Technology Industries of Finland

3 April 2023

Technology Industries of Finland’s submission to the public consultation:
VAT in the Digital Age directive proposal (ViDA)

The European Commission (EC) has requested comments regarding the VAT in the Digital Age (ViDA) directive proposal and package. According to the EC the purpose of the proposal is to modernise VAT reporting obligations and facilitate e-invoicing, update the VAT rules for the platform economy and move to having a single VAT registration in the EU. In the directive proposal, three areas have been highlighted:

1. Digital reporting requirements, including e-invoicing. Uncoordinated growth in tax reporting obligations creates substantial new compliance burdens for businesses operating in different Member States and increases the risk of fragmentation, hindering the operation of the single market. The current rules do also not allow for the mandatory use of e-invoicing.
2. VAT treatment of the platform economy
3. Single VAT registration in the EU. The 2021 introduced OSS (one-stop-shop) allows businesses to avoid multiple VAT registrations in the EU for cross-border transactions. However, specific types of cross-border transactions still fall outside of its remit. Improvements to the IOSS (import one-stop shop) are also needed to further strengthen VAT compliance in relation to imported goods.

Technology Industries of Finland (TIF) warmly welcomes the opportunity to comment the ViDA initiative.

1 Summary of TIF’s recommendations

TIF supports the ViDA package’s aims. Tax reporting and registration should be as easy and administrative cost efficient as possible, as these factors impact how well functioning the EU is as a single market and as a business environment for companies.

- **TIF strongly supports the development of VAT reporting by utilizing e-invoicing** and that in e-invoicing, a member country must always accept an e-invoice, if it fulfills the EU e-invoice standard, even if the country has its own different model in use. This makes it easier for companies and quickly aligns the system. **E-invoicing enables a more efficient transition towards digital reporting and Real-Time Economy on a wider scale.**

- The overall schedule given in the directive proposal is 2028. However, **TIF suggests the use of voluntary means to support and incentivize e-invoicing before the mandatory entry into force**, so that the transition is as easy as possible for companies.

- In order for the transition to electronic, transaction-specific VAT reporting to be successful in 2028, it is important that a binding agreement is reached on the legislation during 2023. Once the legislation is final and binding, there needs to be a transition period for changes to software and ERP system updates, business process alterations and testing for both business and tax authorities. Thus, TIF suggests that there will be a **minimum transition period of 12-18 months before the first steps come into force, calculated from the approval date of the ViDA directive**.

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- **The two-day timeline is in practice impossible to be met especially concerning purchase invoices.** This requirement will lead to a situation where companies would report purchase invoices to tax authorities before internal invoice review process has taken place and many corrective transactions would take place.

- **Sanctions for small delays in reporting should be kept to a minimum during a transition period** and tax audits focus only on whether the reporting infrastructure exists and functions correctly.

- It is unclear **whether the two-day timeline would be calculated from the same date both for the seller and buyer.** This should be clarified.

- **Summary invoicing should be accepted,** and the concept clarified.

- It is important that the proposal has sought to set clear definitions for using and storing data and **maintain data privacy**.

- **It should be possible to choose the OSS system in some Member States and VAT registration in other Member States, when necessary**. If this approach is not accepted, this will dilute the main idea of the reform.

- The OSS does not have the possibility to include input VAT deductions. **The long-term goal must be, that OSS would include the deductions process.**

- **The Single VAT Registration package is important and TIF highly supports it.** The single VAT registration is an effective mean to simplify VAT compliance and to reduce administrative burden. The **long-term goal should be that the OSS system would be eligible also for e.g. movements of retail inventory across EU countries for storage and onward sale of storage.**

2 The ViDA package improves the business environment in the EU

Tax reporting and registration should be as easy and administrative cost efficient as possible, as these factors impact how well functioning the EU is as a single market and as a business environment for companies. In recent years, the amount of duplicate tax reporting has been increasing heavily. Companies fulfilling their tax obligations have to spend a lot of time and money to meet the different reporting obligations in each country. Fulfilling tax obligations should be easy and simple so that companies can focus on their own business and governments can collect their tax revenue correctly and efficiently.

A majority of EU Member States have already introduced or are planning to introduce their own digital reporting requirements in an attempt to increase VAT collection and combating VAT fraud. Complying with the different requirements set by several EU members states means increasing investments for businesses operating in many EU countries. Member States should critically evaluate the benefits of implementing complex digital reporting requirements which differ significantly from each other and the costs landed to businesses trying to comply with these requirements.

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Although the VAT deficit in Finland is small, it is important to carry out the reforms together with the EU countries in a uniform manner. By making the changes as harmonized as possible, and without national deviations, companies have the opportunity to benefit from the changes more widely. Unnecessary national deviations should be avoided. According to Article 263 of the draft directive, member states are responsible for providing companies with the necessary electronic tools for reporting transaction-specific data. Compatibility with other countries must also be taken into account in the technical implementation, so that the software tools purchased by companies and the automation of reporting work together as seamlessly as possible in all member countries. The need for manual work in reporting should be minimized.

3 We support modernization of VAT reporting based on e-invoicing

TIF strongly supports the development of VAT reporting by utilizing e-invoicing and that in e-invoicing, a member country must always accept an e-invoice, if it fulfills the EU e-invoice standard, even if the country has its own different model in use. This makes it easier for companies and quickly aligns the system.

Nowadays, the member countries have had to request approval if they want to make e-invoicing mandatory. This has limited the use of e-invoicing. The obligation to accept an EU standard e-invoice will cause a huge leap in the use of e-invoicing. In Finland, e-invoicing has already spread widely. Up to 80-90% of the total volume of B2B invoices are e-invoices. This is due to the fact that the public sector has required e-invoicing and large companies have adopted it, also pushing smaller companies in their subcontracting chain to become e-invoicing users. However, mandatory legislation is necessary in order to obtain clear, uniform rules and a binding timetable for the transition throughout the EU. E-invoicing enables a more efficient transition towards digital reporting and Real-Time Economy on a wider scale.

Transition schedule

The overall schedule given in the directive proposal is 2028. Changes in legislation should be agreed upon well in advance and clearly defined. It is expensive for large system suppliers to make changes to their software. Concerning an EU-wide synchronized change to VAT reporting and e-invoicing, it is faster and cheaper to make all the necessary changes in the software at once. In order for the transition to electronic, transaction-based VAT reporting to be successful in 2028, it is important that a binding agreement is reached on the legislation during 2023. When the legislation is final and binding, time is needed to make software and system updates, as well as testing to minimize reporting errors for both business and tax authorities.

Some of the directive proposal rules are designed to come into force already from 1 January 2024. As ViDA directive needs to be unanimously agreed, there should be enough time for the companies and tax administrations to adapt to the changes after the approval date of the directive. Thus, TIF suggests that there will be a minimum transition period of 12-18 months before the first steps come into force, calculated from the approval date of the ViDA directive. ERP changes can easily take 12-18 months, more complex changes even longer. ERP adjustments need to be planned and prepared properly and adequate IT resources allocated to the work. The longer transition period allows companies to combine changes with other software and system updates, which can reduce overall costs.

TIF also suggests use of voluntary means to support and incentivize e-invoicing before the mandatory entry into force, so that the transition is as easy as possible for companies. For example,

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EU and national incentives for the digitization of companies (especially SMEs), instructions and advice, possible benefits (e.g. longer payment and reporting time, less data requests from tax authorities, better targeted audits and faster VAT refunds) if e-invoicing is used, technology neutrality and functional software tools for e-invoicing, the Tax Administration's working APIs (Application programming interface) and building an otherwise functional e-invoicing infrastructure together with companies.

No clearance model

TIF is absolutely against the so-called clearance model. Such model, e.g. the model used in Italy, where the invoice must be approved in advance by the tax authorities, would complicate and slow down digitization and cause major expenses. Clearance model might also have negative impact on seller's cashflow as clearance would prolong the invoicing procedure. It does not make sense that companies' own invoicing process would be vulnerable cause depending on the functionality and schedule of the tax authorities' systems. Our member companies have encountered significant problems with clearance models, e.g. automation of invoicing is practically impossible and otherwise expensive country-specific changes have had to be made to the systems.

Thus, TIF supports the article 218 of the draft directive, according to which the e-invoice reporting model must not contain a requirement for prior approval by the tax authority, i.e. the clearance model is not accepted.

4 The two-day timeline is too strict

The time set in Article 263 of the draft directive for reporting B2B transactions between EU countries (2 days from issuing the invoice or from when the invoice should have been issued) is too strict, especially in the early stages of this big transition. In addition, sanctions for small delays in reporting should be kept to a minimum during the transition period (e.g. a year). Tax audits should focus on whether the reporting infrastructure exists and whether it functions correctly.

The two-day timeline is in practice impossible to be met especially concerning purchase invoices. This requirement will lead to a situation where companies would report purchase invoices to tax authorities before internal invoice review process has taken place. Reporting without verification and review of the invoice would not be in line with AP processes applied. In all cases, many corrective transactions would take place. Even through businesses aim to process invoices without manual intervention, manual reviews cannot be fully abolished.

It is unclear whether the two-day timeline would be calculated from the same date both for the seller and buyer. "From issuing the invoice" likely refers to the date the seller handles the invoice. In our opinion, the buyer's timeline cannot be calculated based on this same date. For example, what will be the invoice issuance date for service purchases within a group? Or how will national bank holidays etc. effect the timeline calculation?

5 Summary invoicing should be accepted

It is unclear what the concept of summary invoicing is in the directive proposal and must be clarified. If we understand the concept correctly (summary invoicing from the same seller), removing the option to issue summary invoices will cause increased administrative work for

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businesses because of the increase in number of invoices. Thus, the possibility to use summary invoicing should not be removed.

Removal of summary invoicing would cause difficulties for example in intra-group invoicing, sale of services with a continuous contract (invoicing e.g. twice a month for the services done during that period). The use of summary invoicing varies between different business types and the quantity is significant for some companies. Thus, the removal of summary invoicing would affect some businesses more harshly and unfairly than others.

6 Companies must be supported during the transition period

The ViDA package contains significant reforms related to value added taxation. The long-term goal is to make life easier for companies and to make the EU's internal market a better functioning, attractive location for companies. However, the change will initially incur significant costs for companies and tax administrations. According to the directive proposal, savings from the new reporting model are estimated to be 51 billion euros in 2023-2032, but costs of 11 billion euros in the same time span. On the other hand, annual "set-up" and "compliance" costs of 1.6 billion euros are calculated from current differing reporting models. It is noteworthy that EUR 1.2 billion of this is considered to fall on SMEs. Thus, the alternative costs are also high, and not expected to decrease, but rather to increase, if each country launches and uses their own different reporting model.

TIF supports the use of EU and national incentives, so that the transition, especially for SMEs, would be as easy as possible, as described in section 3 above. Companies must be supported so that they are able to report the right information, in the right standardized format, easily and smoothly.

The flexibility granted to Member States to implement ViDA should be restricted to the absolute minimum in order to abstain from introducing further complexities and risks in terms of operability and communication between suppliers, customers, and tax authorities. Otherwise, businesses will meet again EU country-specific models and requirements (vs. Quick fixes) which means huge investments needed for ERP systems.

7 Single VAT registration is a significant, positive change

For our members, the "Single VAT Registration" package is important and highly supportable. Especially companies with warehouses in Europe would benefit from the expansion. Members of TIF have large warehouses in Central Europe, close to customers. Transporting large machines and equipment or, on the other hand, intermediate products or raw material in small batches from Finland causes large logistical costs. TIFs members are mainly export companies or export-dependent companies, so there is a huge amount of VAT registrations made to EU countries and the resulting administrative burden. TIF supports the directive proposal to support the transition towards a model where a company would always need to register as VAT liable in only one member state. However, the proposed model still requires registration in case of e.g. intra-Community supplies and exports which incurs costs and administrative burden for businesses.

OSS system - country-by-country choice needs to be accepted

Based on the directive proposal, we are under the impression that a choice between using the OSS or continuing with the current VAT registration system needs to be made either concerning the

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whole EU-area, or Member State by Member State. It should be possible to choose the OSS in some Member States and VAT registration in other Member States, when necessary.

In some Member States VAT refunds process is not functioning properly. We have knowledge of cases where the refunds have been delayed, and paid only after several years, despite the company being VAT registered in the given country. Businesses would have to, for practical reasons, choose not to apply OSS in the whole EU-area. If this country-by-country choice approach is not accepted, this will dilute the main idea of the reform.

8 Data privacy

It is important that the proposal has sought to set clear definitions for using and storing data. For example, considering the GDPR principle that confidential information should not be stored for an unnecessarily long time, it is supportable that transaction data would be stored in a centralized system for 5 years, after which the data would be permanently deleted. This still gives the Member States enough time to make the necessary analysis for tax control and audits. Hopefully this time limit will also speed up the tax processes and audits in the Member States. Parties entitled to access the data are limited in the directive proposal and data exchange takes place through a secured channel. This is important so that business secrets and data subject to data protection do not fall into the wrong hands.

TIF appreciates that in the preparation of the ViDA package, the Commission has cooperated with other Directorates-General of the Commission. Parties responsible for data protection have also been consulted (e.g. European Data Protection Supervisor).

9 Changes to tax reporting must promote Real-Time Economy

The digitization of taxation should not be done solely from the point of view of the authorities, but in close cooperation with companies. The transition to real-time reporting is supportable, if the transition also benefits companies. Especially when the change causes big expences for companies in the initial phase, it is reasonable that real-time, transaction-specific, structured data can also be utilized by businesses. For example, separate reporting systems only for the use of the authorities should be avoided. It should be made sure that the company's own financial management systems operate smoothly with the official reporting systems. Digitization should promote the Real-Time Economy. RTE (Real-Time Economy) means that financial transactions and processes are digital and based on structured data. Tax administrations must think of technical solutions in cooperation with companies in order to speed up the transition towards the Real-Time Economy. RTE is based on e.g. data obtained from electronic receipts and invoices (e-receipt and e-invoice).

Potential benefits of RTE:

- Significant savings for the companies and the public sector in administrative work and costs based on structured and standardized information. e.g. automated real-time accounting, VAT and other tax reporting and financial statements.
- Based on up-to-date financial data, more justified decision-making, inventory management, warranty information management.
- On the other hand, for example, accounting firms' services to companies can become more versatile when routine tasks are reduced (such as transferring invoice and receipt data from paper to digital format).

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• Lower risks of errors in invoicing, taxation and tax reporting.
• Cost savings in the lending process, lending based on up-to-date information, more effective monitoring of financing and credit information.
• New business models based on the utilization of structured, anonymized financial data.
• As administrative costs decrease, companies can focus on their own business and invest in more productive work and investments.
• The tax audit can be targeted at risky companies. The reduction of the shadow economy benefits the public sector and society as a whole.
• Real-time data enables a better understanding of the economy and improves forecasting of the economic outlook.
• RTE would also have a positive impact on the environment. Stopping the use of paper would have an effect on reducing CO2 emissions, considering the large number of paper receipts and invoices in the EU.

10 Further long-term reforms for VAT

The ViDA package is a significant positive step forward in making VAT reporting and registration easier and support transition towards Real-Time Economy. After there is a swift, unanimous agreement on the ViDA package, TIF encourages the next EU Commission to continue the work even further.

VAT refunds to be improved

As per current proposal, the OSS system does not include a VAT deduction feature. VAT refunds for cross-border purchases must be applied through the VAT refund procedure. The return procedure is slow and unnecessarily heavy model. TIF suggests that solutions will be proposed by the next Commission to solve this in the future. Also, a possible starting point could be to link the OSS and the VAT refund portal to allow a more automated processing of VAT credits.

Reporting corrections

VAT reporting is not just about reporting the VAT information once, but the model must also work if there are changes to the declarations. Need to edit information can arise for many reasons, changes in sales and purchases, discounts, warranties. Every business sometimes face unintentional errors, even when trying to be fully compliant. Many Member States require additional or corrective VAT returns to be filed for each error. TIF encourages the EU Commission to harmonize the correction mechanism for mandatory cross-border digital reporting, for example by including corrections of past periods to new tax reports.

Single VAT registration also for EU onward sales and movement of storage

The single VAT registration is an effective mean to simplify VAT compliance and to reduce administrative burden. The OSS has already proven to be a significant step towards a better functioning EU for the companies to do cross-border business. The OSS has a lot more potential, and the long-term goal should be that the OSS system would be eligible also for e.g. movements of retail inventory across EU countries for storage and onward sale of storage.

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Technology Industries of Finland (TIF) represents Finnish technology industries and has over 1,800 member companies, sizes varying from small SMEs and start-ups to world leading MNEs. The technology industry is comprised of five sub-sectors: electronics and the electrotechnical industry, mechanical engineering, metals industry, consulting engineering and information technology. Technology industry is the most important export industry in Finland, with operations constituting over 50 % of all Finnish exports and responsible for 65 % of all private investments in R&D carried out in Finland. Over 350,000 Finns work in technology companies, while a total of around 700,000 people work in the technology sector directly or indirectly (of a total population of 5,500,000).[1]

[1] For further information of TIF's member companies, please see https://teknologiateollisuus.fi/en