FCE Position
Review of the VAT rules
Directive 2006/112/EC

FCE
FLEET CARDS EUROPE

February 2023

Introduction

Since its introduction in 2006, the EU VAT Directive (Council Directive 2006/112/EC) has served to harmonise value-added tax ("VAT") within the European Union ("EU"), providing EU Member States with a common framework and understanding in the area of VAT. Having such an overarching framework in place is essential for European enterprises, many of whom conduct business across the single market on a cross-border basis. Numerous amendments have been made to the EU VAT Directive since its entry into force. As part of the European Commission's action plan for fair and simple taxation, an initiative on "VAT in the digital age" was published on 8 December 2022, with the aim of assisting tax authorities by using technology to combat tax fraud and benefit businesses in the digital age. Having reviewed the proposed amendments to the EU VAT Directive, Fleet Cards Europe ("FCE") members, whilst being supportive of the policy rationale behind the proposal, have serious concerns about two of the proposed changes put forward by the European Commission, which are detailed in this paper.

What are fuel cards? And why is VAT an important topic for fuel card companies?

As explained further in the "about FCE" section below, FCE represents the independent fuel card sector in Europe. But what exactly are fuel cards and why are VAT-related topics of relevance in the context of fuel cards?

What are fuel cards? Whether physical or digital (in the form of a mobile app), fuel cards are identification instruments used for the purpose of obtaining specific vehicle-related goods and services, such as conventional and alternative energies, roadside assistance, toll charges, and ferry fees. Fuel cards have bespoke characteristics and special features that differentiate them from payment instruments, such as credit or debit cards. They specifically do not initiate any transfer of funds and are not consumer focused but rather predominantly used on a business-to-business basis.

Why is VAT of relevance in the context of fuel cards? Fuel card companies' customers - hauliers and businesses with an own fleet of vehicles - typically operate on a cross-border basis. These road transport companies pay a critical role in ensuring there is a steady flow of goods and allowing the EU single market to remain connected. One of the key reasons these companies provide their drivers with fuel cards is to simplify:

(a) **administration:** all transactions for fuel, tolls or related vehicle services are bundled into one easy-to-read invoice. This is of immense benefit to transport companies who want to have an overview of individual transactions which may run into the hundreds or thousands, depending on the size of their fleet;

(b) VAT handling: companies can easily manage their VAT obligations and apply for refunds by using the underlying bundled invoice. Fuel cards also lower the risk of tax fraud, as tax authorities can easily check the validity of the invoices and have a clear "audit trail". They therefore also provide benefits to tax authorities, facilitating their work.

Put simply, fuel cards not only provide major advantages to the companies that use them, but also offer benefits to the suppliers that accept them, as well as to tax authorities throughout Europe. As a result, fuel card companies have a clear interest in ensuring VAT continues to be handled efficiently in the EU, for the benefit of all the aforementioned parties.

Deadline for the issuance of invoices on intra-Community supplies of goods and supplies of services where the reverse charge applies: Article 222

The proposed change to Article 222 of the EU VAT Directive seeks to amend the deadline by when an electronic invoice should be issued following a chargeable event, from up to forty-five days to just two days. This, it is stated, will prevent excessive delays in the delivery of information supplied to tax authorities. FCE members, however, believe this proposal would lead to many drawbacks for the economy, and no benefits.

Vehicle related services where the reverse charge mechanism is applicable are rendered to many customers of FCE members.

The disadvantages of the proposed change:

(a) an increased administrative burden. For all parties concerned - fuel card companies, their customers, suppliers, and tax authorities - the proposed two-day deadline would create an increased administrative burden, which equates to inefficiency, the opposite of what this proposal intends.

For fuel card companies, their customers and suppliers, the proposed two-day deadline would mean a huge number of invoices (*i.e.,* data transfers) would have to be issued and processed on a continual basis, particularly increasing the workload within accounting departments. Many customers of FCE members are small and medium-sized enterprises who do not have in-house accounting departments and outsource the task to third-party providers. Were these proposals to be adopted, these third-party providers would have to spend more time on low value work, which, in turn, could lead to them charging our customers higher fees, to the disadvantage of the latter. In such a case, it is our view that many small and medium-sized enterprises and small entrepreneurs would face unsolvable technical and administrative problems.

(b) more laborious audits for tax authorities. Tax authorities would also be disadvantaged by the proposal. The need to check and review a much greater number of single invoices would, for instance, make conducting audits more arduous and time-consuming.

(c) **technical hurdles.** To implement the necessary changes from a technical perspective, fuel card companies and their suppliers would have to completely overhaul their IT systems, not least to strengthen them from a capacity perspective to be able to cope with the hugely increased volume of customer billing the proposed change would cause. This would cause significant operational disruption and create additional costs to the detriment of these enterprises. This would not only present a challenge, but it is also highly doubtful whether suppliers would actually be able to provide fuel card companies with the necessary data within a day of a chargeable event, to meet the two-day deadline. Fuel card companies would only be able to provide tax authorities with the required transaction information if received immediately, meaning they would be entirely dependent on a vast number of suppliers, who in many cases would be required to provide the relevant data on a daily basis. It is also worth highlighting that currently, also on a daily basis, it must be ensured that master data such as company name, addresses and VAT IDs of customers are adjusted and checked in real time. Were proposed changes to be adopted, as the validation servers for VAT IDs must be able to handle millions of requests simultaneously, invoice issuers would no longer be able to meet invoicing deadlines in case of master data errors.

Elimination of the possibility to issue summary invoices: Article 223

Article 223 of the EU VAT Directive currently allows for summary invoices to be issued for several separate supplies of goods and services. Fuel card companies make extensive use of summary invoices, which are sent to customers on a fortnightly or monthly basis. Summary invoices are also the standard in other industries - such as, utilities, telecoms, and professional services - and provide numerous benefits.

In the fuel card industry, summary invoices offer numerous advantages to fuel card companies, their suppliers and customers alike. Eliminating summary invoices altogether would cause various problems, summarised below.

The disadvantages of the proposed change:

(a) **an increased administrative burden.** The issuing of summary invoices equates to a lower administrative burden for fuel card companies, their suppliers, and their customers. For suppliers, the issuing of a summary invoice after chargeable events have occurred, means fewer data transfers are required, lessening their workload. From a cash collection perspective, these suppliers also benefit by receiving bundled payments instead of a "trickle" of payments for smaller amounts. For fuel card companies, bundled invoices can be checked by colleagues working in accounting far more easily and quickly than multiple single invoices. What's more, for fuel card companies and their customers, paying summary invoices (*i.e.,* one payment transfer) is easier and more efficient than paying countless single invoices. Detailed invoices would seriously impact the ability to process in AP systems, where currently, for example, 20,000 to 30,000 transactions (chargeable events) are summarised to a 100 lines or so for batch processing into the AP ledger.

(b) more laborious audits for tax authorities. Tax authorities will not stand to benefit from the elimination of summary invoices. On the contrary, the elimination of summary invoices would mean having to check and review a far greater volume of individual invoices, complicating and rendering audits more time-consuming. Tax authorities would suffer a great impact in terms of their technical resources to, for instance, process and store master data.

(c) technical hurdles. From a technical and practical perspective, issuing invoices for every single individual transaction would prove very difficult. Fuel card companies and their suppliers would have to reprogramme and reconfigure existing IT systems, so as to recognise when certain invoices have been sent out, which would present a major challenge.

In summary, scrapping the possibility of issuing summary invoices would create a great number of problems for all parties concerned and no obvious benefits. It is therefore imperative that the possibility to issue summary invoices, as per Article 223 of the EU VAT, remains in place. Ultimately, it should be for businesses to decide which model of invoicing (summary or individual) suits their individual needs best, and FCE members would urge policymakers to keep all options open in this regard. As already alluded to, summary invoices are standard in many industries; the changes proposed to this Article would undoubtedly have negative repercussions in other industries beyond fuel cards. European businesses and tax authorities would be disadvantaged as a result.

Conclusion

The proposed changes to Articles 222 and 223 would have an adverse impact on FCE members as well as their suppliers, customers as well as the tax authorities that work with fuel card companies, whilst offering no benefits to any of the aforementioned. FCE members firmly believe that the current deadline for the issuance of invoices where the reverse charge continues to apply should continue to remain in place. Furthermore, it should be possible to continue to issue summary invoices. Not allowing summary invoices to be issued will not help tax authorities and enable them to combat tax fraud more effectively, nor will it benefit the countless businesses that make use of them. FCE members trust that these arguments will be taken into consideration and that the changes proposed to Articles 222 and 223 will be reversed. To that end, FCE stands ready to engage with policymakers on the subject and would welcome the opportunity to discuss the issue further.

About FCE

Fleet Cards Europe (FCE) represents the independent fuel card sector in Europe, which facilitates the purchase and supply of fuel and other related on-the-road goods and services for millions of commercial users across Europe. FCE members represent a major share of the B2B fuel cards market in Europe and our membership base includes key independent players in this market which are headquartered and operate across the continent. The majority of European logistics, transportation and other fleet businesses rely on the services (issuing, billing, fuel discounts, etc.) provided by FCE members, helping them to move goods and people efficiently and seamlessly across Europe on a daily basis. For further information, please contact the FCE Secretariat at: fleetcardseurope@pentagroup.co