

20 July 2020

# Global Tax Alert

## European Commission publishes action plan for fair and simple taxation: A detailed review

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### Executive summary

On 15 July 2020, the European Commission (the Commission) published an action plan for fair and simple taxation (the [action plan](#)) which sets out 25 initiatives that the Commission will implement between now and 2024 to make taxation fairer, simpler and more adapted to modern technologies. The action plan seeks to simplify life for "honest" taxpayers and will also help Member States to harness the potential of data and new technologies, to better fight tax fraud, improve compliance and reduce administrative burdens.

The action plan is part of a tax package for fair and simple taxation supporting the recovery of the European Union (EU), which also includes a legislative proposal for revision of the Directive on administrative cooperation (DAC7), and a Commission Communication on Tax Good Governance in the EU and beyond.<sup>1</sup>

### Detailed discussion

The EU has adopted several legislative initiatives in recent years to tackle tax abuse and boost transparency which have equipped tax authorities with a broader set of tools to detect and address abusive behavior and cooperate with other tax authorities. The EU has also sought to simplify taxation and has implemented initiatives to help Member States using taxation as a tool

for sustainable economic growth. Despite the above, the Commission identifies tax avoidance and evasion as a threat to sound public finances. Tax compliance costs also remain high in the EU.

In light of this, the Commission published on 15 July 2020 an action plan for fair and simple taxation which is designed to ensure that taxation policy supports a swift economic recovery and sufficient public revenue for long-term growth in the EU. The action plan comprises 25 actions that the Commission will propose and implement by 2024 and that aim to:

- ▶ Reduce tax obstacles and administrative burdens for businesses in the EU
- ▶ Help Member States enforce existing tax rules and improve tax compliance
- ▶ Help tax authorities better exploit existing data and share new data more efficiently
- ▶ Promote taxpayers' rights, by increasing their awareness of their rights under EU law, simplifying their obligations and facilitating their compliance

The 25 distinct actions are included in the [annex](#) of the action plan and fall within six broad categories. In the annex of this publication, there is an overview the specific timeline of all actions.

### **Effective and efficient tax registration (two actions)**

1. The Commission will propose to amend the value-added tax (VAT) Directive with the objective of moving towards a single EU VAT registration, with which they would be able to provide services and/or sell goods anywhere in the EU.
2. The Commission will conduct a pilot project to assess which digital solution(s) can be used and how in order to ensure better exploitation of data, create new digital services for taxpayers and to better support the work of tax administrations at the EU level.

### **Efficient tax reporting (three actions)**

3. The Commission will prepare, with Member States, an EU cooperative compliance framework to facilitate and promote tax compliance for businesses based on greater cooperation, trust and transparency among tax administrations. The initiative should help resolve any cross-border tax issues between authorities in the area of corporate income tax.

4. The Commission will present a legislative proposal for modernizing VAT reporting obligations and facilitating e-invoicing.
5. The Commission will propose an update of the VAT rules to extend the scope of the VAT One Stop Shop (OSS) to distance sales of goods and services other than telecommunications, broadcasting and electronic services (for which the VAT OSS has been in place since 2015).

### **Payment of taxes due (three actions)**

6. The Commission will present recommendations for improving the assistance for the recovery of unpaid taxes. It may also consider improving different aspects of the functioning of the tax recovery assistance system (under EU Directive 2010/243).
7. The Commission will prepare legislation to clarify the determination of tax residence for EU taxpayers who are active cross-border, ensuring that Member States use the same criteria to determine tax residence status, and thereby lowering the risks of double (non)-taxation.
8. The Commission will propose a legislative initiative for introducing a common, standardized, EU-wide system for withholding tax relief at source, accompanied by an exchange of information and cooperation mechanism among tax administrations.

### **Verification, monitoring and administrative cooperation (6 actions in total)**

9. The Commission will take actions to further develop the antifraud experts' network of the Member States (Eurofisc, i.e., a mechanism provided for Member States to enhance their administrative cooperation in combating organized VAT fraud and especially carousel fraud).
10. The Commission will update the directive on administrative cooperation to expand its scope to an evolving economy such as crypto-assets and e-money.
11. The Commission has called for proposals for the launch of an EU Tax Observatory that will monitor and quantify trends at the EU level and contribute to evidence-based policy making.
12. The Commission will explore how to reinforce the verifications of cross-border transactions and switch from the manual exchange to the automated sharing of data through electronic systems.

13. The Commission will look at possible ways of boosting cross-border investigations and, if necessary, will make a proposal to amend Council Regulation (EU) No 904/2010.
14. The Commission will propose starting the process to negotiate administrative cooperation agreements regarding VAT with relevant third countries, starting with some of the main trade partners of the EU.

### **Dispute prevention and resolution (2 actions)**

15. The Commission will follow up with the implementation and monitoring of the effectiveness of the dispute resolution mechanism directive regarding disputes arising from the interpretation or application of agreements and conventions that provide for the elimination of double taxation concluded between Member States. It will also work on the implementation of the Standing Committee, i.e., a permanent body for dispute resolution.
16. The Commission will make a legislative proposal on a prevention and dispute resolution mechanism for VAT.

### **Simplify EU tax rules for more competitiveness in the Single Market (9 actions)**

17. The Commission will publish a Communication taking stock of taxpayers' existing rights under EU law together with a Recommendation to Member States to facilitate the implementation of taxpayers' rights and to simplify tax obligations.
18. The Commission will present a legislative proposal for amending the outdated existing VAT rules on financial services, which will take into account the rise of the digital economy and the increase in the outsourcing of input services by financial and insurance operators.
19. The Commission will propose a change to the VAT Directive in order to turn the VAT Committee (which is currently an advisory committee made up of representatives of the Member States and of the Commission without any competences in the procedure of adoption of the implementing measures) into a "comitology committee" that would, acting by qualified majority, oversee the adoption of implementing acts by the Commission.

20. The Commission will organize a conference on Data Analytics and Digital Solution which will provide a platform for all stakeholders to voice their needs and expectations as regards the use of data analytics and other digital solutions in the area of taxation.
21. The Commission will establish an expert group on transfer pricing to elaborate pragmatic, non-legislative solutions to practical problems posed by transfer pricing practices relevant for the EU.
22. The Commission will propose amending the VAT Directive in order to simplify the special scheme for travel agents and to ensure a level playing field within the EU taking into consideration the competitiveness of the EU travel industry.
23. The Commission will present a legislative proposal to adapt the VAT framework to the platform economy in order to provide clarity and legal certainty for the actors involved. It will also examine the role of platforms in securing the collection of the tax.
24. The Commission will present a legislative proposal for reviewing the exemptions related to the passenger transport sector included in the VAT directive in order to ensure their coherence with the goals of the European Green Deal.
25. The Commission will look at ways to simplify the existing rules for e-commerce of excise goods with the aim to minimize fraud and distortion of competition between economic operators based online and those with physical shops.

## **Implications**

The tax package presents a range of initiatives that build on key tax policy trends in the EU, including transparency, tax certainty, tax good governance, reassessment of tax principles, minimum taxation, digitalization and sustainable economic recovery. With the 25 more or less concrete proposals and initiatives of the action plan, the Commission has put forward an ambitious agenda that seeks to accomplish a fair and simple taxation framework by executing the plan by 2024. As adoption of direct tax measures in the EU still requires a unanimous decision of the 27 Member States, it will have to be seen which of the Commission's proposals will finally be adopted and in what form.

With respect to the other elements of the tax package, negotiations among the Member States have already started. For the 25 initiatives put forward in the action plan, the Commission invites the European Parliament, the Council as well as other stakeholders such as businesses to actively engage in a constructive and inclusive fashion, so that this action plan will translate into concrete initiatives.

In light of the ambitions of the Commission and the ongoing attention for tax policy among the Member States' leaders, the next four years will likely have a considerable impact on taxation in the EU. Taxpayers are therefore recommended to closely monitor the developments and assess the impact of the planned tax initiatives on their business and tax framework. Interested businesses should consider taking the opportunity to engage with EU policy makers on the design of the new measures included in the action plan.

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## Endnote

1. See EY Global Tax Alert, [European Commission adopts package for fair and simple taxation](#), dated 16 July 2020.

## Annex: Overview of tax initiatives planned for 2020-2023

#	Action	Means	Timing
A6	Good practice recommendations for improving tax recovery in the EU	Report from the Commission to the Parliament and the Council.	2020, Q4
A19	Transforming the VAT Committee into a comitology committee	Legislative initiative to amend the VAT Directive.	2020, Q4
A22a	Evaluation of the VAT special scheme for travel agents	Non-legislative initiative: Commission staff working document - evaluation.	2020, Q4
A11	Launch of Tax observatory	Non-legislative initiative, implementation of a European Parliament preparatory action.	2020, Q4
A3	Cooperative Compliance framework for a preventive dialogue between tax administrations and businesses for the common resolution of cross-border tax issues	Non-legislative initiative: pilot project.	2021, Q1 - Q2
A21	Establishment of expert group on transfer pricing	Expert group to elaborate pragmatic, non-legislative solutions to practical problems posed by transfer pricing practices in the EU.	2021, Q1
A20	Conference on data analytics and digital solutions	Non-legislative initiative: communication event.	2021, Q2
A17	Charter on taxpayer's rights - Communication taking stock of taxpayers' existing rights under EU law together with a Recommendation to Member States to facilitate the implementation of taxpayers' rights and to simplify tax obligations	Communication from the Commission to the Parliament and the Council & Commission recommendation addressed to the Member States.	2021, Q3
A10	Extension of automatic exchange of information to crypto- assets/e-money	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive amending the Council Directive on administrative cooperation in the field of direct taxation.	2021, Q3
A18	Update and simplify VAT rules for financial services, to ensure a level playing field within the Union and the international competitiveness of EU companies	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive amending the Council VAT Directive.	2021, Q4
A15	Implementation of Standing Committee for dispute resolution	Implementation of a permanent body for dispute resolution, a so-called Standing Committee, for which the legal basis is already provided for in the Directive 2017/1852.	2021, Q3
A8	Digital solutions to levy taxes at source to facilitate tax payment/collection	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive introducing a system of withholding tax relief at source.	2022

#	Action	Means	Timing
A7	Consistency of tax residence rules for individuals to avoid double (non)-taxation	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive to harmonize tax residence criteria.	2022
A2	Better quality and use of tax data	Non-legislative initiative: pilot project to be followed by a Commission staff working document presenting the key findings and recommendations.	2022
A22b	Update VAT special scheme for travel agents to ensure the international competitiveness of EU travel industry	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive amending the VAT Directive.	2022
A24	Review VAT rules on passenger transport to ensure their coherence with the taxation policy developed under the Green Deal	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive amending the VAT Directive.	2022
A16	VAT dispute prevention and resolution to provide mechanisms to prevent/solve disputes concerning the implementation of the VAT directive	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive introducing a dispute resolution mechanism in the field of VAT.	2022
A1; A4 A5 A23	Package VAT in the digital age: update VAT rules for the sharing economy, move to a single EU VAT registration, modernize VAT reporting obligations and facilitate e-invoicing	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal for a Council directive amending the VAT Directive and/or a Council directive amending the Council Regulation on VAT administrative cooperation.	2022
A25	E-Commerce package for excise goods: facilitating distance selling of excise goods while minimizing fraud and distortions of competition	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal amending the Council Directive on General Arrangement for Excise Duty.	2022
A9	Eurofisc 2.0	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal amending Council Regulation (EU) No 904/2010.	2023
A12 A13	Reinforcement of verifications of cross-border transactions by switching from exchanging to sharing of tax-related data. Making the verification process of cross-border transactions faster and more effective by leveraging new technological tools, advanced analytics and flexible data sharing at EU.	Impact assessment possibly leading to a legislative initiative in the form of a Commission proposal amending Council Regulation (EU) No 904/2010.	2023
A14	VAT administrative cooperation between the EU and relevant third countries	Conclusion of agreements between the EU and relevant third countries on administrative cooperation in the field of VAT.	2023

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EYG no. 004935-20Gbl

1508-1600216 NY  
ED None

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