Revenue
Cáin agus Custaim na hÉireann
Irish Tax and Customs

Modernising Ireland's Administration of Value-Added Tax:

Public Consultation on Real-time Digital Reporting and Electronic Invoicing

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1. Overview: Why undertake this Consultation process?

Budget Day Announcement

Ireland's system for administering Value-Added Tax (VAT) needs modernising; digital technology offers the possibility of redesigning how we administer the tax to align compliance obligations more closely with normal business processes, so as to reduce compliance costs and yield efficiencies for tax-compliant businesses, while enabling Revenue to focus more effectively on combatting fraud. As announced by the Minister for Finance, Mr Michael McGrath, TD, in his Budget speech on 10 October 2023, Revenue is now embarking on a process to seek the input of taxpayers, agents, software providers, business associations, representative bodies and other stakeholders on modernising VAT administration for the future.

Initial Consultation

This consultation paper is the first engagement in that process. Revenue wants to stimulate discussion and garner views from across the full breadth of Ireland's VAT community about the benefits, challenges and opportunities presented by VAT administration modernisation. In every stage of this change cycle – planning, development, implementation and review – the real-life business experience of VAT-affected stakeholders will be a vital input, so Revenue intends that this present, early-stage consultation is just the first in a series of engagements on a VAT Modernisation programme over the coming years. Further consultations and other public engagement will follow, as reform proposals take clearer shape, are tested, refined and put into operation.

Real-time Reporting and EInvoicing for B2B and B2G Trade

This opening paper looks particularly at the potential for moving Ireland's business-to-business (B2B) and business-to-government (B2G) transactions into the realm of real-time, digital VAT reporting, supported by electronic invoicing. Recent years have seen many developed economies undertake reforms in this direction, providing plenty of international experience from which Ireland can learn. At EU level, discussions are currently underway on the European Commission's *VAT in the Digital Age (ViDA[1])* proposals which plan to introduce similar developments in respect of cross-border transactions between Member States.

The paper discusses these concepts. It looks at how the adoption of a new domestic Digital Reporting Requirement (DRR) could benefit the business community and improve Revenue's effectiveness but comes too with implementation challenges that need to be understood and addressed. It outlines eInvoicing, its current position in the VAT system, and how it can support the introduction of real-time reporting. It considers the current EU proposals, particularly focussed on facilitating cross-border trade, which will impact on Ireland's approach here.

Future Consultation

This consultation phase concentrates on B2B and B2G reporting. It does not consider B2C transactions. Nor does it look at other matters, such as the approach to VAT payment/repayments and accounting for VAT. These matters will be among the topics covered in further consultations in the future.

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[1] The EU Commission published its ViDA proposal, which includes a draft Directive and two draft Regulations, on 8 December 2022. An outline of the proposal and links to the draft legislation are available at https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en

Your Invitation to Comment

This initial public consultation marks Revenue's beginning of a VAT Modernisation journey towards real-time reporting supported by eInvoicing. This consultation invites a wide audience to provide its considered observations and comments.

Revenue is committed to an open and transparent design process and we want to hear your views, suggestions and possible concerns, as we plan the reform of Ireland's VAT reporting and invoicing approaches. Please take this opportunity to give us your response to the consultation questions; the link to the questions is included in Section 7 of this paper or alternatively you can directly access the link on Revenue's website.

2. Context: Is our VAT Reporting System outdated?

Background to Current Reporting

VAT was introduced in Ireland on 1 November 1972 as part of Ireland's entry to the then European Economic Community, replacing the existing Wholesale Tax and Turnover Tax. VAT administration was innovative for its time, being one of the first taxes to use self-assessment. While we have made various changes to the VAT system over the intervening 50 years, businesses still largely report their VAT in the same way – filing a periodic (usually two-monthly) summary return of VAT on their aggregate sales and purchases, supplemented by certain additional information, such as returns of data on intra-Community transactions.

Businesses who are registered for VAT in Ireland supply goods and services, whether by traditional means or online, to a range of customers: other VAT-registered businesses (known as business-to-business, or B2B), Government and Public Bodies (business-to-government, or B2G), and private consumers and others who are not VAT-registered (business-to-consumer, B2C). Customers can be in Ireland, in another EU Member State, or in a third-country.

Depending on the profile of a business, especially the scale of its turnover, various mandatory VAT reporting obligations apply. To comply with our current VAT reporting system, a business needs to generate and submit a handful of aggregate figures at fixed intervals a few times every year. This is the basis on which the tax system expects a business to describe its entire involvement in VAT-relevant transactions over the preceding months, and through which the business formally identifies the balancing amount of VAT that it owes or is owed. In essence, the VAT reporting process of today still reflects the then-available technology of previous decades. The present process has served its purpose well, but is a better approach now possible for the future?

A Changed Technological Environment

In today's business world, the use of up-to-date technology is now ubiquitous. Consider the electronic systems on which many businesses rely for their commercial transactions and enterprise management; systems used by traders large and small to facilitate, track and record their accounts, sales, purchases, stock-control, customer reservations, staff rostering, etc. The business-led uptake of software to enable and record business transactions has grown even stronger since the onset of the pandemic. The instance of businesses, mainly micro-enterprises, who still record their transactions manually in a journal or on a basic spreadsheet is continually falling.

For the majority of VAT-registered businesses, over time, an obvious and growing disjoint has emerged between the real-time, high-quality data capacity of these digital support technologies that businesses commonly use and the relatively rudimentary nature of the post-hoc VAT reporting that they are required to undertake.

Developed economies, with VAT-type taxes, who have taken various initiatives to modernise and strengthen their approaches to domestic VAT reporting across B2B and B2C trade is increasing each year.[2] A drive for such modernisation lies at the core of the EU Commission's current proposals to streamline and improve the VAT compliance landscape for cross-border B2B trade within the Union, and to harmonise the disparate arrangements for VAT reporting of domestic transactions in Member States – see Section 5 below.

In summary, business management systems and our approach to VAT reporting have fallen out of step with one another. A digital transformation of VAT reporting could provide the realignment that benefits both taxpayers and the tax system, by creating an approach to VAT administration that reflects the reality of the modern commercial environment.

3. Why modernise VAT administration?

Supporting Compliance

Tax administration in Ireland has been undergoing continuous modernisation and innovation for several decades. A guiding tenet of our tax modernisation to date has been that the easier it is for taxpayers to comply, then the greater the capability of Revenue to administer the tax system effectively and efficiently and support the economy. Our vision for future tax administration involves harnessing new technologies and advances in data management. This is consistent with Ireland's support of the principles set out in the OECD's best practice statement, *Tax Administration 3.0: The Digital Transformation of Tax Administrations*[3] which advocates a data-driven and real-time approach to tax compliance with minimum disruption to business life.

Informed by our experience of successfully working with the business sector to reform the PAYE reporting system through the PAYE Modernisation (PMOD) project, Revenue has been exploring the potential that a modernised VAT reporting system could offer taxpayers and the tax administration by enhancing the efficiency, effectiveness and convenience of how VAT operates.

Internationally, Tax Authorities are increasingly adopting reforms to VAT reporting through increased digitalisation, real-time reporting, and other modernisation developments such as eInvoicing. Such reforms allow businesses get on with the work of doing business whilst at the same time ensuring that VAT reporting seamlessly flows from the natural business processes as the VAT liabilities crystallise.

Revenue continues to modernise the administration of taxes and adopt real-time systems where possible and useful – a direction strongly endorsed by the recent report of the Commission of Taxation and Welfare.[4] As part of our approach and conscious of the emerging EU real-time reporting and eInvoicing framework, we aim to make it easier for businesses to comply with their VAT obligations. Compliance should be convenient and efficient for business with the incremental burden of meeting these obligations minimised where possible. Natural taxation models, which embed taxation into everyday business processes and economic activity, achieve this by reducing or eliminating post-transactional tax reporting obligations.

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[2] See Appendix for maps that illustrate the move towards eInvoicing and real-time/digital reporting among EU Countries.

[3] The OECD's best practice guidance, *Tax Administration 3.0: The Digital Transformation of Tax Administration* is available at https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.htm

The opportunity of Digitalisation

A collaborative, innovative and digital programme of domestic VAT Reporting modernisation will harness developments in digitalisation, and information and communications technology, to deliver a VAT reporting system which makes it straightforward for businesses to report the right amount of VAT at the right time. It will also offer Revenue the capability to respond swiftly and effectively to discrepancies in reported data by businesses that can arise due to innocent error or omission.

Internationally, our modernised PAYE system is a front runner among digital transformations in tax administration – it built on Revenue's longstanding approach of utilising technology and analytics to simplify tax administration processes, which continues to copper fasten Ireland's reputation as a location where it is relatively easy to pay and file taxes. Now, a well-designed and appropriately phased programme of VAT Modernisation is a priority on Revenue's path to further improve the ease and convenience of tax compliance for businesses. This consultation is therefore signalling a programme of VAT modernisation, commencing with the digital reporting requirements (DRR) in respect of B2B and B2G domestic transactions supported by eInvoicing.

This fits with the spirit of "*The Digital Ireland Framework"*, a strategy that aims to position Ireland as an international economic digital leader.[5] That strategy seeks to increase the adoption of digital technologies by all businesses, especially SMEs, with the objectives of sustaining Ireland's attractiveness as a location for leading digital enterprises and maximising the benefits of the digital transition for the wider economic system, across productivity, innovation and competitiveness. The proposals in this consultation paper align with those objectives.

4. Real-time VAT Reporting and eInvoicing: what and why?

Revenue is exploring the introduction of a VAT reporting requirement for domestic B2B and B2G trade, supported by a move to mandatory eInvoicing for such transactions. Such a system would involve a requirement for suppliers and their business or Government customers to report in real-time on a sub-set of eInvoice details**.**

Real-time Reporting

The continuous reporting of transactional data by businesses to their Tax Authority is not a new phenomenon – many progressive EU Tax Authorities have well-established domestic VAT reporting systems in place for a number of years that can cover both B2B and B2C transactions. In the last few years in Ireland, real-time reporting has been introduced for PAYE, and in-year adjustments are also now possible for claiming several reliefs in the Income Tax area.

Real-time reporting allows businesses to update the Tax Authority on their relevant transactions as they occur. Such a system reduces the incidence of errors, underpayments, and non-compliance which can occur when transactions are only reported in aggregate form possibly weeks or months after they take place. Tax reporting systems that allow input from a business's digital accounting system, reduce the administrative burden of generating post-hoc tax returns, and enable the secure real-time flow of data directly from the business. Real-time reporting also allows earlier

[4] *Foundations for the Future,* Report of the Commission on Taxation and Welfare, 2022. See especially Chapter 17, "Modernisation of Tax Administration". Available at: https://www.gov.ie/en/publication/7fbeb-report-of-the-commission/

[5] https://www.gov.ie/en/publication/adf42-harnessing-digital-the-digital-ireland-framework/#

identification of errors, making them easier to rectify and avoiding consequent interest and penalty costs for businesses.

In a real-time VAT reporting setting where Revenue receives transactional data, it is expected that compliant taxpayers will find it easier to submit their VAT returns, will need to spend less time responding to Revenue compliance interventions, and can have their repayment requests handled more quickly. This will free them to concentrate on their business operations.

Real-time VAT reporting could assist Revenue in detecting suspicious transactions at an early stage and help prevent fraudulent activities. This would benefit compliant businesses by targeting and forcing those businesses in the shadow economy to correctly operate their taxes or cease operations, promoting a level playing field for the compliant business.

Experience across countries who operate real-time, transactional VAT reporting system indicates that it can reduce compliance costs for businesses. Such costs include the time spent by firms and their staff to deal with requests from the Tax Authority for information and time spent in preparing for audits – time diverted from attending to business development and growth.

Electronic Invoicing

EInvoicing is the electronic exchange of an invoice document between a supplier and a buyer. An electronic invoice is defined in law as an invoice which is issued, transmitted and received in a structured data format which allows for its automatic and electronic processing.[6]

The concept is not new to Ireland's VAT regime; since April 2019, all public bodies are required to accept an eInvoice from a supplier if that supplier chooses to issue one. As of yet, there is no legal requirement for suppliers to submit invoices in electronic format to public bodies but the law facilitates those who chose to do so, and there has been some level of eInvoicing activity by suppliers who have implemented eInvoicing when transacting with Irish public bodies. Directive 2014/55/EU obliges all public bodies to be able to receive and process electronic invoices in accordance with a common European Standard.

The EU Commission proposes that this standard on eInvoicing (EN 16931) will apply to eInvoices issued in relation to intra -EU transactions and it is proposed that this standard will also apply to the issuance of domestic eInvoices.

Ensuring a Successful Transition

The introduction of mandatory eInvoicing and a real-time domestic reporting requirement are significant steps and will need careful preparation and engagement across the VAT community. While the benefits of an "up-and-running" reformed VAT administrative system are clear, there will be challenges in the move towards such reforms. That is why a process of continuous engagement will be critical to the success: the challenges need to be collaboratively identified, understood and planned for. It may not be necessary to adopt a universal approach in transitioning to new reforms, as capacity, readiness and challenges may vary for businesses of different scale or circumstances. In particular, the position of small businesses and those who do not have digital facilities will need to be understood and taken into account in any programme design.

The engagement of tax practitioners and the business and representative groups who support taxpayers is vital in designing and implementing reform plans in this area. So too is the engagement

[6] Directive 2014/55/EU, e-Invoicing in public procurement in Europe available at - https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0055

of the software industry which provides the digital tools and services that businesses use for their automated accounting and eInvoicing processes. This will build on the collaborative engagement with the Office of Government Procurement and the eInvoicing industry from the introduction of B2G eInvoicing in Ireland which came into effect in 2019. This will continue to ensure businesses of all sizes can readily access market services and solutions which facilitate and enable compliance with the proposed amendment to the VAT Directive, the European Standard (EN 16931) and the EU and national approach for eInvoicing.

To ensure coherence and minimise compliance costs, any domestic VAT B2B and B2G real-time reporting programme and eInvoicing regime will need to align appropriately with the changes proposed at EU-level for intra-Community transactions.

Digital technologies such as eInvoicing have the power to transform small businesses especially, opening up new opportunities that were previously only available to businesses of scale. The experience of businesses who survived the pandemic has amplified the power of digital in building business resilience. Some businesses may perceive a move to eInvoicing as a cost rather than a long-term opportunity. However, it also represents an investment that can improve efficiency and a business's flexibility, helping to remain competitive in a changing world and able to access and take advantage of trade opportunities across the Single Market.

5. How will EU proposals impact on VAT Reporting?

What is ViDA?

On 8 December 2022, the EU Commission published its *VAT in the Digital Age* (ViDA)[7] proposal which sets out a range of measures that recognise and embrace digitalisation, with a view to achieving the twin aims of making VAT administration across the Union work better for businesses and be more resilient to fraud. The proposal is currently moving through the normal EU Council discussion and negotiation process and the final version which is agreed and brought into law will impact on the way VAT is administered both at EU level and within the Member States.

The three pillars of the ViDA proposal are:

- Single VAT Registration (SVR) – to further reduce the need for multiple VAT registrations in the EU for businesses carrying out transactions in Member States in which they are not established;
- Platform Economy – to introduce changes to the VAT rules for platform economy supplies of passenger transport and accommodation services; and
- Digital Reporting Requirements (DRR) – to introduce mandatory eInvoicing and real-time VAT digital reporting for B2B/B2G transactions between Member States, and to set a harmonised framework for Member States who operate or introduce a DRR for domestic B2B/B2G transactions.

[7] The EU Commission published its ViDA proposal, which includes a draft Directive and two draft Regulations, on 8 December 2022. An outline of the proposal and links to the draft legislation are available at https://taxation-customs.ec.europa.eu/taxation-1/value-added-tax-vat/vat-digital-age_en

Commission's proposal for real-time DRR and eInvoicing

It is the DRR pillar of the Commission proposal which is relevant to this paper. The EU proposal predominately relates to the administration of VAT on transactions between Member States. Nonetheless, any decisions Ireland makes about introducing a domestic B2B and B2G real-time reporting regime will be cognisant of the direction of the EU proposal and will need to fit appropriately with the final shape of the EU measure.

The Commission proposes replacing the VAT Information Exchange System (VIES), which has been in place since 1993 for reporting intra-Community transactions. Instead, for B2B and B2G trade between Member States, both the supplier and business customer will be required to submit certain VAT invoice details about the transaction to their respective National Tax Authorities within a couple of days of the invoice issuing. Each National Tax Authority will then submit the data onward within a further working day.

To support this reporting system, electronic invoicing will become the default system for the issuance of VAT invoices in the EU. For intra-Community B2B and B2G transactions, eInvoices will be mandatory, and to ensure ease of trading between Member States, the details regarding their structure, data content and issuance timeline will be specified in EU law.

While the final text of the Directive is yet to be agreed, Ireland is supportive of the proposal and its direction. These EU Commission proposals will modernise the EU VAT landscape for internationally trading businesses; by streamlining and digitalising cross-border VAT compliance requirements they will reduce business compliance costs, while simultaneously enabling more effective tax administration especially in the area of combatting fraud.

Envisaged Impact of the EU Proposals

Once they are agreed and subsequently come into operation, the ViDA proposals for real-time digital reporting and eInvoicing will apply to every business who engages in trade between Member States in the EU, no matter the frequency, or the volume. This means that every business which supplies a business or government customer in another EU Member State, will be obliged to issue an eInvoice and to digitally report a subset of the data from that eInvoice to Revenue within two days of it issuing. Similarly, a VAT-registered business who makes a purchase from a VAT-registered business in another Member State will be required to report a subset of the data from the purchase eInvoice to Revenue within the same period. In return, businesses will no longer be required to generate and submit monthly or quarterly VIES returns, removing this current reporting compliance obligation.

6. How will this Consultation Process operate?

Invitation to Comment

The focus of this initial consultation is the reform of B2B and B2G VAT reporting, supported by eInvoicing. Revenue is interested in the views of businesses, accounting software providers, eInvoicing providers, tax practitioners, accounting firms, bookkeepers, business and industry representative bodies, and other stakeholders concerning the development of a new system of digital real-time VAT Reporting in conjunction with mandatory eInvoicing.

We want to develop a forward-thinking system that works effectively for your business, your clients, or the businesses you represent, no matter how small or large, and that it also enables us to administer VAT more effectively. We wish to understand and consider your opinions on what

challenges you envisage in the proposal to adopt real-time B2B and B2G reporting supported by eInvoicing.

Your views are sought and encouraged on a number of questions set out in the link included in Section 7. However, these questions are not exhaustive, and views are welcome on any relevant themes that you consider might also be related to the collaborative discussions. It would be helpful to set out the reasons for the views expressed, and to provide any available evidence which you consider relevant.

Consultation Period

This public consultation process will run from 13th October 2023 to 12th January 2024.

How to submit your Comments

Responses to the Consultation Questions in Section A and Section B can be made online by accessing this link.

For interested parties who wish to respond by email, you can do so:

vatmodernisation@revenue.ie

Alternatively, you may respond by post to:

VAT Modernisation Branch,
Indirect Taxes Policy & Legislation Division,
Revenue Commissioners,
Dublin Castle,
Dublin 2.
D02 HW86

Please include your contact details if you are responding by post.

When responding, please indicate whether you are contributing to the consultation process as a taxpayer, professional tax adviser, an accountant/bookkeeper, an accounting software provider or an eInvoice provider, representative body, business group, in an individual capacity, as a non-governmental organisation, or in any other capacity.

Notices

Responses to the consultation questions presented in Section A of this consultation are subject to the provisions of the Freedom of Information Act 2014 (FOI), Access to Information on the Environment Regulations 2007-2018 (AIE) and the Data Protection Act 2018.

The contents of all submissions received in response to the consultation questions will be published on Revenue's website. All personal data will be redacted prior to publication.

We would like to draw your attention to the Data Privacy Notice on Revenue's website which explains how and when we collect personal data, why we do so and how we treat this information. It also explains your rights in relation to the collection of personal information and how you can exercise those rights. In responding to the general consultation questions, parties should clearly indicate

where their responses contain personal information, commercially sensitive information or confidential information which they would not wish to be released under FOI, AIE or otherwise published.

Meetings with Stakeholders

Revenue recognise that stakeholder engagement and communications are critical components of the proposed VAT Reporting Modernisation project.

This is the first of a number of consultative engagements. Apart from this initial public consultation process, Revenue will continue to engage directly with businesses and relevant representative bodies on the VAT Modernisation Programme, especially as the detailed arrangements underpinning VAT Modernisation are being developed. The resultant responses and discussions with stakeholders will guide and influence certain design and implementation aspects of our reforms.

Therefore we are welcoming stakeholders from a broad range of disciplines to respond to this consultation such as businesses both large and small, accounting software developers, eInvoice solution providers, taxation and accountancy bodies, representative bodies and relevant Government departments. Following this initial consultation initiative, we may also invite stakeholders to meet with us.

Steps that follow this Consultation Process

Shortly following the expiration of this initial Public Consultation process we will publish a Report synopsising all the responses to the consultation questions set out in part A.

As part of the continued consultative process, Revenue intends to undertake varied engagements with stakeholders to create a plan that initially focuses on the B2B and B2G sectors for collaborative implementation of a modernised VAT Reporting structure supported by eInvoicing which works for both businesses and Ireland's Tax Authority. We want to engage and work with all participants who will potentially be impacted and those who can support the implementation of the new VAT Reporting reforms. The consultation process will continue to evolve in light of engagement with all the relevant stakeholders.

At EU level, the Department of Finance and Revenue will continue to participate and actively engage at EU Council to ensure that a suitable legislative framework can be adopted at the earliest possible date. Revenue will also continue to engage with relevant representative bodies and businesses in relation to the progress of the discussions at EU Council level pertaining to the planned changes in respect of intra-EU eInvoicing and transactional reporting, and on the development of Ireland's own domestic VAT Reporting Modernisation Programme.

These reforms are ambitious and will involve meaningful change. This is why we are consulting widely and the reforms may be introduced gradually. By consulting and engaging with interested parties, Ireland can get the domestic reporting and eInvoicing reforms right and ensure a reformed VAT Reporting and EInvoicing system delivers benefits for all.

7. Consultation Questions

You may access the Consultation Questions here or directly on the Revenue website.

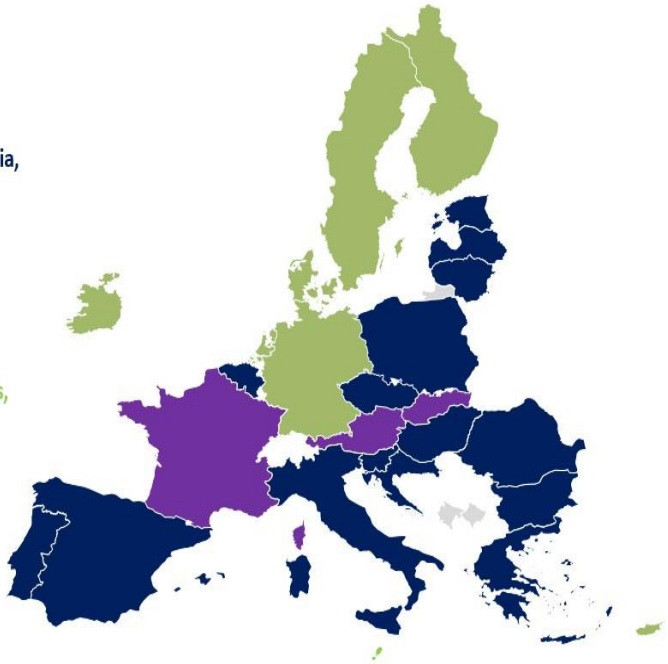
Appendix -Maps that illustrate the move towards eInvoicing and real-time/digital reporting among EU Countries.

Value–Added Tax Reporting in the EU

VAT Real-time /Periodic Reporting of transactions:
Belgium, Bulgaria, Czechia, Croatia, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and Spain.

VAT Reporting on request or in limited circumstances:
Austria, France, Luxembourg and Slovenia.

No VAT Reporting requirements in place:
Ireland, Cyprus, Denmark, Finland, Germany, Netherlands, Malta and Sweden.



EInvoicing Developments in the EU

Mandatory B2G & B2B eInvoicing:
Italy and Romania (B2B in High Risk sector).

Mandatory B2G eInvoicing or either moving towards a mandatory/voluntary B2B/B2G eInvoicing journey:
Belgium, Bulgaria, Denmark, Finland, France, Germany, Latvia and Poland, Slovakia, Slovenia and Spain, Sweden.

Mandatory B2G eInvoicing:
Austria (some), Croatia, Czechia, Estonia, Hungary, Lithuania, Luxembourg, Netherlands and Portugal.

No mandatory B2G eInvoicing and not yet on the B2B eInvoicing journey:
Cyprus, Ireland, Malta with Greece currently introducing B2G on a phased basis.