COMMISSION PROPOSAL VAT IN THE DIGITAL AGE
- COMMENTS OF INDEPENDENT RETAIL EUROPE -

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EXECUTIVE SUMMARY

Independent Retail Europe welcomes the opportunity to submit comments on the Commission's proposal "VAT in the Digital Age". The package proposed will have wide implications on the invoicing systems (and related data infrastructure) of groups of independent retailers and SME retailers. We would therefore like to bring comments on the following aspects of the proposals:

- We support the extension of the one-stop-shop and of the deemed supplier rule (in cross-border B2B contexts) and the proposal for a single VAT registration system. Clarification of the conditions of application of the reverse charge should be provided.
- The generalisation of e-invoicing must make possible the continued use of existing EDI standards (e.g. EANCOM® and SAP IDoc). Their mandatory replacement by a new single EU standard would hit hard the retail ecosystem.
- The two-day deadline for e-invoicing is unrealistic for SMEs and should be replaced by a 30-day deadline.
- The end of summary invoices create major issues for (cooperative) groups of independent retailers and SME retailers.
- Digital reporting on a transaction per transaction basis would impose disproportionate burdens on SMEs
- You will find below greater details on these aspects and their importance for groups of independent retailers and SME retailers.

COMMENTS OF INDEPENDENT RETAIL EUROPE ON THE PROPOSAL VAT IN THE DIGITAL AGE

1. Extension of the one-stop-shop and single VAT registration

We welcome the extension of the VAT One Stop Shop, which will allow businesses selling to consumers in another Member State to register only once for VAT purposes for the entire EU, and to fulfil their VAT obligations via a single online portal. This will considerably decrease administrative burdens for retailers operating cross-border. We also welcome the expansion of the deemed supplier rule in the platform economy, as this will curb tax evasion and create a level-playing field.

Moreover, the general extension (through a modified article 194) of the reverse charge mechanism in B2B cases to all transactions where the supplier is not established (for VAT purposes) in the Member State in which VAT is due, is also welcome. This will reduce tax risks and disadvantages in such situation.

Lastly, in relation to the extension of the reverse charge mechanism, we suggest to define in more details the conditions of application of the deemed supplier rule, in order to avoid situations where the 'Missing Trader fraud" can happen at national level.

Our position:

➔ **We support the proposed expansion of the VAT one-stop-shop and deemed supplier rules**

- ➔ **We support the proposed modification of article 194, which extend the reverse charge mechanism to all cross-border B2B transactions**
- ➔ **We ask to specify/clarify the conditions of application of the (extended) deemed supplier rule, especially to avoid situations of 'Missing Trader Fraud' organised at national level.**

2. The generalisation of e-invoicing requires the continuation of the use of existing EDI (Electronic Data Interchange) standards and should be feasible for small enterprises

a) Replacement of existing EDI standards by a new EU standard would create immense difficulties and hit hard the retail ecosystem

We support the abolition of paper invoices and the proposal to generalise e-invoicing (new article 218). In this regards, the deletion of article 232 (requiring the other party its consent to dematerialise the invoice) appears indeed necessary.

However, it is of critical importance for retailers (and their eco-system) to ensure that the current EDI standards established and used for e-invoicing (e.g. such as EANCOM® and SAP IDoc) can continue to be legally used, and are not replaced by a new EU standard.

Indeed, the mandatory use of a new (EU) standard for e-invoicing would require a very deep redesign of existing ERP (Enterprise resource Planning) Systems. This would not be manageable for retailers (neither time-wise nor financially), as the standards currently used also contain data required for merchandise management. The mandatory implementation of a new EU standard in this field would therefore require the creation of and agreements on new standardised data sets related to merchandise management. Existing EDI standards in this field are the result of several years of coordination between the respective market participants on different levels of the value chain. The establishment of new standards therefore could be only maintained by new sectorial agreements with a respective long lead time; we doubt that it would be achievable within a reasonable time frame and would lead to major costs for every single market participants in the retail ecosystem.

Lastly, existing ERP-Systems are also used to exchange sector specific data beyond the mere accounting/invoicing dimension. A new single standard for e-invoicing might therefore threaten established information exchange architectures, their respective sectorial data pools and the resulting added value. This would severely impact competitiveness in the retail ecosystem.

We therefore urge the Commission to ensure that existing EDI standards can continue to be used in the context of a generalisation of e-invoices.

Our position:

- ➔ **A new mandatory EDI standard for e-invoicing would have immense negative consequences for all market participants in the retail eco-system.**
- ➔ **Ensure that companies can continue to use existing EDI standards (e.g. EANCOM® and SAP IDoc) once the Commission proposal is adopted.**

b) Generalisation of e-invoicing may be challenging for small companies

Although we globally support the generalisation of e-invoicing, we would like to stress that many small companies will lack the sufficient IT infrastructure to implement the technology needed for e-invoicing. Their situation should be considered to allow for a smooth transition.

Our position:

➔ **Consider the specific challenges faced by small companies without the IT infrastructure to generalise e-invoicing. Specific rules and transitions may be needed.**

3. A two-day deadline for e-invoices is unrealistic for SMEs

The proposed replacement of the existing 45-days deadline for the issuance of invoices on intra-community supplies of goods and services by a 2 working days deadline will create major issues for SME retailers (and even larger companies), while not being necessary to combat tax fraud.

A two-day deadline will be extremely demanding for accounting units, especially in small enterprises. Many such small companies still use manual processes for recording deliveries and subsequent invoicing. In this (manual) context, a 2-day deadline will simply not be workable on the ground.

In addition, we foresee the following difficulties:

- The two-day deadline will lead to an increase in the number of invoices, as businesses will want to ensure they issue invoices within the deadline by all means, meaning that many will start invoicing for fractions of large orders. This will put accounting units under high pressure.
- Technical problems will arise, as the issuance of invoices often depends on the date of delivery of certain goods. Friction in the shipment processes will make it very difficult to estimate correctly the delivery date of certain goods (part of an order), and may compromise the ability to plan and execute the invoicing within the two-day deadline. This is especially true when it comes to cross-border orders/deliveries.
- Such a short deadline will not allow businesses to clear and correct false orders, transaction failures or inaccuracies in the delivery before issuing the invoice.

The current 45-day deadline gave businesses the flexibility to address the issues mentioned above. Although we understand the need to reduce it, two-days seems completely unrealistic in practice. We would therefore encourage the Commission to propose a 4-week deadline, which seems more realistic in light of the above aspects.

Our position:

➔ **We strongly oppose the proposed two-days deadline for issuing invoices, as it is unrealistic in SMEs and will lead to many technical problems (especially in cross-border orders/deliveries), while preventing to correct order/deliveries mistakes before invoicing.**

➔ **We instead recommend to introduce a 4-week deadline (instead of the current 45 days).**

4. End of summary invoices create major issues for (cooperative) groups of SME retailers

The proposed deletion of article 223 would end the possibility to issue summary invoices. Such a change would be extremely detrimental to SMEs and to cooperative groups of independent (SME) retailers.

Concerning the detrimental effects on SMEs, **the end of the summary invoices would inevitably lead to a huge increase in accounting costs**. Indeed, the end of the possibility to send summary invoices will lead to a sharp increase in the number of invoices sent (as each transaction will require one invoice). Since accounting service providers usually bill their clients based on the number of invoices issued, this will result in a massive increase in accounting costs for businesses, and in particular SMEs. Similarly, cash and carry wholesalers, from which the majority of retail SMEs buy typically issue summary invoices. This would therefore negatively impact many SMEs.

Moreover, **the end of summary invoices would particularly hit (cooperative) groups of independent retailers, where summary invoices are very commonly used between the central service organisation of the group (cooperative) and the (SME) group's members**. In such cooperative settings, the use of summary invoices is the most efficient option to invoice groups' members. The end of this possibility would entail financial costs and affect their competitiveness vis-à-vis their competitors.

We would like to stress that this cooperative model of groups of (SME) independent retailers is essential to persevere the competitiveness of SME retailers vis-à-vis large integrated (international) retail chains. It is a model that is widely used in the retail sector and represents a significant share of retail in many European countries (e.g. more than 30% of commerce in France, while groups of independent retailers are very common in the food retail market in many European countries such as Germany, France, Italy, Sweden or Finland for instance, and are indispensable to the survival of independent SME retail in both the food and non-food sectors in the European retail market).

Our position:

- ➔ **The end of summary invoices would massively raise accounting costs for SMEs, due to the sharp increase in the number of invoices;**
- ➔ **The end of summary invoices would penalise (cooperative) groups of independent retailers which routinely use summary invoices for the relation between the central service organisation of the group and the independent retailers' member of the group. This cooperative business model is widespread in the retail sector in Europe.**

5. Digital reporting on a transaction per transaction basis will disproportionately burden SMEs

The Commission proposal intends to replace 'recapitulative statements' by a system of digital reporting requirements on a transaction-by-transaction basis. Although the replacement of the recapitulative statements by a digital reporting system is positive and would increase efficiency, we have serious concerns about the obligation to report on a transaction-by-transaction basis.

Indeed, **it is unlikely that the existing digital infrastructure of companies (especially SMEs) would be capable to move to such a 'transaction-by-transaction' system**. In this sense, the transaction-by-transaction aspect of the digital reporting share the same flaws as the proposed two-day deadline for invoicing and end of the summary invoices, as it severely over-estimates SMEs digital infrastructure and ability to adapt without massive investments (that many cannot afford).

We also do not see any reason why such transaction-by-transaction basis would actually benefit tax authorities in a way that would outweigh the strong negative externalities encountered by SMEs.

Therefore, any harmonised digital reporting system should allow to report at ‘total invoice level’.

Our position:

- ➔ **Implementing a digital reporting system on a ‘transaction-by-transaction’ seriously overestimate capacities of SME’s digital infrastructure and would disproportionately burden them.**
- ➔ **Any digital reporting system for intra-community transactions should allow to report on an overall basis the invoices in a given period (and not on a ‘transaction-by-transaction’ basis).**

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Established in 1963, ***Independent Retail Europe*** *(formerly UGAL – the Union of groups of independent retailers of Europe) is the European association that acts as an umbrella organisation for groups of independent retailers in the food and non-food sectors.*

Independent Retail Europe represents retail groups characterised by the provision of a support network to independent SME retail entrepreneurs; joint purchasing of goods and services to attain efficiencies and economies of scale, as well as respect for the independent character of the individual retailer.
Our members are groups of independent retailers, associations representing them as well as wider service organizations built to support independent retailers.

Independent Retail Europe represents 23 groups and their over 417.800 independent retailers, who manage more than 753.500 sales outlets, with a combined retail turnover of more than 1.320 billion euros and generating a combined wholesale turnover of 513 billion euros. This represents a total employment of more than 6.500.000 persons.

Find more information on our website, on Twitter, and on LinkedIn.