

The Essential Guide to DAC7



Challenges & Solutions for Global Businesses



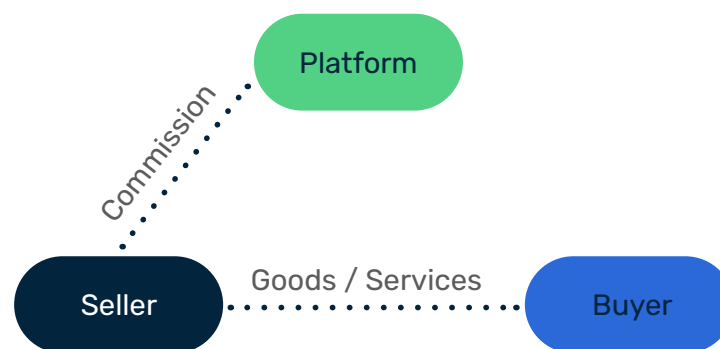
Executive Summary

- DAC7 is a directive that harmonizes reporting requirements for all digital platforms operating in the European Union (EU). It's designed to help EU tax authorities gain a better grip on the taxable funds flowing through the gig/sharing economy.
- Many governments currently collect some data about the activities of platform sellers from existing reporting obligations.
- Dealing with each member state's individual tax regulations and unilateral reporting obligations is a daunting prospect for platforms and marketplaces. DAC7 aims to lighten this administrative burden.
- Platforms will be expected to report seller identity and transaction information (including verified seller tax IDs, bank account numbers, revenues, relevant activities, fees, and more) to the tax authorities.
- Platforms will need to submit the information required under DAC7 annually
 - by January 31st of the following year.
- Platforms will be expected to store relevant data between 5 to 10 years.
- Mastering the Data Sharing process required by DAC7 – from the registration of platform operators with governments to the eventual deletion of information gathered – is essential to maintain compliance with DAC7, as well as other obligations.

How tax authorities are evolving compliance requirements for **Digital Platforms**

With the rise of the gig/sharing economy, workers and sellers are shifting away from traditional employment arrangements, making it hard for tax authorities to keep track of their earnings. Adding to this challenge is the fact that as this industry expands, business models evolve making it harder to predict which legislative changes will be future-proof.

Historically, governments were well prepared to collect taxes from small businesses, but with the growth of the gig economy, there has been an explosion in micro-enterprises and self-employed workers. This made matters a lot more complicated as they now needed to monitor more taxpayers. Effectively, the cost of tax collection has gone up.



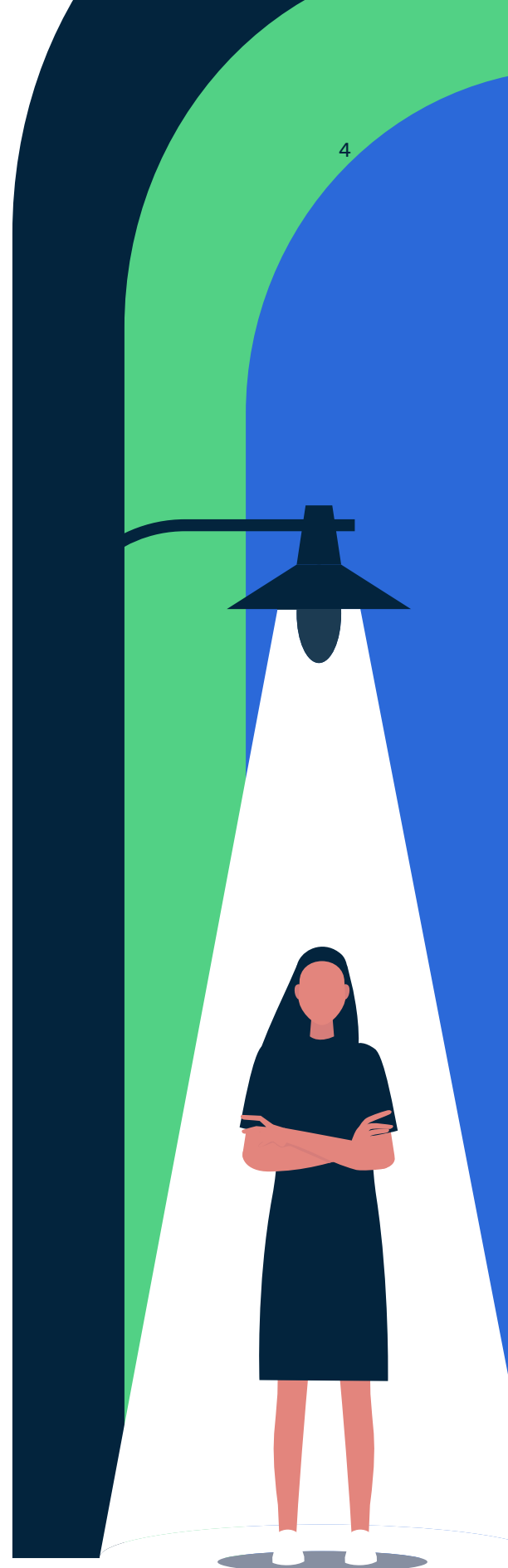
This is just one of the *many* marketplace models

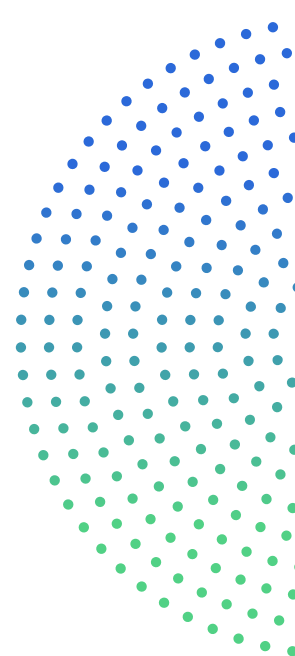
Why income from gig economy workers and sellers **is taking center stage**

Many gig economy workers operate as self employed contractors and, as a result, tax authorities have to deal with a much larger number of smaller businesses (DAC7 calls gig economy workers “sellers”). Often these micro-businesses and SMEs have never reported or paid business taxes before, as they usually come from traditional forms of employment. Many operating may be unfamiliar with how their income earned through platforms should be declared in their personal income tax filings, as they are used to their employers’ payroll handling their personal income taxes. For governments, tax collection is no longer just about monitoring and enforcing regulations. It must now include a layer of education so that these new platform sellers are able to understand their compliance requirements.

Unfortunately, there’s a widely held perception that the gig and sharing economy has created more opportunities for tax non-compliance. Governments are concerned about sellers simply not reporting the income they make on digital platforms. The underlying reasons are diverse: lack of regulation around the specific type of (sometimes foreign) income that can be earned through platforms, lack of knowledge around declaring and filing personal income, undocumented workers that have no way of registering themselves with tax authorities, or even intentional tax avoidance. Tax authorities believe that many sellers do declare their additional income, but some of them don’t – or they do it incorrectly.

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The OECD makes the case for improving existing tax frameworks

The aforementioned challenges have raised questions about whether existing tax frameworks are sufficiently equipped to efficiently administer this new economic reality in the fields of consumption and income taxation alike. Do they protect tax revenue and minimize economic distortions? And taking a positive outlook, does this ‘new way of doing things’ create opportunities to enhance compliance and administration?

An OECD (Organisation for Economic Co-operation and Development) report highlights two considerable opportunities created by the role of digital platforms and big data. Two OECD tax working parties investigated two distinct areas: **Working Party 9: Focus on Consumption Taxes** and **Working Party 10: Focus on Exchange of Information**

Their conclusions show how the gig economy can lead to greater visibility and traceability of economic activity. It also enables the formalization of previously informal economic activity, particularly in developing economies. Following the recommendations of these OECD working parties, governments are now protecting tax revenues by requiring digital platforms to share information about their sellers – and their transactions.

How do governments collect data about the activities of platform sellers?

The table below shows some of the different ways that governments currently collect information about the activity of platform sellers.

Method	Explanation
Traditional self-declaration and report	Typically annually, quarterly, or monthly users complete their own tax returns
Reporting under existing rules	Periodic Data Sharing by businesses (e.g. in Europe under the EC Sales lists or Intrastat reporting)
Ad-hoc Data Sharing requests	Governments request data for auditing or other regulatory purposes. This is typically done in an unstructured way and can happen at any point in time.
Sector-specific Data Sharing obligations	Accommodation or ridesharing platforms are asked to share data under bilateral agreements with regulatory authorities (which later provide the data to tax authorities)
Digital Reporting Requirements	Governments collect data under existing requirements (including: e-invoicing, SAF-T, real-time reporting, etc.)

The tax authorities are targeting **specific pain points**:

1. Tackling undeclared amounts – either deliberate fraud or genuine mistakes made by sellers

2. Optimizing costs – targeting platform operators to reduce the need to chase individual taxpayers one-by-one

3. Improving user experience – decreasing mistakes by making the process clearer (e.g. pre-populated tax returns for small and medium sized businesses). Some data is already shared in

real-time or near real-time, including information shared under existing digital reporting obligations (e.g. *SII in Spain*). In other cases, data is shared periodically (e.g. *EC sales lists in Europe*), but these regulations are different in each country – if such regulations exist at all.

Whatever the case, due to the perception of increased fraud and noncompliance, governments are insisting that dedicated, periodic, information sharing must be introduced.

TAX



The EU's DAC7

Before we explore our Data Sharing focus, it's important to establish what DAC7 is exactly.

DAC7 – *the seventh iteration to the EU Council Directive on administrative cooperation in the field of taxation* – introduces regulations that apply to business activities on digital platforms and have two main purposes:

- 1. Support tax transparency**
- 2. Prevent tax evasion and avoidance**

DAC7 is a way to standardize data reporting requirements for all platform operators across the European Union (EU). Dealing with each EU member state's individual tax regulations and unilateral reporting obligations is a daunting prospect for businesses. DAC7 considerably lightens this administrative burden for those businesses that are active in EU member states.

Building an information exchange between tax authorities further simplifies things for digital platform operators, as it means they'll also be able to meet their reporting obligations in a single member state for the entirety of the EU.



How often do DAC7 reporting obligations arise?

Companies will need to submit data under DAC7 annually, by January 31st of the following year.

Who does DAC7 apply to?

DAC7 applies to certain internet businesses that are defined by the directive as **digital platforms**. They are responsible for full DAC7 compliance. But how do we define a “digital platform”? According to the directive, a platform is:

“...any software, including a website or a part thereof and applications, including mobile applications, accessible by users and allowing Sellers to be connected to other users for the purpose of carrying out a Relevant Activity, directly or indirectly, to such users.”

What are Relevant Activities? The underlying

transaction types of the different industries DAC7 is targeting:

- **Rental of immovable property** (residential, commercial and others like parking spaces)
- **Personal services** (task or time based services like ride sharing or unique assignments)
- **Sale of goods**
- **Rental of transport** (renting out cars, boats, planes, etc.)

It is evident based on the wording of this critical definition that the intention was to capture the widest array of scenarios, i.e. to cover the many colorful business models evolved in the gig and sharing economy.

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The reporting obligations will apply to all platforms that operate within the EU – including platforms who do not have any registered presence in the EU. This applies to platforms of all sizes, due to the lack of any minimum thresholds in the directive. Keep in mind that it is possible for an otherwise eligible platform to be excluded from the reporting obligation. They must show the tax authority of the member state that their business model doesn't have reportable sellers. The burden of evidence is heavy and entirely on the shoulders of the digital platform operators. They must demonstrate their exclusion in advance and on an annual basis.

It is worth noting that platforms can be partially in scope of DAC7, as they might have multiple business lines some of which may be considered exempt from the reporting obligations. In such cases, the platform must fulfill its reporting duties, specifically regarding its DAC7-affected business line.

Platform Sellers

A seller qualifies as reportable under DAC7 if they:

- Are a legal entity or natural person
- Are registered on the platform during the reportable period

The reportable period is the calendar year, with the first being 2023 in the case of DAC7

- Carry out a relevant activity
- Have tax residency in an EU member state, or
- Rent immovable property in an EU member state



Exemptions

The directive defines multiple exemptions from the reporting obligations. These can either exempt reporting requirements for certain sellers or platforms themselves, depending on their attributes.

1. Exempt sellers

Platforms are exempted from reporting information from sellers that fall within the following categories:

- **Government entities**
- **Stock exchange listed entities**
- **Large providers of hotel accommodations** (more than 2,000 room listings per year)
- **Small/ad-hoc sellers of goods** (less than 30 transactions, with total revenues not exceeding EUR 2,000 per year)

2. Exempt platforms

Platforms are entirely exempted from the reporting obligations if they are exclusively engaged in:

- **Processing payments**
- **Advertisement**
- **Redirecting or transferring users**

Platforms are also exempted if:

- **They are not able to determine revenues earned on and through the platform**
- **They demonstrate that they have no reportable sellers at all**

“ *Another case for platforms to be partially in scope of DAC7 is when they have both reportable and exempted sellers. For example, if an online store sells goods of large stock-exchange listed companies as well as goods of smaller companies.* ”

What is reported?

PLATFORM OPERATOR INFORMATION

1. Name
2. Address
3. Email and website
4. Tax identification number

PLATFORM SELLER INFORMATION

1. Identity information

- Name
- Address
- Tax identification number
(and the country it was issued by)
- Business registration number
(for businesses)
- VAT number
- Date of birth (for individuals)
- Bank account number
- Country of tax residency

2. Transaction /activity information

- Revenues (the total remuneration paid, or credited, for the in a year),
- Total number of transactions
- Any fees, commissions or taxes charged or withheld by the reporting Platform Operator during the reportable period,
- Additionally for the rental of immovable property:
 - Address of the property
 - Respective land registration number (cadastral number)
 - Number of rental days and the type of property

How Fonoa Simplifies DAC7 for Your Platform

Fonoa was built to automate compliance for digital platforms and marketplaces, and we regularly work with marketplaces asking for solutions around tax ID validation, tax determination, and transaction reporting both for themselves and for underlying platform participants.

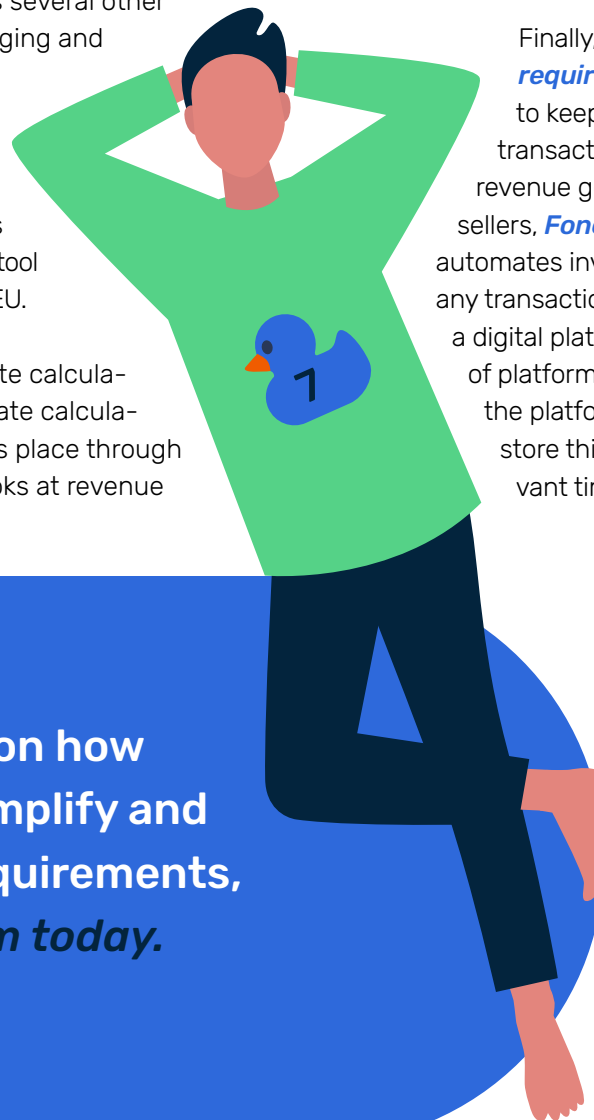
When DAC7 is in place, our Data Sharing offering will guide tax professionals towards compliance and automate technical complexities so you can save time while owning and controlling the end-to-end process. Fonoa also offers several other solutions that are critical in managing and maintaining compliance:

Fonoa Lookup which validates whether a tax ID is valid and live in a relevant government database, as well as if it is live in **VIES** – a critical tool to help manage compliance in the EU.

Fonoa Tax that automates tax rate calculations Fonoa helps automate tax rate calculations to any transaction that takes place through a digital platform. Here, Fonoa looks at revenue

generated by sellers to buyers in different countries, and keeps track of any changes to the rate; it also adds VAT obligations in case a seller crossed the VAT threshold in the buyers' country.

Finally, because **DAC7 requires digital platforms** to keep track of financial transactions and report revenue generated by EU sellers, **Fonoa Invoicing** which automates invoice generation for any transaction that happens on a digital platform, both on behalf of platform participants and the platform itself. Plus, it can store this data for any relevant time period on request.



For more information on how Fonoa can help you simplify and manage your DAC7 requirements, contact our sales team today.



Global tax rules move
fast, and so do we.

For more information, visit: <http://www.fonoa.com>

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