

DAC7 IS HERE: ENSURE READINESS IS KEY

BUSINESS CONSULTING

The DAC7 directive (EU Directive 2021/514) is the latest initiative in the field of tax transparency that extends reporting requirements to digital platforms. DAC7 requires digital platform operators to report certain information about the 'reportable' entities that are active on their platforms and undertaking certain commercial activities. Tax authorities will subsequently use this information to assess the reportable seller's fair share of income tax and VAT. Furthermore, this information will be exchanged among the EU Member States.

The reporting obligation applies to tax resident platforms, incorporated, managed, or permanently established in the EU. DAC7 reporting obligations also expand to non-EU-based digital platforms. Accordingly, such platforms must report under DAC7 if the sellers on their platform are facilitating buyers that are residents of the EU.

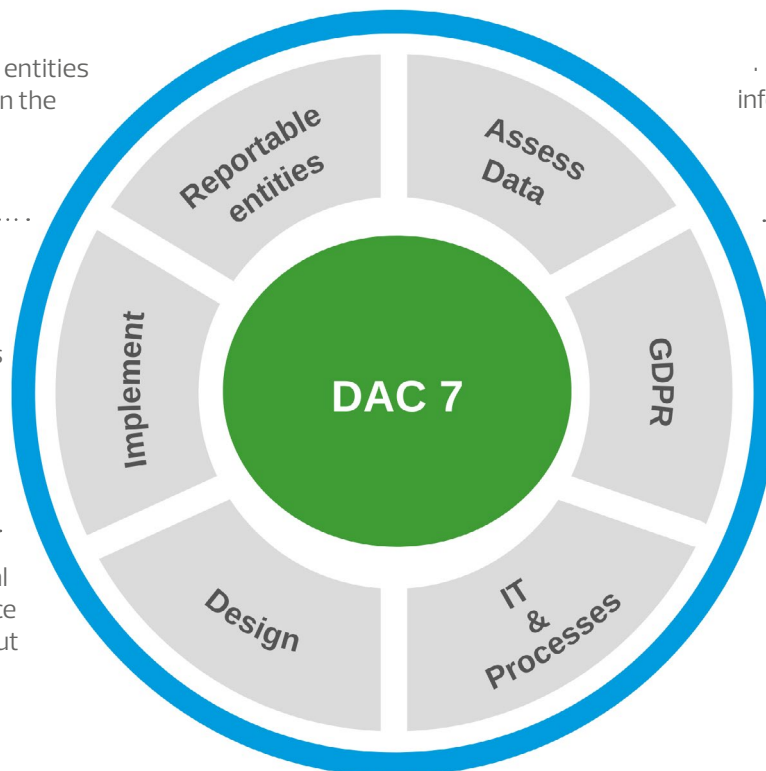
The DAC7 directive applies to 'digital platforms, which are defined as 'any website, mobile application or any other software that allows sellers to connect with buyers regarding a transaction on that particular platform'. DAC7 applies to digital platform operators that enable sales through their platforms. Furthermore, it also applies to platforms that enable other activities, such as the provision of personal services (freelancing/consultancy, etc.), rental of any mode of transport, and rental of immovable property, both residential and commercial, as well as rental of parking spaces.

Under DAC7 the first reporting period will start on **January 1, 2023**, and it will end on December 31, 2023. Moreover, the first deadline for submitting the DAC7 report will be January 31, 2024. Special attention is required to ensure readiness for compliance, as not complying with DAC7 requirements could trigger the risk of high penalties. In the Netherlands, penalties could be up to **Euro 900.000**.

How can we support you?

This means that companies have a couple of months to verify readiness for compliance before the first reporting period starts. In this regard, we strongly recommend undertaking the following steps to ensure readiness (i.e. to avoid delayed reporting, misreporting, or non-reporting):

[More information? click here.](#)



Assessing which reportable entities (reportable clients) fall within the scope of DAC7.

Assessing whether the existing information collected from reportable clients is sufficient.

Define an approach to ensure reporting obligations are met in a timely and safe manner.

Assessing whether any contractual clauses need to be revised/added so that the data collection complies with the GDPR.

Design internal, and external policies to ensure compliance with DAC7 and GDPR without impacting the customer experience.

Assessing the IT systems and processes to check whether they are capable to meet the data collection, data verification, assessment and conclusion, and reporting requirements for DAC7.

Our experiences

We are supporting internationally active platform operators to ensure not only readiness with DAC7 but also compliance at the same time. In this journey, we have identified reacquiring issues, including:

1. Data is missing for some reportable clients. In such cases, digital platforms are required to contact their clients to collect and validate the relevant data.
2. Often digital platforms hold sufficient data from their clients. However, the data is outdated and not validated which causes significant validation efforts and therefore can cause notable delays to report in a timely manner.
3. Internationally operating digital platforms often have sellers in multiple jurisdictions. There is a lack of uniformity and standardization in the collected data.
4. Complexity of adapting IT systems to ensure DAC7 compliance, as digital platform operators are required to identify, process, and validate higher volumes of diverse data across all EU member states where their sellers are located.
5. Digital platform operators are required to implement a mechanism that distinguishes reportable clients from non-reportable clients to comply with GDPR regulations in addition to DAC7.

Key take away

Considering the quantum of the expected penalties for non-compliance, we recommend initiating the process immediately so that the aforementioned challenges are addressed, and all reportable sellers are reported to the relevant tax authorities promptly.

