DANISH BUSINESS AUTHORITY

Response to the European Commission's consultation document VAT in the Digital Age

The proposal for a revision of the VAT Directive should address the following:

- Member States no longer having to ask for an explicit derogation for introducing mandatory e-invoicing for B2B transactions
- Define common minimum standards and requirements for digital reporting and e-invoicing across EU member states to avoid fragmentation, e.g., Peppol BIS (European Standard) for e-invoicing

The digital transition to a databased economy with the use of digital technologies and automated services is developing rapidly and is an important driving force for future growth and innovation. As one of the most digitized countries in the world, Danish businesses hold a strong position for adapting to the digital transition. However, many Danish businesses spend a lot of time on administration due to manual bookkeeping and reporting to the authorities. It costs Danish businesses (approx. 418.000 businesses) approximately 49 billion DKK (approx. 6,6 billion EUR) annually in manual processes on bookkeeping and complying with national reporting requirements. In addition, many businesses have difficulties complying with the rules, as errors are found in 48 percent of the VAT returns and 62 percent of the reported annual accounts.

The adoption of e-invoicing represents huge potentials for both businesses and public authorities. From a business perspective it can simplify the bookkeeping process, minimize burdens and lead to higher accuracy and timely reporting. From a public sector perspective e-invoicing and digital bookkeeping can create a basis for more efficient targeted audits and control of businesses' reporting.

VAT is one of the most important sources of tax revenue for governments, and lost tax revenues approach approximately around 164 billion EUR across the EU in 2020. A move towards e-invoicing and digital VAT reporting has become highly introduced as a means of reducing the lost VAT revenues and are currently being adopted across the EU member states. Several EU countries are digitizing their VAT reporting systems and promoting e-invoicing to increase VAT compliance and boost their VAT revenues.

Several EU countries are looking towards implementing mandatory e-invoicing for business to business (B2B) transactions. This has been encouraged by the successful implementation of mandatory e-invoicing in B2G transactions across the EU, improved and more efficient business administration as well as evidence of significant decreases in VAT gaps. Italy was the first EU Member State to introduce mandatory electronic invoicing B2B, by adapting an 'invoice clearance' model effective from 2019. Mandatory use of B2B e-invoicing has been crucial in reducing the VAT

DANISH BUSINESS AUTHORITY
Dahlerups Pakhus
Langelinie Allé 17
DK-2100 København Ø
Denmark

Tel +45 35 29 10 00
Fax +45 35 29 10 01
VAT no. 10 15 08 17
erst@erst.dk
www.erst.dk

MINISTRY OF INDUSTRY, BUSINESS AND FINANCIAL AFFAIRS

and tax gap and fighting economic crime. Italy could already in 2021 show that they had managed to reduce their VAT gap by 2 billion euro.

The Danish government made it mandatory to apply e-invoicing in B2G commerce already in 2011. For both businesses and public authorities this has led to significant cost savings on administration and more reliable data. With the adoption of a new bookkeeping law, the Danish government has taken serious steps to promote e-invoicing B2B ‘by default’, paving the way for automated bookkeeping and VAT reporting. However, the full potential can only be realised through widespread use of e-invoicing B2B, which has proved difficult for the private sector to ensure alone..

As the current e-invoicing Directive only authorises mandatory e-invoicing B2G, Italy and other countries have obtained an agreement from the EU Council for a derogation from the Directive to make the B2B e-invoicing mandatory. However, the compliance process has been time consuming and required a lot of administration for the Commission and the member states.

We therefore welcome the revision of the VAT Directive, which will contribute to removing obstacles and creating a common legal foundation for the promotion of mandatory adoption of B2B e-invoicing across the EU member states.

Finally, it becomes evident that many companies operating across the EU have difficulties in grasping the rapid changes in e-invoicing requirements, which may differ from country to country. Accordingly, the VAT directive must ensure interoperability by defining common minimum standards to reduce unnecessary burdens for businesses operating across borders in EU.

The standards should build on PEPPOL (Pan European Public Procurement Online) widely supported across 18 countries in Europe as the method of delivery of e-invoices to the public sector.