

## EU Tax Symposium 2023 – Minutes of Parallel Session 1, 24 October 2023

### *“VAT in a Digital World”*

**Parallel Session 1** focused on *“VAT in a Digital World”* with the declared purpose of taking a forward-looking view of the current complex rules and generating a debate on how to modernise and simplify the VAT system.

The panel took account of novel digital technologies, which may offer new possibilities for designing a modern EU VAT system that suits tax administrations and businesses alike.

The Value-Added Tax (VAT) is an indirect tax on the consumption of goods and services and is an important revenue raiser, i.e. a key source of revenue for Member States’ budgets. The EUR 1.1 trillion total EU VAT (2021, EU-27) represents approximately one-fifth of Member States’ total tax revenue. Since the current EU VAT system is about 30-year old, panellists were invited to reflect on whether the VAT system is fit for novel instruments in emerging markets, such as fintech, barter or crypto assets and on what role could digital technologies such as big data analytics, blockchain or artificial intelligence play, and the risk associated with the use of new technologies. Panellist also shared the experience of national authorities and of businesses regarding the implementation of such new and evolving technologies and discussed on what should be the role of the EU in this transformation.

The panel, moderated by **Mario NAVA** (Director General of the Directorate-General for Structural Reform Support - DG REFORM, European Commission), was composed by:

- **Helena ALVES BORGES** (Director-General, Portuguese Tax and Customs Authority)
- **Stefanie BECKER** (Tax Advisor, European Tax Adviser Federation (ETAF))
- **Sophie CLAESSENS** (Director in Amazon’s EU Public Policy team based in Brussels)
- **Ondrej KOVARIK** (Member of the European Parliament & ECON Committee)
- **Ferenc VAGUJHELYI** (Commissioner of the National Tax and Customs Administration (NTCA), Hungary)

**Mario NAVA**, the moderator, grouped the questions, with the first being ‘How can the VAT system be adapted to the digital economy?’, being followed by more technical ones, which also referred to panellists’ experience.

**Helena ALVES BORGES** opened the panel by welcoming the VAT in the Digital Age (ViDA) initiative tabled by the EU Commission,<sup>1</sup> highlighting the general support from tax administrations for the proposal and the need for fine tuning and for technical adjustments. A strong supporter of real-time reporting, Portugal was one of the early adopters of such fast reporting more than 10 years ago. Helena ALVES BORGES reminded that the use of VAT data goes far beyond the VAT control, such as

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<sup>1</sup> In December 2022, the European Commission proposed a series of measures to modernise the EU’s Value-Added Tax system, considering the opportunities offered by digital technologies. The package is referred to as ViDA (VAT in the Digital Age)

checking Personal Income Tax (PIT) or to offer diverse services to taxpayers, such as the prefilling of several declarations. The panellist concluded with a general call for simplicity and, mentioning the operation ADMIRAL, the largest VAT fraud investigated in EU<sup>2</sup> pointed to the fact that ViDA could offer a complete picture of VAT fraud by adding the currently missing cross-checking element of VAT reporting.

**Ferenc VAGUJHELYI** pointed to the efficiency of the digital real-time VAT reporting system that he considers to be strongly linked with the future of VAT. The panellist chose an antifraud approach, advocating for a better integration of different reporting systems and data sources, such as an Online Cash Register System and the reporting of VAT deductions. Explaining the functioning of the Hungarian real-time system, Ferenc VAGUJHELYI also pointed to the IT difficulties of running a comprehensive real-time reporting in determining honest mistakes from fraud attempts, alongside the number of unpaired invoices (now down to 2% in HU, compared to 60% in Uganda), missing information, and customer's data.

The panel pointed at so-called "crypto challenges" for current VAT system, mentioning the situations where people never exchanging crypto to fiat and the Zero-knowledge proofs (ZKPs) that are used to confirm information without disclosing specific data about an individual or entity. Referring to audits, Ferenc VAGUJHELYI said that the current approach towards audits should be modernised to include much more cooperation and an efficient use of data, pointing at the importance of human resources and training. This would help the administrations deal with the changing face of how businesses supply goods and services in the modern era.

The question is not whether the VAT Directive is fit for modern business models, but how to interpret it. The Directive may need amendments so that all businesses, regardless of how they operate, are faced with the same rules.

**Stefanie BECKER** gave a view from the perspective of a tax adviser, and in that she supported the ViDA proposal, as it would push SMEs (and tax advisers) to go digital, which would save money and resources, alongside the improvements/enhancements of the OSS, which would encourage cross border trade for small businesses (who are currently reluctant to trade cross borders because of the registration difficulties). However, she also emphasised that businesses and especially SMEs need guidance and support on how to cope with the new digital reality. The key is to create a VAT system that offers and maintains certainty, while being adaptable and flexible enough to respond to digital challenges. In this sense, she saw two approaches one being the complete change of the Directive to cope with new business realities, the other, tweaking the Directive to respond to new business models. She did not see the need for wholesale changes but asked that the EU could respond more quickly and flexibly to new and emerging business models. Here she saw an important role in the collaboration between businesses, tax administrations, the Commission and tax advisers.

**Sophie CLAESSENS** explained that Amazon prides itself of being a trusted partner helping small businesses comply with their VAT rules. In this respect she described 3 key areas of a modern VAT

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<sup>2</sup> <https://www.eppo.europa.eu/en/news/operation-admiral-eppo-uncovers-organised-crime-groups-responsible-vat-fraud-estimated-eu22>

system: the simplification of the registration procedures; making the collection of VAT more efficient; and the equal application of VAT rules, particularly relating to audit and enforcement.

Regarding registration, she said that the current systems were costly and complicated, and she fully supported the introduction of the SVR element of the ViDA proposal, particularly relating to TOGC and domestic sales. She advocated for further simplification where possible.

Regarding VAT collection, she also supported the Deemed Supplier element of the ViDA proposal, as small businesses would not be required to know the local rules and regulations, all this would be handled by the platforms. She advocated for the wider use of the deemed supplier, alongside the reduction of joint and several liability (all Member States have different J&SL rules).

She recognised there were new challenges for enforcement in the digital economy and saw a flaw in an optional IOSS (it should be mandatory). She advocated that enforcement 'follow the money', and whilst she supported CESOP, she saw a lack of clarity in the system. Finally, she advocated for a single data sharing approach, so that businesses aren't required to send duplicate information to tax authorities for different taxes/regulatory reasons.

**Ondrej KOVARIK** expressed the view that European Parliament should be more involved in taxation and reminded of the recent positive vote for the ViDA proposal. He recognised the importance of VAT in the national budgets, but also noted that the Digital Economy and new business models added to the complexity of collection. The VAT gap should be bridged, but we also see the monetisation of new areas, such as short-term accommodation or passenger transport (as acknowledged in the ViDA proposal).

Ondrej KOVARIK agreed with the previous speaker that there should be a simplification of registration, because the digital economy does not respect physical borders. There is a need for businesses to work across borders if they want to succeed. He gave the example of CZ, which has the most e-shops in the EU, but the majority of them only operate locally because of the complexity of the rules.

On top of this, there are the challenges posed by new business models, for example in the new ways of monetisation, which may need new ways to conceptualise who makes the money, how, where, and how it can be taxed. Whilst being supportive of ViDA, he recognised that support would be needed for both tax administrations and businesses, but the long term-benefits were tangible, in that it would push the entire VAT ecosystem towards digitisation. Having said this, tax administrations would have to cope with the influx of digital information in an effective and meaningful way, which would mean serious investment and a reframing of attitudes.

The questions from the floor were as follows:

- Do we need a VAT system which was designed in 1962, when the world was a different place? Can we not take advantage of technology to introduce an efficient sales tax (seen as being too risky and complicated in the early 1960s)?
- Regarding AI – what is required for staff and procedures in tax administrations?
- There is a need for a broader debate on the direction of VAT which doesn't focus on e-invoicing and digital reporting, to allow VAT to continue to be a growth friendly tax.

Ondrej KOVARIK said that there were new business models which stretched the philosophy of taxation in determining what is the value and what is the rationale for a transaction (no longer so simple). At times public authorities are not able to use the data efficiently, and there should be a connection between the public and private entities. He recognised the questions asked, particularly on the existence of the VAT system itself, but the debate would be extremely difficult given the importance of VAT as a source of national budgets. What is required is a close cooperation between the public and the private.

**Sophie CLAESSENS** reiterated the need for harmonisation, for example, on e-invoicing. There is a proliferation of systems in Member States which can lead to the ‘baking in’ of national unhelpful practices. The goal should be a simple system which everyone can easily apply, along with clear rules on compliance. Finally, she emphasised the need for a one-stop-shop for data sharing, covering, for example, DAC7, CESOP, OSS, VAT, etc.

**Stefanie BECKER** focussed on the AI aspects, stressing the need to think creatively about the uses of AI – an example being the use of AI to create a fraud mechanism, and using this information to spot the fraud as it is happening. This would be possible with the implementation of real-time reporting.

**Ferenc VAGUJHELYI** said that whilst AI was a useful tool, there would need to be an expert in tax overseeing it, to understand what was happening behind the AI, and therefore any digital future would require more tax experts.

**Helena ALVES BORGES** agreed to an extent with the previous speaker, saying that AI will help, but at the same time all audit information would be needed, some of which could be beyond the reach of AI and therefore require human intervention. She also spoke of the importance of data protection – citizens and businesses should be confident that administrations treat their data with the utmost care.

**Mario NAVA** asked the panel for their views on what the system needed in two words. There was a general consensus that ‘*collaboration*’ and ‘*trust*’ were necessary to remove the complexity of the system.