. For registered taxable persons, the provision of a VAT number would not be an additional requirement compared to the current VAT rules. For non-taxable persons, it would likely consist in a few additional statements to be confirmed by clicks during the registration process, to confirm their status as non-taxable persons. The burden may be small but not negligible for VAT-exempt taxable persons, who may have to familiarize themselves with the new requirement, submit the periodic declaration, and possibly some underlying supporting documents if so requested. However, such a declaration is unlikely to require more than one to two hours in the first year, and significantly less so for its yearly confirmation. The cost per occurrence would thus be in the area of EUR 18-36. No calculation of aggregated burdens is possible, lacking data on the number of providers in this condition.²⁷⁸

With respect to the larger number of transactions to be recorded in VAT ledgers, invoiced, and transmitted via reporting mechanisms, the impact can be significant, especially for smaller platforms which may not have sufficient IT capacities to handle the accounting and VAT requirements. Still, those transactions are likely recorded and annotated by platforms already in the current situation, and hence the additional burdens do not concern the setup of new IT systems and procedures, but likely the adaptation of the existing ones. Here, economies of scale could emerge from the investment and changes to business procedures which are to be

the previous subsection, the VAT burden on non-taxable and exempt individuals in the transportation and accommodation sector is very much alike to reduced rates applicable on the output in these sectors.

²⁷⁷ The need would arise for those transactions which fall outside the scope of both the OSS and the reverse charge regime.

²⁷⁸ Accurate calculation of provider was not possible due to parallel use of more than one platform by many providers.

implemented to comply with the new and forthcoming reporting obligations, as discussed in Volume 1.

As for the new VAT registrations, this could represent a significant burden, considering that obtaining and operating a foreign VAT number can cost up to EUR 20,000 per year.²⁷⁹ Hence, this would be very burdensome for large platforms; for small platforms, it could be *de facto* impossible to enter into foreign markets, unless the volume of revenue in such market is so high to justify this fixed cost for entering. However, as discussed more in detail in the following section, this problem can be tackled by ensuring that, for transactions for which the reverse charge regime is not applicable, the platform is able to pay the VAT due in a Member State other than that of establishment via the OSS.

7.3.5. Legal certainty

The deemed supplier regime, *per se*, does not directly tackle the existing legal uncertainties, namely on the nature of the facilitation services (and its place of supply) and on the status of the supplier. To achieve these objectives, it should be complemented by the clarifications on the nature of the services foreseen under Option B.1, and by a presumption on the status of the provider similar to Option B.2.

However, **under the deemed supplier rules, the existing uncertainties and the likely future risks would be lower compared to the current situation:**

- 1) A clarification on the nature of the facilitation services would still be needed to ensure a uniform treatment for transactions outside the deemed supplier regime. Indeed, for the transactions covered by the regime, the facilitation services would be VAT-exempt, and therefore the place of supply would no longer determine the Member States in which VAT revenue accrues. Therefore, **the deemed supplier (greatly) limits the number of transactions for which the uncertainties on the nature of the facilitation services affect the VAT actually remitted.**
- 2) **Under the deemed supplier regime, the reverse charge rules would not interfere with the working of the presumption on the provider's status.** Indeed, because the provision of facilitation services becomes VAT-exempt, the recipient would not be called to obtain a VAT number to remit the VAT due under the reverse charge regime.

However, a risk remains. In certain countries, VAT-exempt providers do have a VAT number. If they provide it to the platform without declaring that they do not charge VAT on their supplies (i.e. that they are a Member of the Group of Four), they would escape the deemed supplier regime. As a consequence, they would be able to supply VAT-exempt underlying services, with a price advantage for private consumers equal to the applicable VAT rate. **However, based on the periodic and reporting obligations already in place for platforms, this risk can be monitored and prevented by tax authorities.** In particular, the information received on the transactions which are facilitated by platform but not 'deemed-supplied' would need to be checked against the domestic database of taxable persons. These checks would need to be accompanied by an information campaign carried out by platforms and tax authorities that would inform of such checks and their consequences.

The deemed supplier can also create uncertainties with respect to its boundary of application. The risk is greater the smaller the scope of the deemed supplier regime.²⁸⁰ This is an unavoidable consequence of the introduction of any new special

²⁷⁹ Cf. the full analysis in Volume 3.

²⁸⁰ Under Option E, the boundary would be on all services for monetary consideration. This is likely an easier definition compared to certain sectors (Option D) and, more importantly, certain transactions / business models within a sector (Option C).

VAT regime or treatment. As a result of the new provisions, taxpayers and tax authorities would need to determine which transactions fall under the deemed supplier regime, and which do not. This is further complicated by the rapid evolution of the markets concerned.

This risk cannot be eliminated – and it is not an absolute presumption about introducing new specific categories of transaction or VAT treatment in the legislation. However, it can be mitigated. **To the largest possible extent, these boundaries should be defined at EU level**, rather than left at the *ex-ante* (via legislation, guidelines) or *ex post* (via court cases) determination at national level, which is likely to result in different solutions, hampering the functioning of the Internal Market and VAT equality. The necessary definitions could be introduced in the VAT Implementing Regulation or, as a second-best solution, in VAT Committee Guidelines. For instance, under Options C and D, the distinction between accommodation services and the rental of real estate would become relevant for the application of the deemed supplier regime, and would thus need to be made uniform, to avoid that certain renting services fall under different labels (or in-between the existing categories).

Finally, the deemed supplier regime already should include **a number of detailed provisions to tackle probable emerging legal issues**, and namely

- 1) A provision to make the remittance of VAT from the provider to the platform neutral for fiscal and accounting purposes;
- 2) The possibility to use the OSS for certain *B2B cross-border transactions for which reverse charge does not apply, to avoid that non-established platforms have to VAT register in the destination country;
- 3) the exclusion of non-monetary transactions from the deemed supplier regime; this applies both when the underlying supply and the facilitation services is not monetary;
- 4) a provision by which the value of the deemed supply of services from the provider to the platform (deemed supplier #1) is relevant for verifying the respect of the threshold for the SME scheme.

To the contrary, certain issues are likely to remain with respect to the relation between the deemed supplier regime and TOMS. The deemed supplier regime could provide an incentive for platforms operating in the facilitation of travel facilities to opt for TOMS. Under the latter regime, VAT would only be applied on margins, and not on the full price of the underlying provisions. Still, the decision is made more complex, because opting for TOMS may require significant changes to the platforms' business models. In particular, while a platform only facilitates the underlying provision of services, the TOMS requires that operators 'deal with customers in their own name and use supplies of goods and services provided by other taxable persons in the provision of travel facilities'.²⁸¹ This may have significant legal consequences outside the realm of VAT, e.g. in terms of contractual liability of the service provider.

Finally, another legal issue with respect to the introduction of deemed supplier regime concerns the VAT treatment of the deemed supply of services from the platform to the customer (deemed supply #2). Under the standard regime, the provider is responsible for the proper characterisation of the transaction, e.g. in terms of nature of services and applicable tax rate. Under the deemed supplier regime, the platform now needs to determine the treatment of the supply, even when the place of supply is in a country other than that of establishment. This may prove cumbersome for large platforms active in several Member States, especially in markets where the applicable VAT treatment

²⁸¹ Articles 306 and following of the VAT Directive. Cf. also CJEU judgement of 13 October 2005, *iSt*, EU:C:2005:608.

may depend on the actual services provided (which the platform may not be in a position to accurately know). This could for example be the case in the Member States in which the classification of accommodation and real estate services depend on the actual provision of certain benefits to the recipient. The accurate determination of the transaction may even be a significant barrier to entry in certain markets for small platforms, which may prefer to forego new foreign markets than to incur in the costs to familiarise with local VAT treatment and the associated liability risks.

7.4. Conclusions: Comparison of options

This section summarises the analysis of impacts by comparing the policy options via a partial Cost-Benefit Analysis (CBA) which account for both the quantitative and qualitative assessments summarised above. Direct and indirect impacts on VAT revenue are quantified as the difference compared to the dynamic baseline scenario (Option 1) for the 2023-2032 period. Other impacts are assessed over a qualitative score and include the impacts on legal certainty, changes in administrative burdens for businesses (including the fragmentation costs for digital platforms); and impacts on competition.

As discussed in 6.2.2 above, the impacts of the place of supply rules on the distribution of VAT revenue between countries has not been used as a criterion for ranking the policy options.

The summary of all impacts is included in Table 35 whereas Table 36 contains the comparison of the policy options compared to the status quo.

Table 35. Summary of the impacts

Option/sub-option		VAT Revenue	Legal certainty and administrative burdens	Competition / Internal Market
A	Dynamic baseline	<ul style="list-style-type: none"> - VAT revenue will increase gradually, driven by an increasing platform economy tax base, up to 2.7 percent (EUR 33 billion) of VAT revenue in 2025 and 4 percent in 2030 (EUR 88 billion). - The implementation of reporting and record-keeping obligations will increase the effectiveness of control activities. As regulatory fragmentation will persist, the increase in compliance will have much more modest impact than the increase in tax base. 	<ul style="list-style-type: none"> - Expected burdens for digital platforms for complying with reporting and record-keeping obligation amount to ca. EUR 135 million (on average per year, 2023-2032). - The burdens related to recognising the taxable status of providers sum up to ca. EUR 52 million (on average per year, 2023-2032). 	<ul style="list-style-type: none"> - No change to the current VAT treatment implies not tackling the current issues with VAT neutrality
B.1	Clarification of the nature of the services provided by the platform	<ul style="list-style-type: none"> - Clarifications and harmonisation of the nature of the facilitation services will lead to revenue shifts. In case services become classified as intermediary, the place of supply will be more closely linked to the place of consumption. Shift in revenue will reach 2.9 percent of the VAT revenue from platform-based accommodation services under the intermediary service approach, and 0.7 percent under the ESS approach. 	<ul style="list-style-type: none"> - Uncertainties on nature of services / place of supply tackled. - No / negligible impacts on administrative burdens. 	<ul style="list-style-type: none"> - Positive impact on the level-playing field for larger platforms operating in several markets by, reducing the differences in VAT treatment across MS.
B.2	Rebuttable presumption on the status of platform providers	<ul style="list-style-type: none"> - Increased VAT collection efficiency, resulting in additional average yearly revenue of ca. EUR 250 million between 2023 and 2032. 	<ul style="list-style-type: none"> - Improved legal certainty on the correct VAT treatment of facilitation services. - Potential reduction of administrative burdens of ca. EUR 39 million for digital platforms per year (on average, 2023-2032) 	
B.3	Streamlining record-keeping	<ul style="list-style-type: none"> - Lack of full-fledged policy options prevents quantification. 	<ul style="list-style-type: none"> - Potential reduction of administrative burdens of ca. EUR 9 million for digital platforms between per year (on average, 2023-2032) 	<ul style="list-style-type: none"> - Negligible impact.
C	Deemed supplier: supply of certain accommodation and transport services*	<ul style="list-style-type: none"> - Increase in VAT revenue due to broader VAT base of ca. EUR 1 billion per year (on average, 2023-2032). - Improvement of VAT compliance with expected revenue increase up to EUR 0.9-3.5 billion per year (on average, 2023-2032). 	<ul style="list-style-type: none"> - New burdens linked to the administration of the deemed supplier regime (<u>low relative to other deemed supplier options</u>). - New uncertainties linked to the boundaries of the system (<u>significant</u>). 	<ul style="list-style-type: none"> - Rebalancing of competition between traditional and platform suppliers - Relatively minor impact on price differential between exempt suppliers with or outside platforms
D	Deemed supplier: supply of accommodation and transport services*	<ul style="list-style-type: none"> - Increase in VAT revenue due to broader VAT base of ca. EUR 1 billion per year (on average, 2023-2032). - Improvement of VAT compliance with expected revenue increase up to EUR 1.4-5.6 billion per year (on average, 2023-2032). 	<ul style="list-style-type: none"> - New burdens linked to the administration of the deemed supplier regime (<u>moderate relative to other deemed supplier options</u>). - New uncertainties linked to the boundaries of the system (<u>significant</u>). 	<ul style="list-style-type: none"> - A number of exempt suppliers with turnover > EUR 10,000 likely to register for VAT

Option/sub-option		VAT Revenue	Legal certainty and administrative burdens	Competition / Internal Market
E	Deemed supplier: supply of all services for monetary consideration*	<ul style="list-style-type: none"> - Increase in VAT revenue due to broader VAT base of ca. EUR 3.5 billion per year (on average, 2023-2032). - Improvement of VAT compliance with expected revenue increase up to EUR 2.8-11.1 billion per year (on average, 2023-2032). 	<ul style="list-style-type: none"> - New burdens linked to the administration of the deemed supplier regime (<u>high relative to other deemed supplier options</u>). - New uncertainties linked to the boundaries of the system (<u>relatively low</u>). 	

Note.* - the direct impact on VAT revenue would be larger by ca. EUR 6.5 billion if the exemption for short term accommodation rental is excluded. Source. Authors' own elaboration.

Table 36. Partial Cost Benefit Analysis (2023-2032, total compared to status quo)

Option / Sub-option		VAT revenue	Legal certainty and administrative burdens	Competition / Internal Market
A	Status Quo	Growth of platform economy and increase in collection effectiveness will increase VAT revenue (both in absolute and relative terms)	Compliance with record-keeping obligations and efforts to determine the status of providers generate burdens for about EUR 1.9 billion	No change to the tax treatment means no effect on market conditions
B	Clarification of VAT rules for the platform economy	0/+	++	+
B.1	Nature of the services provided by the platform	Up to + EUR 2.5-2.6 billion (due to increased compliance)	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications)	More harmonised level-playing field across MS
B.2	Rebuttable presumption on the status of platform providers			
B.3	Streamlining record-keeping			
C	Deemed supplier: certain accommodation and transport services	+	+	+
		+ EUR 19-45 billion (due to increased compliance and broader tax base)*	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications) Higher burdens related to the administration of the deemed supplier regime (low) New legal uncertainties linked to the boundaries of the system (high)	Reduction of distortions between same services offered via different channels, minor negative impact on competition among exempt suppliers
D	Deemed supplier: accommodation and transport services	++	0/+	+
		+ EUR 24-66 billion (due to increased compliance and broader tax base)*	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications) Higher burdens related to the administration of the deemed supplier regime (moderate) New legal uncertainties linked to the boundaries of the system (moderate)	Reduction of distortions between same services offered via different channels, minor negative impact on competition among exempt suppliers
E	Deemed supplier: all services for monetary consideration	+++	0/+	0
		+ EUR 63-146 billion (due to increased compliance and broader tax base)*	+ EUR 480 million (savings in administrative costs resulting from streamlining and clarifications) Higher burdens related to the administration of the deemed supplier regime (low) New legal uncertainties linked to the boundaries of the system (low)	Reduction of distortions between same services offered via different channels, significant negative impact on competition among exempt suppliers

Note. * - the direct impact on VAT would be larger by ca. EUR 6.5 billion if the exemption for short term accommodation rental is excluded. In green, positive impacts. In red, negative impacts. Impacts are assessed on a --- to +++ scale (significant, moderate, minor positive / negative impacts against the status quo). Source. Authors' own elaboration.

The analysis of impacts provided in the Study provides a number of insights on the main impacts that could be expected from a clarification of the VAT rules for the platform economy, as well as from the introduction of various deemed supplier regimes. However, and especially concerning for the deemed supplier regime, **a number of open questions remain**, such as: (i) how to accurately define the taxable status of the provider (i.e. when an occasional provider is a taxable person); (ii) whether a definition of platform is required, and which one; (iii) how the deemed supplier model interacts with the provisions on the Group of Four, and in particular with the VAT SME scheme, as well as with TOMS; (iv) how to deal with the right of deduction of non-registered providers; (v) how to deal with exempt underlying services. Finally, more work is required on how to streamline reporting obligations for platforms, also accounting for the fact that certain non-VAT obligations are just being applied and enforced. The Commission announced that further work will be carried out in this respect.²⁸²

The answers to some of the above questions may result in (slightly) different policy options, so that the analysis above properly applies only to the policy options as defined in Section 6.2. In any case, and accounting for the further work, **there are a number of solid broad conclusions that can be drawn from the analysis of the policy options as they currently stand:**

- 1) **The clarifications envisaged under Option B have clear positive impacts on platform operators, by reducing administrative burdens, legal uncertainties, and by improving the smooth functioning of the Internal Market.** The impacts are especially positive on administrative burdens, since the simplification and streamlining of certain obligations is not coupled with the introduction of any new obligation or regime. This is true even accounting for the fact that no full-fledged policy option is proposed for the streamlining of reporting obligations, and hence the associated savings are estimated only on a potential basis.
- 2) **The harmonization of rules provided for by Option B is also expected to increase VAT compliance, and thus VAT revenue, but the effects would be limited compared to the introduction of the deemed supplier regime.** Overall, additional VAT revenue compared to status quo could reach in total EUR 2.5-2.6 billion in 10-years' time.
- 3) **The clarification of the nature of the services provided by platforms (Sub-Option B.1) would have an impact on the distribution of VAT revenue between Member States.** In particular, the classification as intermediary services would bring VAT revenue 'closer' to the place of consumption, and thus increase it for touristic destinations. The classification as ESS would increase VAT revenue for Member States of tourists' origin. The shifts would be limited, between 1 and 3 percent of the current VAT revenue from accommodation services. The shifts would be larger under the intermediary services option, considering that these services are more often classified as ESS in the current situation.
- 4) **Expectedly, the introduction of the deemed supplier regime would have positive effects on VAT revenue. The impacts grow the larger the scope of the deemed supplier regime, from few tens (Options C and D) to more than one hundred billion EUR (Option E) over a decade.** The additional VAT revenue results from both direct and indirect impacts:
 - a. **The positive direct impacts would result from the application of VAT of a number of transactions which are currently exempt or out-of-scope. This is however balanced by the loss of hidden VAT on platforms' facilitation services.** Under the deemed supplier regime,

²⁸² Cf. Group on the Future of VAT, GFV No 115, Minutes 36th Meeting.

the currently hidden VAT on services provided to private individuals or taxable persons without the right of deduction (e.g. those covered by the VAT SME scheme) would no longer accrue to the public budget. The loss of hidden VAT is particularly relevant in the determination of total revenue impacts for sectors which typically benefit from VAT exemptions or reduced rates (e.g. provision of real estate, international transport).

- b. **Indirect compliance benefits are very likely under the deemed supplier regime.** First, the reduction of the number of taxpayers in charge of paying VAT from millions of providers to thousands of (sometimes very large) platforms will markedly increase the ability of tax administrations to monitor VAT liability in the platform economy. Secondly, the understatement of turnover to remain below the VAT Scheme threshold, which is one of the main sources of non-compliance in the platform economy pointed out by tax authorities, will no longer lead to the evasion of the VAT due on their supplies. Though there are no consistent and comprehensive statistics on the level of non-compliance in the platform economy, the available data show that even a low to moderate increase in compliance will have significant impacts on VAT revenue, in the order of EUR 1 to 5 billion per year.

5) **The impact of the deemed supplier regime on administrative burdens and legal certainty is overall mildly positive, but with some negative effects too:**

- a. As the implementation of the deemed supplier regime in all alternative scopes would be accompanied by a number of simplifications similar to Option B, ca. EUR 480 million gains in lower administrative burdens should be expected.
- b. At the same time, the deemed supplier, as any 'special' VAT regime, requires drawing a number of boundaries between transactions that fall within or outside the regime. This may create uncertainties and grey areas, which are more significant the smaller the scope of the regime (i.e. under Options C and D).
- c. Finally, by increasing the number of transactions subject to VAT, it increases VAT compliance costs (e.g. for invoicing, keeping of VAT ledgers, submission of data for reporting mechanisms where applicable). These additional administrative burdens are larger the larger the scope of the regime (i.e. under Option E).

6) **The deemed supplier rule would rebalance the competition conditions between traditional and platform-based distribution channels, by eliminating the tax-induced advantage of occasional and very small suppliers operating via platforms.** In a nutshell, a private individual or a small-scale accommodation operator will no longer be able to provide VAT-exempt services via a platform, possibly undercutting larger operators subject to VAT. Yet, this impact on the costs borne by operators and prices they set is expected to be modest as many operators will decide to register for VAT to gain the right to deduct input VAT. However, the introduction of the deemed supplier rule would also create a new cleavage, between very small and occasional suppliers operating within or outside a platform. When operating via platforms, their supplies will be subject to VAT, and exempt in the other cases. Still, occasional and very small operators offering their services via platforms could register for VAT to avoid such a negative effect. They are likely to do so when the increase in compliance costs is likely to be more than compensated by the deductible VAT, i.e. at above a turnover of EUR 10-15 thousand. Furthermore, even under the deemed supplier regime, occasional and very small providers

operating via platforms would still enjoy the simplification associated with their VAT status, while benefitting from the platform's network effects.

ANNEXES

ANNEX A. DATA SOURCES FOR ESTIMATING THE SCALE OF THE PLATFORM ECONOMY

Financial data from Crunchbase and Dun & Bradstreet databases

Crunchbase is a thematic source specializing in information on innovative and technology start-up companies, mostly for the use of private investors. The completeness of information within company profiles is limited to general business characteristics, description of activity, company webpage etc. The revenue is given in a range (which is most likely estimated); the verification with other sources proves that those ranges are reasonably accurate. The main advantage of this source of data is a convenient search engine which allows to filter companies by a non-traditional business classification and use categories such as “Collaborative Consumption” or “Sharing Economy”. This database was used to prepare the list of companies suspected of having digital platform business model.

Dun & Bradstreet is a broad repository covering a wide range of companies, including privately owned entities. This source presents a rather consistent set of information on company profiles, including general business characteristics as well as some basic financial data (such as revenues). The reference to the company webpage was used as a key for merging this information with data collected from Crunchbase. Previous analysis found that completeness of DnB database varies across countries. Alternative sources of data will be investigated if necessary.

The Study Team verified the completeness of the information in firm-level databases by using the broadest readily available list of digital platforms reported in EC (2016)²⁸³, EC (2018)²⁸⁴ and EC (2021)²⁸⁵. The combined list contained over 1 000 unique platforms of potential interest. For both Dun & Bradstreet and Crunchbase a semi-automatic search for all companies in the platforms’ list was conducted. First, an automatic script gathered all top search results for names of platforms in the list (the list contained only two first mentioned reports, the third one was published later). Second, the returned results were manually analysed (using the general description of operations and the country of headquarters for verification) to check whether the match was correct and which attributes were available. As shown in Table A.1, the highest hit ratio was observed for Crunchbase (56 percent). Unfortunately, in many instances, the financial and employment information was missing or not very detailed. For this reason, this database might be most useful for compiling a list of companies, but not so much for estimating their scale of operations. Dun & Bradstreet proved to be the more complete source of information on the scale of the platform economy as it covered 28 percent of platforms in the list with relevant financial information for all of them.

Table A.1 Coverage of platforms in databases

	Crunchbase		Dun & Bradstreet	
Found	410	56%	205	28%
Not found	322	44%	527	72%

Source. Author’s own elaboration

²⁸³ European Commission (2016), *Assessing the size and presence of the collaborative economy in Europe*, Publications Office of the European Union.

²⁸⁴ European Commission (2018), *Study to Monitor the Economic Development of the Collaborative Economy at sector level in the 28 EU Member States*, Publications Office of the European Union.

²⁸⁵ European Commission (2021), *Digital labour platforms in the EU: Mapping and business models*, Publications Office of the European Union.

Web application download statistics from SEMrush

SEMrush is an online tool primarily used for Search Engine Optimization campaigns. The tool allows to track data on keyword searches, traffic going through specific web addresses and compare performance of competing websites. SEMrush offers convenient set of APIs (Application Programming Interface) which can be used to retrieve data on portals and keywords automatically. This source of information can be also used for finding similar websites which might be helpful in improving completeness of the company database.

Financial, employment and other information from questionnaires for platform operators. The questionnaires for platform operators include a broad range of detailed questions regarding financial, employment and tax-related information as well as the number of users in the EU. However, due to confidentiality reasons, more than half of the interviewed platform operators have not responded to financial, employment and tax-related questions. Under strict non-disclosure agreements, this information was made available by few very large platform operators, covering a large market share. Thus keeping in mind potential bias from receiving responses mostly from the largest operators, the responses to questionnaires will serve as an important information for the parameters of the estimation algorithm, like platforms' margins and country market shares. In contrast to financial data, the information on the number of users was reported by most interviewees. In addition to firm-specific information, the questionnaire asked also for an own assessment on the share of transactions facilitated by online platforms in the EU and in the headquarter country. This information will serve as one of the sources of information for top-down estimates of the scale of the platform economy, and for the cross-checking of baseline estimates.

Fiscal data from questionnaires for tax administrations. The questionnaires for tax administrations included a request for granular sectoral fiscal data. The questionnaire asked for the figures for relevant three-digit NACE codes, preferably limited to platform economy operators. As expected, the information for platforms operators was not available. However, the overall information on sub-sectors was provided by most of the respondents. This information will support firm-specific data in deriving indicators for the platform economy including, importantly, VAT liability.

Previous reports on the scale of the platform economy. The most important source of information from the past studies was the list of platforms identified in 2018 for the *Study to Monitor the Economic Development of the Collaborative Economy* that contains 732 platforms and in 2021 for the *Digital labour platforms in the EU Mapping and business models* that contains 520 platforms. The list does not include marketplaces and appeared to be slightly outdated but had a primary role for verifying completeness of other sources of information and for designing the algorithm described above.

Sectoral statistics. Statistics published by Eurostat include relevant data on the dimension (e.g. output, number of companies) of various sectors and the economy. This includes national account's Supply Use Tables (SUT) and Eurostat's Structural Business Statistics (SBS). SUT provide important information on inputs and outputs for all sectors of economic activity, broken down by groups of products. SUT data is published by Eurostat and is strictly harmonised due to restrictions enforced by the European System of National and Regional Accounts (ESA 2010). It is available for two-digit NACE and CPA (Classification of Products by Activity) codes (in both cases, those covering sectors relevant to the platform economy are Divisions 47, 49, 55-56, 64, 74-75, 87-88, and 97). SBS describe the structure and performance of enterprises in the EU by providing information on revenue, costs, full-time employment, and productivity, among others. When an enterprise is active in more than one economic activity, then the values of all variables will be classified under the enterprise's principal activity; the principal activity is normally the one that generates the largest amount of value added.

Other sources. Other sources triangulated in the sectoral analysis include COLLEEM I & II survey data and *Enterprises' turnover from web sales via e-commerce marketplaces* published by Eurostat. Additionally, possibility of using information collected from Google Trends was investigated. This service provides relative popularity of certain keywords in Google search engine and could in theory be used to add dynamic component to the data on web traffic. Unfortunately, the data indicated that the popularity of most keywords related to platforms was dropping in recent years. This effect is probably caused by increased use of dedicated mobile apps and the fact that biggest platforms have established, and well known web domains and their users are increasingly accessing those platforms directly, rather than through search engines.

ANNEX B. STEPS FOR ESTIMATING THE SCALE OF THE PLATFORM ECONOMY

Table B.1. Steps for estimating the scale of the platform economy

Step	Objective	Main sources of information	Description	Assumptions made	Work done
1	Compilation of the extended list of companies	Crunchbase and DnB databases	The initial source of information on digital platforms operating in the EU was Technopolis (2018), PwC (2016) and CEPS (2021). Due to the rapid growth of the platform economy, the lists used previously are certainly outdated. New companies were established and some already established businesses has changed their business model towards the platform model. At the same time, some of the companies included in previous studies no longer operate. Additionally, this study covers E-commerce and Advertising sectors not included in any of the previous ones, which required to broaden the list of companies.	A list of Crunchbase industry tags, which were most commonly used for companies included in previous study, was compiled. The tags included: "Collaborative", "Sharing Economy", "Car Sharing", "Ride Sharing", "Peer to Peer", "Food Delivery", "Marketplace", "Crowdfunding", "Crowdsourcing", "Funding Platform", "Search Engine", "Social Media", "Social Network"	Using Crunchbase convenient search engine and industry classification (tags), the list of companies with tags most likely related to platform economy was extracted. The data included information on company name, industries, description of activities, website, range of estimated revenue and web traffic statistics. For a portion of companies (around 20 percent) it was possible to merge data from DnB database which included more precise revenue estimates and number of employees. The extended list of platform operators after this stage included information on 23,341 companies.
2	Segmentation of companies using industry tags,	Own assumptions	The size of initial list was too large to consider manual verification of every company.	Companies with key words: "enables", "facilitates", "hailing", "marketplace", "behalf", "platform", "collaborative" and	Companies were divided into five groups. 15,205 were excluded as the odds of the platform business model in this group was

Step	Objective	Main sources of information	Description	Assumptions made	Work done
	key words, revenue range and region of headquarters		The companies had to be sorted by the assessed probability of using digital platform business model, and by revenue.	“sharing” mentioned in the description as well as companies with industry tags “Collaboration”, “Coworking” and “E-commerce” were prioritized. Companies with EU headquarters and substantial revenues were given higher priority.	assessed as marginally low. Other four groups were ordered by the expected likelihood using the platform business model.
3	Manual verification of companies	Company description, tags and website, desk research, questionnaires	Identifying companies using the digital platform business model, as described in the preceding section, was a complicated process. This was connected with multiplicity of models used, also in parallel by one company. Expert evaluation of business model was necessary to filter through the remaining part of the database.	The definition of the platform model as described by Section 2.2.	8,347 companies were manually verified with regard to adopted definitions of digital platform. Companies which were identified as digital platforms were at the next stage assigned to sectors.
4	Double checking of database completeness	Google, DnB, market reports, news articles, questionnaires	Initial sources of information allowed to search for a wide range of companies and different business models. Even though most of important companies were included in the analysis, some of them were not a part of the database or had tags or descriptions which put them outside of the search criteria.	The Study Team assumed that the information on digital platforms with a substantial market could be easily found through Internet browsing.	Basic search phrases such as “peer-to-peer lending”, “platform economy companies”, “internet marketplaces”, “ride sharing” etc. were used to find companies or market reports/news articles which could mention specific companies. At the end of this stage 1,831 digital platforms were included in the database. This list was divided by sectors and in case of Accommodation and Transportation further into sub-sectors.

Step	Objective	Main sources of information	Description	Assumptions made	Work done
5	Estimation of revenue by platform	DnB, Google, questionnaires, own calculation	Only 22 percent of companies in initial database contained actual value or numerical estimate for revenue. The data, wherever possible, had to be supplemented with alternative sources but in cases where those were not available, missing observations had to be imputed.	Web traffic was to approximate revenue for companies with similar business models. For sectors (Finance, Household and Professional Services, Real Estate) where this relationship was not found to be significant 'revenue range' variable from Crunchbase database were used to approximate missing values.	For all companies with revenue range over USD 500 million and for other companies which were identified as key players, the data on revenue was cross-checked with other sources. In cases where data on share of EU market in total revenues was available, it was collected instead of global value. Similarly, if the information on split of revenue between digital platform business and other sources of revenue (if applicable) could be found it was applied. Overall, the number of companies with revenue data increased from 22 percent to 47 percent. At this stage missing values of revenue was imputed on company level. For sectors where data on web traffic and revenue was strongly correlated (above 0.8) simple average ratio of traffic to revenue was applied which was then used to derive missing revenue from traffic data. (Accommodation, Advertising, E-Commerce, Transportation, Other). For remaining sectors approximation utilizing 'revenue range' from Crunchbase was used.
6	Estimation of employment by platform	DnB, Google, questionnaires, own calculation	Similarly to revenue data, number of employees was available for about 23 percent of companies in the database.	Employment is strongly correlated with revenue of the companies, within specific sectors.	For all companies with revenue range over USD 500 mn and for other companies which were identified as key players, the employment data was cross-checked with other sources. Overall after additional desk research data on employment was available for 43 percent of companies. In order to

Step	Objective	Main sources of information	Description	Assumptions made	Work done
					<p>impute value of employment for the remaining group simple OLS model at sectoral level was built to identify the parameters that governs the impact of revenue and traffic (in some cases squared values of these variables to account for the structure of data) on employment. Then, the OLS model with the estimated parameters is used to predict the missing employment values.</p>
7	Assigning revenue and employment to EU market and specific Member States	SEMRush, Eurostat, Cambridge Center for Alternative Finance, Google, questionnaires	In most cases value of revenue and employment in the database was indicated in global terms and only for the part of operations run by digital platforms themselves (not by providers). This meant that the values obtained from previous steps had to be rescaled to refer to European part of operations and in order to produce wide approximation of platform economy scale (including digital platforms as well as providers).	Internet traffic is a good approximation of user activity and subsequently their spending and revenue generated on specific market. Reweighting of web traffic indicator with GDP per capita can effectively account for higher spending per customer in wealthier countries. Data on consumption of alternative finance products can be used for assigning platform companies' revenue in Finance sectors. Share of revenue on specific markets is a good approximation of employment related to regions' operations.	Data on web traffic from SEMRush was combined with GDP per capita figures to calculate weighted consumer interest indicator for each platform and each country. This was used to estimate share of operations on the EU market and for all sectors apart from Accommodation and Finance shares for Member States. For those two exceptional sectors other method of assigning operations to MS was used. In case of Accommodation data on guest-nights published by Eurostat was used directly. For Finance sector the same was done using data on alternative finance services consumption. The same country split was used both to assign revenue and direct employment by platform companies.

Step	Objective	Main sources of information	Description	Assumptions made	Work done
8	Extension of results to platform ecosystem	Eurostat, Google, questionnaires	Platform companies are only a small part of a larger ecosystem of service providers and customers. In order to truly capture the scale of platform economy it is necessary to extend the perspective to include all participants.	<p>Fees and commissions represent the main source of revenue of platform companies. The remaining portion of the value of sold goods and services represent the share of revenue collected by platform providers. This relationship can be used to reverse platform companies' revenue back into total value of sold goods and services which is the same as value of the ecosystem. The margins of fees and commissions are the same within each sector/business model. Margins based on combined information from questionnaires, market research and financial reports were as follows:</p> <p>Accommodation – 14.7 percent, Transportation – 18.9 percent, E-commerce and Real Estate – 15 percent, Finance – 0.08 percent, Household and Professional Services – 16.5 percent, Other – 10 percent.</p> <p>Given the share of ecosystem in total output of the sector in National Accounts it is possible to estimate share of employment related to operation of platform economy providers.</p>	<p>Margins were applied to bottom-up estimates of revenue for each of the sectors to come up with revenue of the ecosystem (The procedure was not conducted for Advertising sector due to a different nature of the leading business model). This value was compared with total output of comparable sectors in National Accounts to calculate share of employment related to activity of platform providers. This number combined with platform companies direct employment constitutes ecosystem employment.</p>

Step	Objective	Main sources of information	Description	Assumptions made	Work done
9	Estimation of user base by platform	SEMrush, Google, questionnaires	Calculation of user base can only be done in rough terms – although some platforms publish data on their user base this might be comparable only to some degree. Some companies will report all registered users while others only recently active users or those that made a purchase.		
10	Calculation of VAT revenue	Questionnaires, fiscal data	VAT revenue was calculated based on a simulation model described in Annex C.		
11	Cross-checking	Questionnaires, national accounts, other secondary sources	Top-down estimates were cross-checked with the results obtained by other studies and verified with responses to the questionnaire regarding experts' expectation on the prevalence of the platform economy in the EU and particular Member States.		

Source. Author's own elaboration.

ANNEX C. DESCRIPTION OF THE VAT LIABILITY SIMULATION MODEL

The VAT liability simulation model used for in the sectoral analysis and for the impact assessment composes of two blocks: (1) the set of equations modelling effective liability on platforms' facilitation services, and (2) the set of equations calculating liability for the underlying services. The equations in each of the block were calibrated and adapted to the tax base in every Member State and sector. Overall, the number of calculated equations was 324.²⁸⁶

The model for facilitation services (for country i and sector s) is a sum of products of net tax bases subject to different rules and applicable rates. The factors of this equation are.

- 1) VAT collected in country i as a permanent location of the provider (on respective tax base - $TB_{1,i,s}$) with the effective rate applicable as on the underlying service (t_s);
- 2) VAT collected in country i as the place of establishment or permanent location of the provider (on respective tax base - $TB_{2,i,s}$) with the effective rate applicable as on average rate for final goods in the transaction chain (t_{fi})
- 3) VAT collected in country i as the place of establishment or permanent location of the provider (on respective tax base - $TB_{3,i,s}$) with the effective rate applicable as on facilitation services (t_{fa})
- 4) VAT collected in country i as the place where the underlying transaction was supplied (on respective tax base - $TB_{4,i,s}$) with the effective rate applicable as on facilitation services (t_{fa})
- 5) VAT paid in country i as the place of establishment or permanent location of the user (on respective tax base - $TB_{5,i,s}$) with the effective VAT rate as on facilitation services (t_{fa})

For every sector s and country i , we have:

$$VL_{i,s} = TB_{1,i,s} \times t_s + TB_{2,i,s} \times t_{fi} + TB_{3,i,s} \times t_{fa} + TB_{4,i,s} \times t_{fa} + TB_{5,i,s} \times t_{fa}$$

The calculation of rates applied to specific services provided by platforms, facilitation services and the average rate on final goods (t_s , t_{fa} and t_{fi} , respectively) is based on European Commission's sources.²⁸⁷ It was assumed that all platforms are taxable persons, thus non-deductible input VAT is not modelled.

The estimates of respective tax bases for each of the country was based on estimated revenue and cross border flows of services described in Section 3.5. The description of situation in which five above-mentioned rules are applicable were enumerated in Table 13. The parameters necessary to decompose the overall value of revenue to components of tax base were based primarily on statistics of transaction characteristics provide by platform operators. The list of estimated coefficients that allowed to decompose tax base includes: (1) percent of services classified and ESS and intermediary services, (2) percent of providers who are taxable persons, non-taxable persons and belonging to group of four, (3) percent of consumers who are taxable person, non-taxable persons and belonging to group of four, and (4) percent of transactions in which provider and/or consumers pay the facilitation fee.

²⁸⁶ The equations were calculated for 27 Member State for both facilitation and underlying services belonging to six separate categories with different rates applicable.

²⁸⁷ See: https://ec.europa.eu/taxation_customs/business/vat/telecommunications-broadcasting-electronic-services/vat-rates_en; https://ec.europa.eu/taxation_customs/system/files/2020-10/vat_rates_en.pdf and EC (2020), Study and Reports on the VAT Gap in the EU-28 Member States: 2020 Final Report, TAXUD/2015/CC/131.

The equation describing the VAT liability on underlying services excluding liability attributed to the facilitation fee takes a simpler form as it is assumed that the place of supply is always the physical location of consumption. On the contrary to the liability on the facilitation services, non-deductible input VAT of exempt and non-taxable providers had to be modelled. For this purpose, the parameter of average value of input tax to output in sectors covered by this analysis was calculated using fiscal figures provided by Member States Authorities.

In the end, three situations were possible:

- 1) VAT collected in the place of consumption with the rate applicable as on the service (t_s);
- 2) VAT collected in the place of consumption with the rate applicable as on final goods in the transaction chain (t_{fi});
- 3) There is no output VAT but there is non-deductible intermediate VAT on inputs (of non-taxable or exempt providers).

The sum of liabilities could be expressed as:

$$VL_{i,s} = TB_{i,s}\varphi(\gamma t_s + (1 - \gamma)t_{fi}) + TB_{i,s}(1 - \varphi)\alpha_s t_{fa}$$

where:

$TB_{i,s}$ – value of service s consumed in MS i ;

φ – share of transactions provided by taxable non-exempt persons;

γ – share of transactions with good provided to taxable persons (C2B and B2B in all transactions);

α – proportion of intermediate input in output.

ANNEX D. POTENTIAL DEVELOPMENT OF THE PLATFORM ECONOMY – SOURCES AND ASSUMPTIONS

Table D.1. Assumed growth rates of the platform economy, by sector

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Accommodation	25.9%	19.5%	16.2%	8.6%	- 51.9%	58.9%	38.0%	8.1%	7.7%	7.2%	6.8%	6.3%	5.8%	5.4%	4.9%	4.5%	4.0%
Advertising*	20.5%	22.5%	23.4%	18.2%	12.7%	37.4%	16.9%	21.8%	21.7%	21.4%	19.0%	16.5%	14.0%	11.5%	9.0%	6.5%	4.0%
E-Commerce*	25.9%	30.9%	33.5%	22.7%	35.6%	27.4%	20.3%	20.0%	19.0%	19.0%	18.0%	18.0%	15.2%	12.4%	9.6%	6.8%	4.0%
Finance	22.4%	37.1%	42.7%	33.8%	42.6%	35.7%	30.0%	25.0%	20.0%	15.0%	13.4%	11.9%	10.3%	8.7%	7.1%	5.6%	4.0%
Household and Professional Services	20.8%	26.2%	29.7%	16.9%	24.1%	38.6%	26.9%	27.1%	27.2%	26.8%	23.5%	20.3%	17.0%	13.8%	10.5%	7.3%	4.0%
Transportation	99.3%	102.4 %	34.3%	31.8%	1.0%	48.6%	40.5%	20.1%	23.6%	22.9%	21.2%	14.7%	8.3%	4.6%	4.1%	4.0%	4.0%

Source. Author's own elaboration. Note: * - not covered by the analysis of impacts.

Table D.2. Source of platforms revenue growth assumptions

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032							
Accommodation	Financial Statements of Large platforms						Average Revenue Estimates for Large Platforms from Yahoo Finance						Gradual decline to converge to the economy-wide growth rates. 2023 was chain linked to the growth rate in 2019 (the latest available reference before the COVID-19 pandemic)											
Advertising*													6-year Moving Average ²⁸⁸						Gradual decline to converge to the economy-wide growth rates					
E-Commerce*													CAGR 14% ²⁸⁹						Gradual decline to converge to the economy-wide growth rates					
Finance													CAGR 14% ²⁹⁰			Gradual decline to converge to the economy-wide growth rates								
Household and Professional Services													6-year Moving Average			Gradual decline to converge to the economy-wide growth rates								
Transportation													Goldman Sachs report adjusted by growth rates during and after pandemic ²⁹¹											

Source. Author's own elaboration. Note: * - not covered by the analysis of impacts.

²⁸⁸ Estimated CAGR of 17 percent between 2020 and 2027. See: <https://www.alliedmarketresearch.com/internet-advertising-market>

²⁸⁹ Estimated CAGR of 14 percent between 2020 and 2027. See: <https://www.grandviewresearch.com/industry-analysis/>

²⁹⁰ Estimated CAGR of 14 percent between 2020 and 2027. See: <https://www.statista.com/outlook/dmo/fintech/alternative-lending/worldwide>

²⁹¹ Estimated CAGR of 11 percent between 2021 and 2030. See: <https://www.goldmansachs.com/insights/pages/gs-research/future-of-mobility/report.pdf>

ANNEX E. STATISTICAL APPENDIX

Table E.1. Revenue of digital platforms, by year and country (2019, EUR million)

	Accommodation	Advertising	e-Commerce	Finance	Household and professional services	Transportation	Real estate	Other	TOTAL
BE	117	1361	352	3	57	131	10	33	2065
BG	11	100	15	2	4	1	8	1	143
CZ	80	305	199	4	8	32	6	25	658
DK	103	1089	744	6	42	119	8	59	2170
DE	729	7085	3941	84	507	1493	255	308	14403
EE	12	63	22	5	5	10	6	5	127
IE	172	1401	537	4	23	519	33	61	2749
EL	220	478	210	0	7	31	4	14	964
ES	1100	3176	1605	37	99	666	110	121	6913
FR	1577	4826	2222	82	259	2122	89	161	11338
HR	118	151	45	1	1	43	1	7	365
IT	928	3578	1394	91	75	521	28	127	6741
CY	47	135	42	0	1	73	1	1	301
LV	8	69	19	17	1	5	2	1	122
LT	11	208	22	6	2	37	2	2	289
LU	15	229	41	0	4	11	2	3	306
HU	58	626	149	0	5	48	2	9	897
MT	32	64	38	0	1	8	1	1	145
NL	188	2973	1785	167	161	443	41	122	5880
AT	249	796	380	3	33	125	5	20	1611
PL	130	1253	784	30	19	277	15	26	2533
PT	245	492	237	2	7	148	3	50	1183
RO	19	358	285	3	7	71	1	27	771
SI	22	221	66	3	2	56	0	2	373

	Accommodation	Advertising	e-Commerce	Finance	Household and professional services	Transportation	Real estate	Other	TOTAL
SK	15	175	22	1	6	30	0	2	251
FI	54	530	459	18	29	41	16	32	1179
SE	78	1085	940	16	45	177	22	94	2458
TOTAL	6338	32829	16554	584	1407	7240	671	1311	66934

Source. Author's own elaboration.

Table E.2. VAT liability in the platform economy, by Member State (2019, EUR million, excluding advertising services)

	VAT liable on the facilitation service	VAT liable on the underlying goods and services	Non-deductible input VAT
BE	106	380	29
BG	7	24	3
CZ	60	234	22
DK	201	826	44
DE	1116	4118	374
EE	9	36	5
IE	182	615	43
EL	80	313	35
ES	543	1993	205
FR	875	2928	359
HR	35	124	23
IT	475	1730	167
CY	20	60	9
LV	6	24	2
LT	12	37	6
LU	9	34	2
HU	56	214	21
MT	10	36	3
NL	450	1740	108
AT	116	414	37
PL	212	769	39
PT	95	330	35
RO	68	264	19
SI	23	75	7
SK	13	40	7
FI	117	480	24
SE	255	1030	55

Source. Author's own elaboration.

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