



## Directive proposal VAT in the digital age Deemed supplier rule Bolt's position

October 2023

Bolt is the leading European urban mobility platform, founded in Estonia in 2013 and operating in 24 Member States. Bolt's main service is the intermediation of ride-hailing rides operated by drivers, who can either be licensed under local PHV (private hire vehicle) regulations or "traditional" taxi drivers.

Bolt is very concerned about the unintended consequences of a provision of the Proposal for a Council Directive amending Directive 2006/112/EC as regards VAT rules for the digital age, more specifically the provision inserting an article 28 a) in Directive 2006/112/EC (the "deemed supplier rule" in article 2 of the Proposal).

The Commission argues that such a rule will solve VAT inequality. In fact, it will create VAT inequality in the passenger transport sector where before there was none.

### No VAT inequality in the passenger transport sector

According to the Commission's explanatory memorandum, *"The passenger transport and accommodation sectors have been explicitly identified by the study as sectors in which VAT inequality is at its most apparent" and "These issues will be solved by introducing a deemed supplier model, by which platforms will account for the VAT on the underlying supply where no VAT is charged by the supplier, thereby ensuring equal treatment between the digital and off-line sectors of short-term accommodation rental and passenger transport."*

Bolt strongly believes that for the passenger transport sector, such an assessment is unfounded. In the passenger transport sector, there is no unbalanced situation in which drivers working through digital platforms would be exempted from VAT, where those working through other means would be liable for VAT.

In the EU, **all passenger transport drivers are licensed professionals**, whether they work on platforms or not. Both "traditional" taxi and ride-hailing drivers are regulated in all Member States where they exist. **Whether drivers are liable for VAT has nothing to do with the fact they offer their rides offline or through a platform. This depends mainly on the level of their revenues and the VAT threshold set by each Member State.** The directive proposal is therefore claiming to fix an issue which does not exist.

### Discrimination against digitally enabled transport booking

Far from fixing an unbalanced situation, **the proposed provision would actually create distortion and unfair competition between rides offered through digital means and those hailed in the street or booked by phone.** It seems odd that European tax law would actively discriminate against transport booking services using digital technology competing against those which do not. This would go against the ambition of the EU to support the development of the digital sector in Europe and would

harm digital transport booking services which allow tens of millions of European citizens to access transport services in a more efficient and safer way.

**An unlevel playing field would be created between the same services, depending on how they are booked. Indeed, the very same driver could be exempted from VAT when being street hailed or booked by phone (because his/her revenues would be below VAT threshold), while his/her ride would be subject to VAT when offered through a platform.** In many Member States, one should bear in mind that drivers have the possibility to be booked by digital platforms or by offline means.

### **Negative impact on drivers with low revenues**

**The proposed provision could actually harm drivers who until now have been exempted from VAT by Member State tax rules because of their low revenues.** In Estonia, this represents two thirds of the drivers operating on Bolt platform. The deemed supplier rule would lead in Estonia to a 10 million euro additional VAT to be charged with a negative impact on the drivers, the passengers and on Bolt. As most ride-hailing platforms operating in the EU are still striving to make their operations economically sustainable in the long run, the cost of the additional VAT could be compensated by an increase of the platforms' commission on the price of the ride, leading to a decrease of the drivers' earnings through platforms. Alternatively, it could lead to an increase in the price of rides offered by drivers whose revenues are under VAT thresholds, making them less competitive which goes against the purpose of exempting revenues below a certain threshold from VAT liability.

### **European platforms will be harmed first**

The provision would mainly impact European passenger transport platforms, as they account for the vast majority of platforms operating in the EU. Not only do they represent most ride-hailing platforms in the EU, but the impact would be greater on them compared to large non-European actors as their smaller size means they would be less able to absorb the additional costs incurred and the loss of competitiveness. The proposed rule will indeed impose a huge and expensive compliance burden on European platforms, making it even more difficult for them to compete with global giants.

### **Violation of VAT neutrality**

Normally VAT cost is borne only by the final consumer (passenger) and remains neutral at all stages of the value chain for a taxable person doing business. If an entrepreneur is non-VAT liable (below the registration threshold), he/she does not have the right to input VAT deduction but at the same time does not have to charge output VAT. The Directive proposal would lead to the fact that non-VAT liable drivers would likely have to bear the burden of VAT twice:

- they will be charged VAT by the platform on the facilitation services (without right of VAT deduction)
- and very likely, the additional VAT charged by the platform (as deemed supplier) on the ride, will be indirectly transferred to them, if not absorbed by the passenger (an increase of rides' prices).

**Bolt therefore calls for the removal of passenger transport from the legislative provision as it will create distortion when there was none and discriminate against digital services. Equally important, it will mainly hit European actors and could eventually harm the drivers who have the lowest revenues.**