



SOVOS

**What Is VAT in the Digital Age
(ViDA) and How Does it Impact
My Business?**

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What is ViDA?

From the moment the [European Commission announced](#) its proposal for legislative changes in relation to the VAT in the Digital Age (ViDA) initiative, questions have been swirling from businesses anxious to understand more about the proposal and any potential impact to their operations both in the short and long-term.

In this eBook, we will review the reasons behind ViDA and the potential impact for your business based on the observations of several industry experts and sources.

First, what is ViDA? According to international law firm, [Baker McKenzie, ViDA can best be summarized](#) as:

A proposal consisting of a series of far-reaching VAT measures to modernize the EU's VAT system in order to make it more compatible with today's ways of doing business digitally. The EC intends to make the VAT system more resilient to fraud by embracing and promoting digitalization.

In short, the EC proposes to (i) modernize VAT reporting obligations, (ii) address the challenges of the platform economy, and (iii) avoid the need for multiple VAT registrations in the EU. If adopted, these measures will have an impact on companies doing business in and with the EU. At the same time, ViDA provides opportunities for companies to reduce VAT compliance costs.

Read our dedicated [blog](#) for a comprehensive breakdown of the proposal.

Why is ViDA being proposed?

The simplest explanation is to control costs, protect revenue and shrink the VAT gap which has been a major issue of economic concern for all countries within the EU. According to the [2023 Report on the VAT Gap](#) released by the European Commission, EU Member States lost an estimated €61 billion in Value-Added Tax (VAT) revenues in 2021.

The report goes on to state that EU Member States are losing billions of euros in VAT revenues because

of tax fraud and inadequate tax collection systems. The VAT Gap provides an estimate of the VAT revenue loss due to tax fraud, tax evasion, tax avoidance and optimization practices, bankruptcies, financial insolvencies, as well as miscalculations and administrative errors.

ViDA is intended to simplify administrative processes and make them more efficient, expedite collection of revenue legally owed and eliminate tax fraud.



What are the costs of implementing ViDA?

While it is expected to demand a fairly significant upfront investment, the long-term benefits should greatly outweigh the initial costs.

[According to KPMG](#), the overall saving of administrative cost currently borne by taxpayers is estimated at EUR 51 billion over a 10-year period between 2023 and 2032. While the total cost of implementation for businesses and national administrations is estimated at EUR 13.5 billion for the same period.

Data and the technology impact

ViDA, at its core, is about Data. The ViDA proposal indicates that governments within the EU are no longer content to receive after-the-fact tax filings that only provide insight into aggregated data for a month or longer. By leveraging technology, tax administrations can now receive authenticated transaction data detailing every sale and purchase straight from companies source systems. By moving tax controls much closer to the actual business operation, tax administrations can also respond to anomalies in near-real-time. Tax is now an always on function, not an afterthought. This also means that data quality becomes an operational imperative – whereas in the legacy world of slow-moving periodic summary reports, many smaller errors or inaccuracies in invoices would go unnoticed. These are now immediately visible to the taxman. This has implications on how businesses organize their master data and how they determine tax decisions in inbound and outbound invoice transactions.

While tax administrations have historically been slow to embrace their own digital transformations, lagging far behind compared to businesses, they are now moving aggressively to close the gap between their administrations and businesses by taking advantage

of digital tools. The result is a set of diverse and accelerating mandates, forcing businesses to adjust their systems and processes and provide data. The key to this is data standardization – no more tax at the backend of the process – you must solve tax at a point in time. Even before digital reporting requirements come into effect by 2030, member states can implement mandatory e-invoicing to transform their tax processes.

We are seeing waves of new mandates, beyond ViDA, in areas ranging from mandatory e-invoicing with continuous transaction controls to so-called e-audit requirements, often based on the Standard Audit File for Tax (SAF-T), which complement data collected from live transactions with extensive structured data from internal accounting and inventory systems.

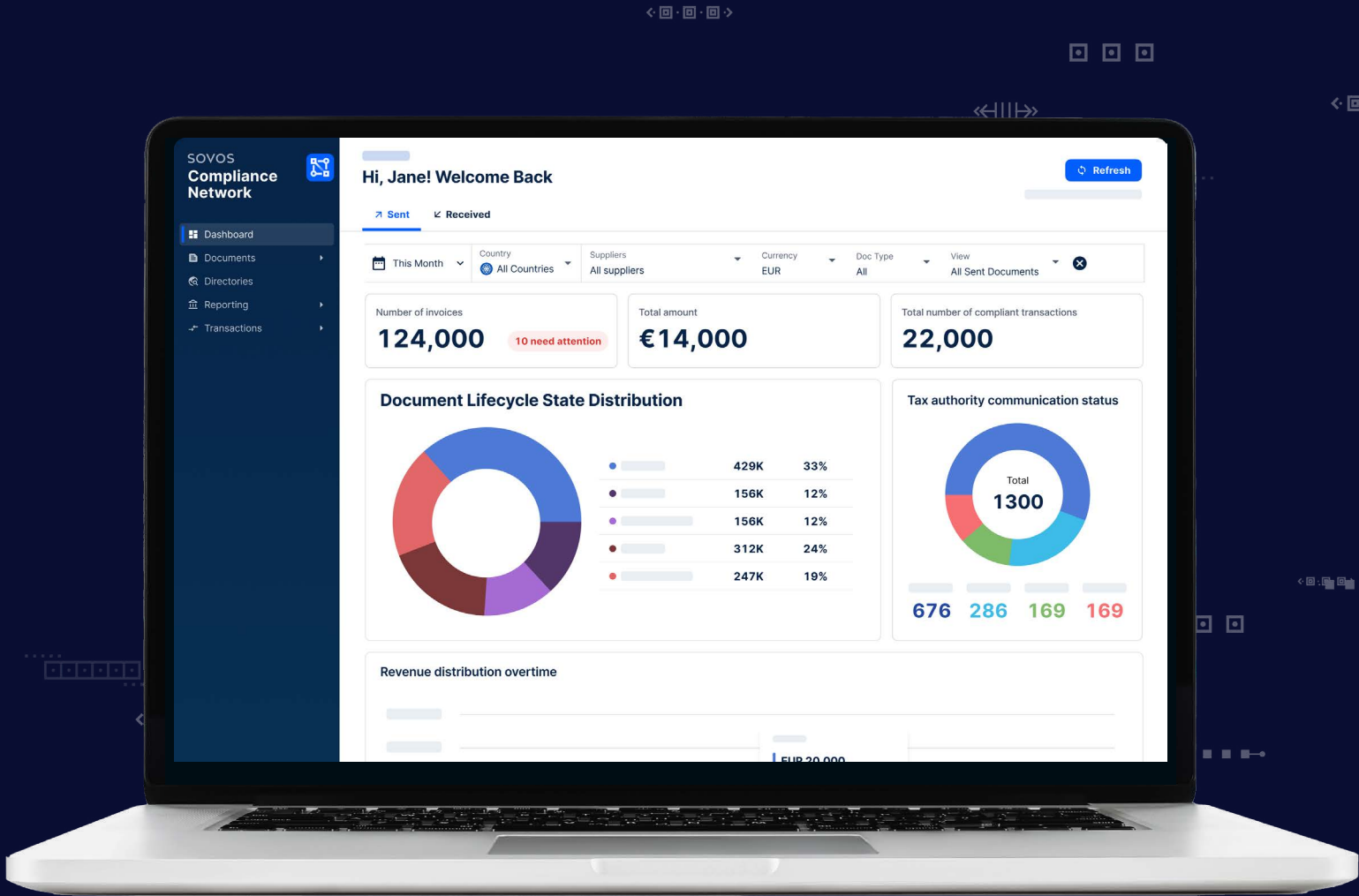
This is where the traditional roles for managing tax are turned around. Previously, businesses would report, and tax administrations would audit. It's almost now the other way around. Tax administrations through different contact points now have more data on a more horizontal scale than most businesses have access to even within their own processes.

The capability of tax administrations to triangulate data across different sources is worrisome for many businesses as the vast majority of them do not have that same level of insight. When receiving a prefilled report from the tax administration, because most lack the same level of insight, it becomes very difficult to disagree on the basis of anything substantial. In many countries, where businesses have not adequately prepared or reacted fast enough to these changes, they are left to just accept whatever the tax administration tells them because it's based on their own authenticated data from the transactions, from the accounting systems that they have provided.

How do you best prepare for this new reality? Stay in control of your systems, stay in control of compliance and be strategically prepared so that the data triangulation

and the prefilled reports the tax administration send you don't come as a surprise. If you implement the right technology, processes and oversight, you will be well-prepared with the right level of data and the right level of insights across all of these different internal sources.

Data will continue to be the lifeblood of your organization. However, it is now also the portal from which governments will view all transactions to ensure that they are receiving the revenue owed to them in the manner and time frame they dictate. This is not an easy lift or ask of businesses. Tax is now a board room and business process concern that demands a technology response. IT will be counted upon to ensure that regulatory authorities are being satisfied while not causing any disruptions to any other business applications. Our advice, do not wait, deadlines come faster than you think.



How and when is ViDA likely to impact my business?

For more perspective on how ViDA is likely to impact your business, we spoke with Christiaan van der Valk, VP strategy and regulatory for global tax compliance provider, Sovos.



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When will businesses likely begin to see an impact from ViDA?

The VAT in the Digital Age proposal suite approved by ECOFIN encompasses several areas of Value Added tax (VAT) law. Strictly speaking, the concrete impact of ViDA will hit different businesses at different times between 2025 and 2030. That latter date applies to the ViDA proposals for mandatory electronic invoicing and digital reporting for so-called intra-Community transactions, which represents less than 20% of all EU transactions. Much more importantly though, ViDA proposes to remove current restrictions for EU countries to introduce mandatory e-invoicing coupled with DRR only in 2030. This means that, most likely, EU countries that do not have such regimes yet will likely accelerate the introduction of mandatory e-invoicing and real-time reporting already in the next couple of years. If one realizes that many EU countries had already announced initiatives in this direction, or even started their rollout, it is easy to see how the net effect of this provision will be an intensification of the current wave of new CTC mandates to prepare for in the very short term.



Is there likely to be a grace period for businesses to adjust and comply?

Yes, the EU will certainly take a reasonable approach to allow businesses to get their systems and processes ready for the impact of ViDA. That said, companies like Sovos that have lived through CTC mandates in many countries for almost two decades around the world now know that no grace period is ever long enough to allow a business to adopt a relaxed attitude. Many businesses gravely underestimate the work that needs to be done to ensure data quality, and the long adaptation cycles for their different business applications to incorporate the data and process changes required for real-time reporting and e-invoicing. And the introduction of changes of this magnitude to business and administrative processes is never without challenges on both sides of the equation – businesses will make mistakes that may take time to fix, and this only gets harder as governments do the same thing on their side in parallel under the pressure of political deadlines.



What business processes are likely to be impacted as part of the new regulations?

All invoicing and related processes will be impacted. This includes any accounts payable and accounts receivable process and the associated information systems that support them – all these need to be reviewed against this backdrop and readied for the digitization paradigm shift that will come on the back of ViDA.

What new technology demands can we expect businesses to face?

While often the reporting processes that need to be put in place so as to meet specific transmission protocols, authentication, and document exchange orchestration always get a lot of attention, businesses should be equally wary of the impact of CTC mandates generated or modified by ViDA on their upstream processes and data. Many businesses have multiple ERP systems, multiple billing systems, accounts payable systems etc. for different lines or business or trading partner categories. Most of these systems process invoice data on a paper or PDF invoice under current law in clunky manual or semi-automated ways that cannot easily be 'upgraded' to handle the data completeness and quality requirements of a stringent e-invoicing and e-reporting regime. Beyond the headlines about mandatory e-invoicing and real-time reporting, the fine print of the ViDA proposal will drive a number of potentially challenging modifications to business processes. This may include the very definition of what constitutes an invoice which will require billions of PDF invoices in the European Union to be converted to machine-readable formats. What complicates matters is that CTC initiatives and ViDA only tell a part of the story: EU businesses must also meet a growing number of business-to-government e-invoicing requirements, and many governments are planning to extend the requirements for invoicing public sector customers to the business-to-business sphere. This means that businesses must increasingly use software and service providers that can guarantee compliance with frameworks and laws that add up to a need for a complete rethink of invoicing processes and systems throughout most businesses.

Can businesses expect their current technology partnerships to work for the new standards?

Companies that currently use EDI systems, procure-to-pay or accounts payable automation software or SaaS services, customer communications management, order-to-cash, electronic billing presentment and payment solutions etc. must ask themselves how those platforms will handle the new requirements for e-invoicing and e-reporting under ViDA and associated regulatory initiatives. These vendors, which specialize in business process optimization, typically have little experience with this specific area of compliance. Most of them are not set up to anticipate and address in a timely manner the tens or hundreds of changes that typically follow the initial rollout of a CTC regime in any jurisdiction. We advise businesses to contact their enterprise software vendors and service providers already now to ask these questions – are they aware of these changes, and what is their plan to keep you compliant?



How will cross-border transactions be impacted?

Cross-border transactions between EU countries will be subject to a new real-time reporting regime that replaces the current requirement for a recapitulative statement. The actual reporting will be done on a transactional basis to each member state, and member states will report this information to a central European Commission database. In addition to these digital reporting sections of ViDA, intra-EU cross-border transactions are also affected by other parts of the proposal in other ways. For example, quite far-reaching changes are foreseen to remove administrative burdens for businesses moving their own stock between EU countries.

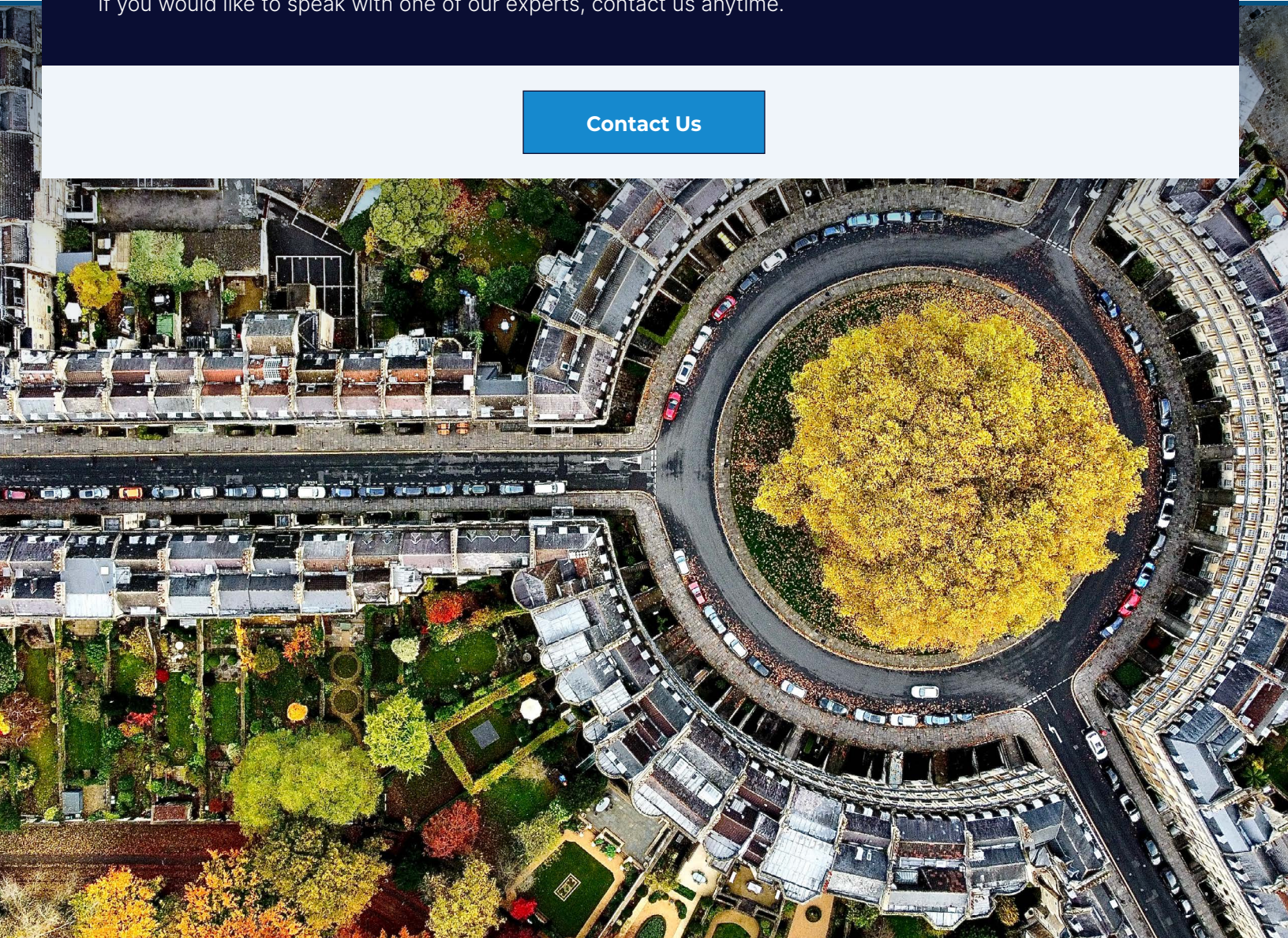
Where do businesses go from here?

No doubt there will continue to be conversation and debate related to the ViDA proposal. While it's likely the final will emerge somewhat differently than it stands today, there is tremendous appetite to get this done among the EU.

We encourage you to continue to continue to check back for updates and analysis as new information becomes available. You can [subscribe to our knowledge center](#) for real-time updates and follow Sovos on [LinkedIn](#) and [Twitter](#).

If you would like to speak with one of our experts, contact us anytime.

Contact Us





About Sovos

Sovos was built to solve the complexities of the digital transformation of tax, with complete, connected offerings for tax determination, continuous transaction controls, tax reporting and more. Sovos customers include half the Fortune 500, as well as businesses of every size operating in more than 70 countries. The company's SaaS products and proprietary Sovos S1 Platform integrate with a wide variety of business applications and government compliance processes. Sovos has employees throughout the Americas and Europe, and is owned by Hg and TA Associates.

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