



VAT in the Digital Age (Part 4): The single VAT registration and its practical consequences in the B2B area

1 Background

Due to globalised supply chains, many companies are obliged to register for VAT in countries outside of their country of residence. Unfortunately, in addition to the associated compliance costs, businesses are entering a field that is, in many areas, not harmonised across the EU. In addition to VAT provisions, this also includes a wide range of procedural requirements, including reporting periods, correction rules, deadlines, special reports, interest and penalties. The EU is now taking various measures under the 'VAT in the Digital Age' initiative which shall avoid VAT registrations abroad.

2 General overview of the new regulations

As of 1 January 2027, the OSS scheme will be extended. It will then also cover supplies of gas, electricity, heating and cooling, provided that the supplier is not established in the Member State of tax liability. **As of 1 July 2028**, several coordinated changes will come into force:

- **Reverse charge mechanism:** Art. 194 of the VAT Directive will be modified for taxable persons not established in the Member State of the transaction. Until now, Member States have been free to decide whether to introduce such a reverse charge procedure at all and, if so, what the conditions shall be. In many cases, foreign registrations are necessary because Art. 194 of the VAT Directive does not apply in the specific case. In the future, the regulation will be mandatory for local B2B transactions if the supplier is neither established nor registered for VAT purposes in the Member State of tax liability and at the same time the customer is registered in this Member State. If the supplier is not established but registered and/or the customer is not registered, the Member States can decide individually for these cases whether the VAT liability should pass to the customer.



Dr. Markus Müller, LL.M.
Dipl.-Finanzwirt (FH),
Certified Tax Consultant

+49 (0) 211 54 095-387
markus.mueller@kmlz.de

- **Further extension of the OSS scheme:** In addition to local supplies by non-established businesses, deemed intra-Community transfers can also be declared in the OSS scheme. The corresponding acquisition VAT in the country of destination will be exempt from VAT provided that the transfer from the country of departure is declared in the OSS scheme. In addition, the OSS scheme will be extended to include the supply of goods involving installation or assembly, as well as supplies on board ships, aircraft and railways by non-resident taxable persons.
- **Consignment warehouse simplification:** The measures mentioned above make the simplification rule, introduced as part of the 'quick fixes' on 1 January 2020, unnecessary. It will no longer be applicable to goods placed in storage from 1 July 2028 and will thus effectively expire on 30 June 2029, after the 12-month period for goods placed in storage.

3 One-fits-all solution or remaining registration requirements?

The wording chosen by the EU Commission, 'a single VAT registration', suggests that even a globally active business will only need one single VAT registration in the future. However, as so often, the devil is in the details. In fact, the number of necessary registrations can be reduced to a single VAT registration in the country of residence. However, this will only apply if the entrepreneur limits his economic activity to those transactions that fall within the scope of the new regulations that are mandatory for the Member States. The following transactions will continue to require VAT registration abroad:

Input transactions in other EU countries:

- iC acquisitions/purchases from third parties
- deemed iC acquisitions without using the OSS scheme

Outgoing transactions in other EU countries:

- iC supply of goods or exportation
- iC supply of goods or exportation in a cross-border chain transaction
- local supplies to unregistered taxable persons
- fixed establishment in this country: any transaction

4 Effects on practice

The basic idea of this pillar of the reform is very welcome. However, a closer analysis reveals that the regulations are actually negotiated compromises. Compromises are important. In the world of VAT, however, they lead to complications. As a result, only those entrepreneurs who exclusively carry out transactions covered by the simplifications can be satisfied – as is already the case with the current OSS scheme. For everyone else, the necessity remains to register for VAT in other EU countries and, if necessary, to pay VAT to the tax authorities abroad. Thus, the reform does not live up to its name.

All companies must evaluate their supply chains in light of the new requirements. The aim is to identify remaining registration obligations. This task is complicated by the permitted implementation leeway in the area of the reverse charge mechanism. Country-specific provisions will remain in place here. Anyone aiming for the 'only VAT registration' must be particularly careful to avoid mistakes. If, for example, chain transactions are incorrectly assessed, fixed establishments are misjudged, transfers of own goods are not correctly assessed or OSS returns are simply not submitted or submitted late, the (retroactive) registration and VAT payment obligations in other EU countries will continue to apply. In addition, local tax and procedural law will also apply, which in many cases differ.

The risks described are not the only reason why it may be advisable to maintain (voluntary) registrations abroad. Input VAT amounts cannot be claimed in the OSS scheme in the future either. If high VAT refund surpluses arise, voluntary registration can bring cash flow advantages.