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VAT CHANGES IN THE EU: 1 JANUARY 2025

Significant and wide-ranging VAT (Value Added Tax) changes are to be introduced in the EU in 2025, with the intention of modernising and simplifying procedures for cross-border transactions. Although this is quite a way off, businesses are going to have to consider how best to accommodate these changes, in order to take advantage of potential efficiencies.

Overall, the changes mean that transactions are going to be taxed where the customer belongs, and that brings the requirement of potential local VAT registrations, filing and payment obligations in other countries.

BACKGROUND

On 8 December 2022, the European Commission launched the long-awaited proposals to modernise the VAT rules within the EU, and these are referred to as “VAT in the Digital Age package” (ViDA).

WHAT DOES THIS MEAN FOR ME?

Despite Brexit, UK businesses will be affected by the forthcoming changes, and will need to adapt procedures and systems to remain compliant and take advantage of the available simplification opportunities. The final details of the changes are, however, still to be agreed by the EU.

PLACE OF SUPPLY CHANGES

There are changes being introduced at the start of 2025 to update the place of supply rules in respect of business-to-consumer (B2C) these services refer to virtual events, education, entertainment and similar activities.

CURRENT TREATMENT

Currently, businesses providing virtual events (for example, a UK business providing live online cooking classes where the participants can interact with the instructor in real time) have three UK/EU rules they need to think about:

1. The basic rule: B2C supplies of services are taxed where the supplier belongs.
2. The electronically supplied services (ESS) rule: B2C electronically supplied services are taxed where the consumer belongs.
3. The ‘where performed’ rule: B2C supplies of entertainment, education or similar events are taxed where the event takes place.

PROPOSED CHANGES

From the start of 2025, when these services are streamed or made available digitally, they will become subject to VAT where the consumer resides.

Whilst B2C ESS services are already taxed where the consumer belongs, the immediate impact is that UK businesses providing non-ESS services to EU-based consumers, will also trigger the requirement for a VAT registration in the countries where their customers are based.

The place of supply will be where the customer belongs; the EU applies a nil turnover registration threshold for non-established businesses, so there is no turnover threshold.

SIMPLIFICATION MEASURE

However, the One Stop Shop scheme (OSS) allows businesses to set up a simplified VAT registration with their EU tax authority of choice, and to report certain sales in all EU member states through a single quarterly filing.

SINGLE VAT REGISTRATION IN THE EU

Coinciding with the place of supply changes mentioned above, is the introduction of a new VAT reporting scheme (to operate in parallel with the One Stop Shop (OSS)) and EU domestic reverse charges).

These changes aim to reduce the administrative burden of trading in the EU by reducing the number of separate VAT registrations that a business will be required to have, with a view to increasing compliance overall.

DOMESTIC REVERSE CHARGE: B2B

Whilst B2B transactions are excluded from the remit of the new single VAT registration reporting schemes, January 2025 should also see the mandatory introduction of domestic reverse charges across the EU.

Although removing the need to be VAT-registered in these member states will reduce the compliance burden for the UK business, it also removes the main mechanism by which input tax can be recovered.

In the absence of a VAT registration, input tax would need to be recovered by making refund claims directly to the relevant tax authority, where there will be a greater delay between paying VAT to a supplier and receiving the repayment.

2025 CHANGES TO THE PLATFORM ECONOMY

There are several features of the EU proposals relating to the platform economy. These are set out below.

The “deemed supplier” rule, which has applied to digital platforms and marketplaces selling goods in the EU since 1 July 2021, will be extended to apply to platform operators in the short-term accommodation rental and passenger transport sectors. This will be in situations where the underlying supplier does not charge VAT (e.g., because the supplier is not registered for VAT).

The proposed rules aim to level the playing field between platforms offering services and other traditional suppliers that are registered for VAT and those who are not. For example, private individuals letting their properties on a short term “holiday let” basis.

Under the proposals, platform operators in the short-term accommodation rental and passenger transport sectors will be required to charge and account for VAT on transactions where the underlying supplier does not charge VAT. The platform operator will be deemed to make the supplies to customers and to receive the supplies from the supplier.

ADDITIONAL FUTURE CHANGES

Further ahead, wider e-invoicing and digital reporting requirements are due to come into effect from the start of 2028.

CONCLUSION AND TAKE AWAYS

Businesses trading within the EU should expect significant changes in the coming years, as the EU Commission looks to modernise its VAT system whilst simultaneously tackling non-compliance. However, the developments outlined above, although significant, are only part of the bigger picture, as the single VAT registration proposals go hand in hand with wider e-invoicing and digital reporting requirements which will come into effect from the start of 2028.