DAC7 will enforce annual reporting obligations for digital online platforms, crypto-assets and e-money also to be brought into scope

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In brief

In light of the ongoing global COVID-19 pandemic, on 15 July 2020 the European Commission (‘EC’) published a Package for Fair and Simple Taxation to help EU member states with their economic recovery. The package consists of three main elements:

1. An Action Plan for Fair and Simple Taxation which sets out 25 initiatives that the EC will undertake between now and 2024.
2. A proposal to amend the EU Directive 2011/16 on Administrative Cooperation in the field of taxation in the EU (‘DAC’). This proposal will be the seventh amendment to the original directive, hence the DAC7 moniker.
3. The Communication on Tax Good Governance in the EU and Beyond, which aims to further strengthen transparency and fair taxation.

The above matters have a relevance for Middle East organizations, particularly those who operate in the EU.

In detail

Digitisation of the economy drives evolution

The features of the digital platform economy have presented considerable challenges when considering the traceability and detection of taxable events by tax authorities. The proposal to amend the DAC extends the principle of annual information reporting to digital platforms, with subsequent automatic exchange of information between tax authorities in a similar manner to the Common Reporting Standard (‘CRS’) and the Mandatory Disclosure Regime (‘DAC6’).

You can read our last news alert on the impact of DAC6 on Middle East businesses here.

Much like CRS and DAC6, DAC7 is informed by the Organisation for Economic Cooperation and Development (‘OECD’); specifically, its Model Rules for Reporting by Platform Operators with respect to Sellers in the Sharing and Gig Economy (‘Model Rules’).

As per the DAC7 proposal, an obligation will be assigned to digital platforms to report the income earned by sellers of goods and services who make use of their platforms. The rules are proposed to impact both EU resident digital platform operators and non-EU, foreign, digital platform operators.

Reportable activities will include:

- the rental of immovable property;
- the provision of personal services;
- the sale of goods;
- the rental of any mode of transport; and
- investment and lending in the context of crowdfunding.

Reportable information will include demographic information for sellers (including Tax Identification Numbers (‘TINs’) and VAT registration numbers), in addition to details of amounts paid to sellers and platform fees that they have incurred in each quarter.

Sellers that engage in the rental of immovable property will also be required to provide details of the underlying properties that have been rented. Reporting platforms can report to a tax authority in a single member state, which will in turn exchange the information with its counterparts throughout the EU as appropriate.
This regime will be a close relative to the CRS, in terms of both the mechanics and the makeup of reportable information. However, unlike the CRS, the major impact of DAC7 will lie primarily outside the Financial Services sector.

The drive for tax initiatives to evolve and align with an increasingly digital economic landscape is clear, at both an OECD and EC level. The OECD’s Model Rules acknowledge that digital markets are rapidly evolving, which may mean that other types of transactions become relevant in the future. It will continue to monitor market developments as it considers incorporating further types of services in the future, such as the rental of moveable assets and peer-to-peer lending.

On a similar track, the EC has provided a window into some of its upcoming focus areas in the Action Plan for Fair and Simple Taxation. Point 10 sets out that the Commission will further update the DAC in 2021 to expand its scope, with specific mention of crypto-assets and e-money, to combat the emergence of alternative means of payment and investment that could be used to evade tax.

A means to pursue Indirect Tax Compliance

An important point to note is that the DAC7 proposal seeks to explicitly clarify that information exchanged under the directive can be used for the ‘administration, assessment and enforcement of VAT and other indirect taxes’. Given the transactional nature of the information that is envisaged to be reported under DAC7, this clarification is helpful but not surprising.

Next steps for Middle East businesses

Middle East businesses, particularly those that operate in the EU, should monitor developments at OECD, EC and local domestic levels. The compliance landscape in this area is continually evolving and businesses should ensure they remain abreast of the latest developments to be well positioned to respond in a strategic manner.
Key takeaway

The European Commission has published a new Package for Fair and Simple Taxation which showcases the evolution of the Directive on Administrative Cooperation to meet an increasingly digitised economy. The proposed seventh amendment (‘DAC7’) will extend Common Reporting Standard style rules to digital platforms, requiring them to report sellers and the income they derive through the use of the platform.

The package also signposts a further amendment in 2021, bringing alternative means of transacting, such as crypto-assets and e-money, into scope.

Middle East businesses, particularly those that operate in the EU, should monitor developments at OECD, EC and local domestic levels. The compliance landscape in this area is continually evolving and businesses should ensure they remain abreast of the latest developments to be well positioned to respond in a strategic manner.

Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

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