VAT in the Digital Age – Single EU VAT Registration Number
Policy option 3a – single VAT registration covering transfers of own goods

The expansion of the Union One Stop Shop as from 1 July 2021 creates a great base for further centralization and standardization of VAT registration and reporting requirements in the EU. This paper dives deeper on some of the concepts considered as part of the VAT in the Digital Age Study, in particular considering how cross border transfers of own goods in the EU (and onward sales) can be included in a single VAT registration. This paper also includes FAQs on some concerns we heard during the October Fiscalis event, especially from Member State representatives. Finally, this paper includes an annex with examples of how the process for reporting transfers of own goods under single VRN could work.

Single VAT Registration – current position

It is clear from the VAT in the Digital Age Study (the Study report) that inclusion of B2B cases within a single VAT registration, particularly movements of own goods and chain transactions (including drop shipments), will be most impactful for business growth, but also most challenging to solve for. Regardless of this difficulty, attendees of the October 2021 Fiscalis generally agreed that the B2B cases are key to achieving a meaningful reform to meet the policy objectives, in particular to minimize the need for multiple EU VAT registrations. A reform limited solely to B2C use cases would still entail a VAT registration requirement for businesses in each Member State in which they store inventory, hence the overall objective of the reform would not be met.

As the Study report mentions, the key challenge to solve for B2B use cases is the question around how to include cross-border transfers of own goods in the single VAT registration. We agree with the report's findings and the Fiscalis attendees' opinions that enabling a deduction feature in the Union OSS is technically difficult to achieve and likely not politically achievable at the present time. While enabling VAT deduction within the Union OSS can remain the long-term goal, we were pleased to see policy option 3a included the Study report as an intermediate solution to unlock a practical single VAT registration in the shorter term.

Policy Option 3a – deep dive

The Study report discusses at a high level how the OSS could be expanded to deal with transfers of own goods without creating cash flow costs for the transferor. The core idea is "*adding non-established acquirers of goods to the list of eligible users of the OSS and making an amendment to stipulate that input VAT would be automatically offset for such transactions, provided that the OSS is used*."

We have considered this proposal and agree that it is a sensible idea, albeit one that needs building out further. We have considered how it is possible to achieve an "automatic offset" of input VAT for transfers of own goods. Our assessment is that the most effective and simple way to do this is to prevent output VAT charges on such transfers. I.e. apply a VAT exemption with credit on transfers of own goods in the country of dispatch and the country of acquisition, conditional on the goods being destined for onward taxable sale in that country or onward transfer from that country (local supplies from the transferred stock would then be reported through the One Stop Shop {B2C and B2B} and/or domestic reverse charge {B2B}, as already envisaged in the Study report).

We see the following arguments in favor of such a VAT exemption:

- It would improve the functioning of the EU VAT area and provide a more favorable VAT environment for selling goods in Europe, much like the VAT exemption introduced under the 2021 changes for the deemed sale from non-EU selling partners to marketplaces, hence there is a precedent for a legislative amendment of this kind.
- It already has a legal basis in article 140(c) PVD, which exempts from VAT intra-Community acquisitions of goods where the person acquiring the goods would in all circumstances be entitled to full reimbursement of the VAT due (e.g. under a cross-border refund procedure), as that person makes no other reportable supplies in the Member State where the intra-Community acquisition has taken place. Nevertheless, given the differences in Member State implementation of article 140(c) PVD and the limitations of the VAT refund procedures, a specific exemption (including exemption from VAT registration) is likely the best approach.
- The OSS could be modified relatively simply to allow for reporting of these VAT exempt transactions, with appropriate guardrails put in place to ensure the goods are used for taxable purposes (for example, an additional stock movement reporting, which could link well with the Digital Reporting Requirements aspect of VAT in the Digital Age).

This option has the following **benefits for businesses**:

- It preserves the status quo cash flow position (i.e. there is no additional cash flow disadvantage for businesses applying this solution – they pre-finance input tax only once at the time they purchase the goods/import the goods into the EU).
- The policy objective of a single VAT registration number is achieved: it reduces the workload and compliance cost for businesses as they no longer need to apply for multiple EU VAT registrations. As such, it enables pan-EU business growth.

- Compared to option 3b in the Study Report, businesses are not required to prepare and submit burdensome and slow cross-border VAT refund requests for purely self-accounted VAT.

This option has the following **benefits for Member States and national tax authorities**:
- It would be relatively simple to implement – requiring relatively few legislative changes and relatively few technical changes to the OSS system, especially compared to option 3c in the Study Report.
- Administration would also be simple and it would reduce the workload for tax authorities, with this being a straightforward extension of the OSS that reduces the need for domestic VAT registrations and minimizes the scenarios requiring processing of cross-border VAT refunds.
- The process for movement of own goods would be very similar to today for Member States and the risk for Member States will therefore also be the same. I.e. in 99% of cases today there is no revenue associated with movements of own goods as they net off in the same VAT return and this situation would be maintained.
- Member States will still have visibility on movements via VAT returns (via the OSS returns), as the supply is still reported, albeit without VAT. If more detail is needed, this policy option could be accompanied by an additional stock movement reporting, either via DRR or through separate (harmonized) reporting. I.e. Member States could have more visibility and therefore more control over stock movements than they do today if they would like.

FAQ

1. Without VAT returns for transfers of own goods, will Member States lose control and visibility over stock movements?

Option 3a could be accompanied by an additional stock movement reporting, where the supplier needs to declare from where and to where goods have been transferred, such that Member States can control and audit businesses moving stock around the EU. This solution would give an equivalent, or greater, level of control on transfers of own goods than the current system with local VAT returns and ESLs.

2. Does this put non-residents transferring their own goods into a country at an advantage to domestic businesses purchasing goods domestically?

Those are not equivalent transactions. This would in fact put the non-established trader <u>on equal footing</u> with a domestic trader purchasing goods from another Member State. Also note:
- The domestic business perceived to be disadvantaged is in fact advantaged by a single VAT registration giving it a better opportunity to trade across the whole EU.
- The non-established trader would be in a worse position under a domestic purchase scenario, or if VAT needs to be accounted for on pan-EU transfers of own goods, as they would have to go through 8th/13th Directive claim procedures to recover VAT charged. Under this process, a business would have to wait a significant period of time (4-8 months) to recover VAT (VAT that it has charged itself).
- Cross-border transferors of own goods will still have VAT cash flow costs as other businesses do. They will have already pre-financed input tax at the time they purchase the goods in the EU/or import the goods into the EU. They would have to pre-finance twice (or more) if transferring own goods around the EU unless this is solved for under single VRN.

3. Is policy action needed given that a new VAT scheme for SMEs will apply as of 1 January 2025?

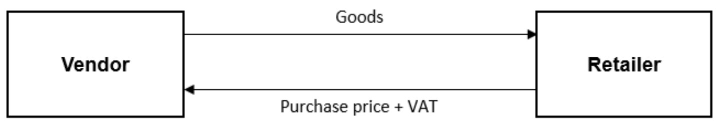
Policy action is still needed to enable single VRN for pan-EU inventory placements by SMEs opting not to use the scheme (e.g. considering the disadvantages below) and for businesses who exceed the turnover thresholds of the SME VAT scheme, many of whom will still be small or micro-enterprises.

The VAT scheme for SMEs has a number of disadvantages due to which it does not solve for the pan-EU inventory use case:
- It remains optional for Member States to implement a VAT exemption for SMEs.
- The VAT scheme implies a VAT exemption without credit.
- The scheme does not cover businesses established outside the EU, therefore not covering the large business communities in nearshore neighbours such as the UK and Switzerland.
- While the scheme will allow to report VAT exempt transactions in different Member States only towards the tax authorities in the Member State of establishment, it requires extensive follow-up by both businesses and tax authorities that the relevant thresholds are complied with (i.e. not only the domestic threshold, but also the threshold set by each Member State where supplies take place, the pan-EU threshold of EUR 100K and the intra-EU dispatch/arrival threshold for exempt taxable persons). As a result, it implies an administrative burden on businesses.

Annex: Example process for reporting transfers of own goods under single VRN

To aid understanding of how the ideas in this paper could work in practice, the below considers how stock movements could be administered under OSS taking an example of a series of transactions in a retail supply chain:

1. Retailer (established in Member State A) purchases (or acquires/imports) stock in Member State A.

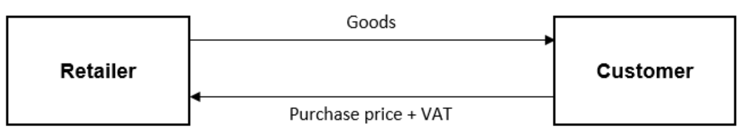


- Example purchase price EUR 5,000 (+20% VAT)

2. Retailer dispatches stock from Member State A to Member State B, where it is not established (dispatch and acquisition treated as exempt with credit)

- Cf. (1) above, value of goods moved is EUR 5,000

3. Retailer sells stock to consumers in Member State B



- Example sales proceeds is EUR 10,000 (+20% VAT)

VAT accounting under a single VAT registration

A. <u>Member State A VAT return</u>: Retailer recovers input tax incurred on goods purchase on its VAT return in Member State A & reports the dispatch of goods to Member State B on the same VAT return (exempt dispatch – only net value reported)

VAT RETURN	
Output tax	
Input tax	1000.00
Total VAT due	
Acquisitions	
Dispatches	5000.00

- The purchase (either domestic, cross-border within the EU or import) in MS A is reported in the **regular VAT return** of the Retailer in MS A as Member State of Identification (hereafter: MSI). Assuming the retailer has full right to deduct VAT, the Retailer recovers the input VAT through his domestic VAT return. Tax authorities of MSI can control imports/purchases of goods and subsequent supplies or dispatches from MSI in the local VAT return.
- The net value of the outbound stock transfer (movement of own goods) is also reported on the VAT return of MSI

B. <u>One Stop Shop return</u>: Retailer declares net value of exempt movements of own goods and Member State B output tax due on the onward sale of the goods on its next OSS return

OSS RETURN – page 1 – Member State A	
Standard rate supplies in MS A	
Reduced rate supplies in MS A	
Total VAT due in MS A	
Exempt movements of own goods from MS A	5000.00
Exempt movements of own goods to MS A	

OSS RETURN – page 2 – Member State B	
Standard rate supplies in MS B	10000.00
Reduced rate supplies in MS B	
Total VAT due in MS B	2000.00
Exempt movements of own goods from MS B	
Exempt movements of own goods to MS B	5000.00

- The reporting of the sale depends if the customer is a business (B2B) or consumer (B2C)[1]. In this B2C use case, the domestic B2C sales of goods from the Retailer will be reported in the OSS for each MS of taxation per total taxable amount and VAT due[2]. The OSS already foresees a split per ship from MS and per VAT rate.
- The stock transfer (movement of own goods) is also reported through OSS return[3] of the retailer in MSI:
  - outbound movement as intra-Community transfer from MS A;
  - inbound movement as intra-Community acquisition without calculation of related output VAT, via a total amount of inbounding stock transfers into MS B.

C. *Optional – additional stock reporting*: Retailer completes additional reporting to give Member States good visibility over stock movements

- As a guardrail providing extra supervision for the acquisition countries and the taxation countries (if different from each other), it could be foreseen to complete all transactions performed under the single VRN (including the B2B reverse charged sales) in the OSS for each MS of taxation with a split per ship-from MS. This OSS data could then be shared from the MSI with the ship-from/ship-to MS (including the MS of taxation, via the VIES exchange of information tool). This would allow the different MS involved to also have a summary view per taxpayer of the incoming and outgoing transactions reported in the OSS in relation to its own territory and thereby to perform basic compliance checks.
- The extent to which proposed Digital Reporting requirements could provide this information automatically (rather than via OSS returns) should be considered.

[1] For B2B supplies, mandatory domestic reverse charge could be applies as foreseen by option 4 in the EC Draft Report.
[2] This extension of the OSS is foreseen by option 2 in the EC Draft Report.
[3] This extension of the OSS for the transfer of goods cross border is foreseen by option 3a in the EC Draft Report.