GLOBAL VAT

NEWSLETTER

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The MGI Global VAT Specialist Group continues to bring together leading indirect tax experts from across the network, providing a true centre of excellence in VAT and customs. With members collaborating across jurisdictions, the group supports firms and their clients in navigating complex international VAT challenges, from day-to-day compliance through to strategic cross-border advice.

This edition covers key VAT developments in Italy, the Philippines, Poland and the United Kingdom, including legislative updates, digital services VAT, ecozone and e-invoicing changes, supplier liability risks, B2B-model challenges, Capital Goods Scheme changes and temporary UK VAT reliefs.

For further information on any of the topics covered, please contact the relevant contributor directly. Alternatively, for general enquiries or to find out more about joining the MGI Global VAT Group, please contact Nicki Lynn at nicki.lynn@mgiworld.com.

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Italy: Legislative and technical updates

Italian Government delegated to implement ViDA reform package

With Law no. 36 of 17 March 2026 (European Delegation Law 2025) the Government has been delegated to implement Directive 2025/516/EU, which is part of the ViDA (VAT in the digital age) reform package.

One of the main objectives of the reform is the introduction of a real-time digital reporting system for cross-border VAT transactions, based on electronic invoicing.

Therefore, as off 1 July 2030, the introduction of the e-invoice obligation for intra-community supplies is envisaged, in compliance with a European standard that will require interoperability between national systems.

Other shorter-term innovations include:

- from 1 January 2027, certain amendments to the VAT rules on e-commerce;
- from 1 July 2028, the extension of the OSS regime to new types of transactions.

Importation of boats intended for personal use - Transfer of residence to Italy - VAT exemption regime - Applicability (answer to the Revenue Agency ruling 25.5.2026 no. 105)

Also, for the transfer of pleasure boats from a non-EU country to the EU customs territory (e.g. Italy), it is possible to benefit, under certain conditions, from the VAT exemption regime referred to in art. 3 of Directive 2009/132/EC, which provides that, except in special cases, the importation of personal property from natural persons who transfer their normal residence, located outside the EU territory, to a Member State is exempt from VAT.

For registered movable property, proof of "possession" and use of the property must always be provided (see Customs Agency Circular no. 22/2004, Sheet 3).

As for the requirement of "possession" of personal property, it must be understood as the economic availability of the property, i.e. the effective control over it. The requirement is satisfied in the case examined, in which the boat was purchased through a corporate vehicle attributable to the person transferring residence to Italy, and used exclusively by that person.

The fact that the goods were previously used in the territory of the Isle of Man and not in the United Kingdom does not preclude the benefit from being used, since the two territories form a single territory for VAT purposes (Customs and Excise Agreement of 1979, § 13).

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Philippines: The VAT reset continues — Digital services, Ecozone buy-side VAT, and E-invoicing move toward implementation

In our March 2026 contribution, we reported on three reforms that rewired the Philippine VAT system in 2025: the taxation of non-resident digital services, the shift of VAT remittance obligations to buyers in ecozone supply chains, and the move toward mandatory e-invoicing. Four months on, the Bureau of Internal Revenue (BIR) has moved from writing the rules to explaining how they apply in practice and, in places, has highlighted additional fact patterns that businesses may not previously have considered to be within scope.

This update covers what has changed since March 2026 and what MGI member firms should flag to clients with Philippine operations or Philippine counterparties.

1. Digital Services VAT: (RMC No. 59-2026)

On 2 June 2026, exactly one year after the 12% VAT on non-resident digital services took effect under Revenue Regulations (RR) No. 3-2025, the BIR issued Revenue Memorandum Circular (RMC) No. 59-2026, a question-and-answer circular resolving the practical issues that had accumulated since go-live. The clarifications matter well beyond typical streaming and SaaS suppliers; several extend the framework's reach into multinational group structures that would not previously have considered themselves in scope.

- **Registration is not excused by exemption**. A non-resident digital service provider (NRDSP) whose services are VAT-exempt must still register with the BIR and file VAT returns, reporting the transactions as exempt sales. Being outside the tax base is not the same as being outside the compliance system.

- **Cross-border cost-sharing arrangements are now squarely in scope**. Where a foreign digital service provider contracts with or is paid by a foreign affiliate under a cost-sharing arrangement, but a Philippine subsidiary is the ultimate consumer of the service, the transaction is still subject to Philippine VAT. The Philippine subsidiary is treated as the buyer under a B2B reverse-charge structure and must withhold, file, and remit 12% VAT using BIR Form 1600-VT, regardless of how the cost is allocated or invoiced within the group. This filing obligation rests with the Philippine subsidiary as the consuming entity, separate from the question of which foreign entity is treated as the NRDSP for registration purposes, addressed next.

- **Identifying the NRDSP is a facts-and-circumstances test**. As a default rule, the foreign entity actually supplying the digital service is the NRDSP. But where that supplier deals only with a foreign affiliate and has no direct relationship with the Philippine end-user, the affiliate itself may be treated as the NRDSP if it controls pricing, contractual terms, or the ordering/delivery process. Either way, the Philippine entity that consumes the service remains liable for VAT compliance, this is not a question clients can leave unresolved.

- **Potential impact on shared service centres and regional procurement hubs**. Commentary following the RMC has highlighted that foreign affiliates functioning as regional procurement or shared-service entities, not traditionally viewed as digital service providers, may potentially be drawn into the framework where they control key aspects of the transaction between a digital supplier and a Philippine consumer. Groups with regional shared-service structures serving Philippine entities should review those arrangements specifically.

- **Transitional and mechanical points**. For contracts spanning the 2 June 2025 effectivity date, VAT applies only to the portion of the service period falling on or after that date. VAT applies to digital services consumed in the Philippines regardless of whether the provider is resident or non-resident, and e-marketplaces may still be treated as digital service providers in their own right, with an obligation to collect and remit VAT on transactions they control. The circular also addresses digital platform fees (e.g., online booking intermediaries), zero-rating for certain Philippine services to non-resident foreign corporations where BSP conditions are met, and confirms that tax treaty benefits are not automatically available to reduce VAT exposure.

Practical note: commentators have also observed a mechanical gap, the current VAT return for non-resident providers (BIR Form 2550-DS) has no dedicated field for exempt sales, despite the RMC requiring them to be reported. NRDSPs should keep supporting documentation ready pending a form update.

2. Ecozone buy-side VAT: RR No. 1-2026 in practice, and a correction on the DME carve-out

Our March update reported on RR No. 1-2026 (effective 3 March 2026) as it stood at issuance. As the regulation has bedded in, official guidance and professional commentary have clarified, and in one respect corrected, how the DME (Domestic Market Enterprise) carve-out actually operates, which member firms advising on ecozone supply chains should note:

- **DME-to-RBE sales now run through the ordinary VAT system, not buyer-remit**. Where a VAT-registered DME falls within the exclusion set out in Section 4(B) of RR No. 1-2026 (amending RR No. 9-2025), broadly, a DME that is itself subject to VAT on its local purchases and importations and would otherwise be left with stranded input VAT, its covered local sales to a Registered Business Enterprise (RBE) are excluded from the Section 295(D) buyer-remittance mechanism and instead follow the regular VAT filing and payment mechanism. The DME-seller charges, reports, and remits the 12% VAT through its normal quarterly VAT return (BIR Form 2550Q), and the RBE-buyer may claim input VAT in the ordinary course, subject to standard substantiation rules. The earlier requirement for the RBE-buyer to compute and remit VAT per transaction using BIR Form 0605 has been removed for this specific fact pattern, resolving the input VAT accumulation problem we flagged in March.

- **Buyer-remittance remains applicable to covered B2B local sales by RBEs**. For local sales by an RBE (export enterprise or DME) to a business buyer that are not otherwise excluded (for example, VAT zero-rated or exempt transactions, or the DME scenario above), the buyer-remit mechanism continues to apply on a per-transaction (per-invoice) basis, with BIR Form 0605 transmitted to the RBE-seller ahead of release of goods from the economic zone or freeport, a step of particular relevance for cross-border groups moving goods through Philippine ecozones as part of a regional supply chain.

- **Bulk shipment relief is operational**. Buyers taking delivery of goods covered by multiple invoices under a single container or release may consolidate VAT into a single BIR Form 0605 payment, provided a full list of covered invoices is submitted to the Bureau of Customs before release, a meaningful simplification for high-volume importers.

- **Optional VAT registration for SCIT/GIE-regime RBEs is available and now carries a lock-in**. RBEs under the 5% Special Corporate Income Tax or Gross Income Earned regime may voluntarily register as VAT taxpayers for their local sales without losing existing fiscal incentives (including zero-rating on local purchases and VAT-exempt importation for registered activities). Once elected, this registration cannot be cancelled for three years, a commercial decision that should be modelled carefully before it is made, not treated as a routine election.

- **System reconfiguration deadline holds at 31 December 2026**. The deadline for RBEs to reconfigure cash registers, POS systems, CAS, and other invoicing software to display 'VAT on Local Sales' remains 31 December 2026, unchanged since March.

What to do now: clients buying from or selling into Philippine ecozones should re-map their transaction flows against the current rules, the correct VAT mechanic now depends on whether the counterparty is a DME or an RBE, and on the buyer's own VAT registration status, not on a single blanket rule. ERP tax-determination logic set up in early 2026 should be re-tested against these clarifications rather than assumed to still be correct.

3. E-Invoicing: Deadline holds at 31 December 2026 - Implementation preparations underway

No further deadline movement has occurred since March 2026: the compliance deadline for large taxpayers, e-commerce businesses, and CAS/CBA users to comply with electronic invoicing (issuance) requirements remains 31 December 2026 under RR No. 26-2025.

The BIR continues to develop and operationalize the systems and procedures supporting the broader electronic invoicing and electronic sales reporting (EIS transmission) framework, and early-mover taxpayers are already testing the compliance mechanics:

- Certification and onboarding requirements are being rolled out. The BIR is progressively operationalizing an EIS Certification Portal and Permit to Transmit (PTT) process for covered taxpayers, and available guidance indicates that certification is intended for mandated or notified taxpayers rather than software or system providers generally. Affected taxpayers should monitor and confirm the applicable registration, system-accreditation, and transmission requirements for their specific taxpayer group directly against current BIR issuances as these are rolled out.

- Format and timing requirements are fixed. Invoices must be issued and transmitted in a structured electronic format prescribed by the BIR, with submission generally required within a short window of transaction completion. The EIS technical specifications prescribe a detailed set of mandatory data fields; because published summaries of the precise format rules and field count vary, member firms should confirm the current requirements directly against the BIR's EIS technical documentation before advising clients on system design. What is settled is that plain PDFs, Word documents, and scanned paper copies do not qualify as compliant e-invoices.

- Issuance and transmission remain distinct obligations. The 31 December 2026 deadline under RR No. 26-2025 relates to the transition period for covered taxpayers to comply with electronic invoicing (issuance) requirements. Businesses should not assume that system readiness for electronic invoice issuance automatically means they are ready for the separate electronic sales reporting/EIS transmission requirements that will apply once the BIR's supporting systems are in place.

What to do now: covered taxpayers, and foreign parents with Philippine subsidiaries that will fall into Group 1, should treat their e-invoicing implementation, system readiness, and any applicable certification or onboarding requirements as a Q3/Q4 2026 workstream, not a year-end scramble. Data quality (accurate buyer TINs, chart of accounts mapping, transaction tagging) is proving to be a common source of transmission failure in early testing and is worth auditing well ahead of the deadline.

The bigger picture

The direction of travel we flagged in March has not changed, if anything, it has accelerated. The BIR is moving methodically from broad legislative and regulatory frameworks toward detailed, scenario-specific administrative guidance, and recent clarifications have highlighted additional fact patterns that businesses, particularly multinational groups and companies with cross-border arrangements, may need to assess. Businesses that treated the 2025 reforms as a one-time compliance project should revisit that assumption: 2026 has been a year of continuous refinement, and clients should expect further circulars addressing gaps as the BIR encounters them in practice.

Practical takeaways

- **Digital services**: map all cross-border digital service and cost-sharing arrangements feeding Philippine entities; confirm who is withholding 12% VAT under Form 1600-VT and whether the correct foreign entity has been identified as the NRDSP.

- **Ecozone / RBE supply chains**: re-map transaction flows by counterparty type (DME vs. RBE) and buyer VAT status; re-test ERP tax-determination logic configured earlier in 2026.

- **E-invoicing**: confirm the certification and Permit to Transmit requirements applicable to your taxpayer group and begin that process now; audit master data (TINs, chart of accounts, transaction tags) ahead of transmission testing.

- **General**: treat Philippine VAT compliance as a continuous-monitoring item for FY2026, not a closed 2025 project; the BIR continues to issue frequent clarificatory circulars across VAT and adjacent tax compliance areas. Schedule a mid-year compliance health check with affected clients.

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Poland: VAT reform - service buyers could be held liable for a supplier's unpaid VAT

For years, joint and several liability in Polish VAT has been associated primarily with transactions involving so-called "sensitive goods". Businesses purchasing fuel, steel products or other items listed in Appendix 15 to the VAT Act have become accustomed to exercising enhanced caution when selecting suppliers. However, the Polish legislator is now preparing a significant expansion of this mechanism. Under draft legislation currently progressing through Parliament, the risk would no longer be limited to goods but would also extend to a broad range of services, including selected intangible services listed in a new Appendix 16 to the VAT Act. The new rules are expected to take effect on 1 October 2026.

Why is the Polish government introducing this change?

The planned changes are intended to address VAT fraud involving fictitious transactions and so-called "empty invoices". According to the explanatory memorandum accompanying the draft legislation, tax authorities have identified a recurring pattern in which fraudulent taxpayers use selected intangible services as a vehicle for generating artificial VAT deductions. As a result, the legislator intends to shift part of the tax risk from the supplier to the purchaser.

The proposal forms part of a broader effort to strengthen the Polish VAT system and provide tax authorities with additional tools to combat organised tax fraud. In the government's view, the existing joint liability mechanism has proven effective in relation to goods, which is why a similar approach is now being extended to selected services.

Which services may be covered?

The new Appendix 16 is expected to include a number of commonly purchased business services, such as advisory services, management services, accounting and bookkeeping, advertising, market research, certain IT and software-related services, selected recruitment and employment-related services. The proposed changes may affect a significantly broader group of taxpayers than the current joint liability regime.

Importantly, the services are expected to be identified through specific PKWiU classifications. According to the explanatory memorandum, this approach should reduce interpretative disputes over whether a particular service falls within the scope of the new rules

What would change for purchasers?

Under the proposed rules, taxpayers acquiring services covered by Appendix 16 may become jointly and severally liable for the supplier's VAT arrears if they knew, or had reasonable grounds to suspect, that the VAT relating to the transaction would not be properly remitted to the tax authorities.

However, unlike the current description of the regime often presented in public discussions, the new rules would not apply to all service transactions automatically. The draft legislation introduces monetary thresholds designed to focus the regime on more substantial transactions. Joint liability is expected to apply where:

- the value of a single VAT invoice exceeds **PLN 15,000 gross**, or

- the total value of Appendix 16 services purchased from the same supplier during a calendar month exceeds **PLN 50,000 net**.

As a result, businesses will need not only to assess individual transactions but also to monitor the aggregate value of purchases made from a particular supplier.

Another important aspect is the practical difficulty of assessing whether a service has genuinely been performed.

Unlike the purchase of physical goods, the delivery of intangible services is often evidenced through reports, analyses, presentations, recommendations, software deliverables or other non-material outputs.

This creates additional challenges both for taxpayers and tax authorities. Businesses may therefore need to strengthen their internal procedures for documenting the actual performance and business purpose of acquired services.

Due diligence will become even more important

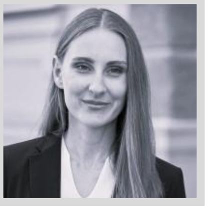
The draft legislation highlights factors that may indicate elevated tax risk. These include transactions conducted on unusual commercial terms or situations where the agreed remuneration significantly deviates from market conditions without a credible economic justification.

In practice, this means that due diligence procedures are likely to become even more important. Verification of suppliers, documentation of negotiations, evidence of service performance and proper commercial justification may become key elements of VAT risk management.

For many businesses, the focus should no longer be limited to obtaining a valid VAT invoice. Tax and procurement teams may increasingly be expected to verify not only who provides the service, but also whether the supplier appears capable of performing it and whether the agreed remuneration reflects market realities.

A significant shift in VAT compliance
From a broader perspective, the proposal reflects a continuing trend of transferring responsibility for VAT compliance further along the supply chain. While the objective of combating tax fraud is difficult to dispute, businesses may legitimately question whether purchasers of ordinary professional services should bear the risk of their suppliers' tax misconduct.

If adopted in its current form, the new Appendix 16 may fundamentally change the way companies approach the procurement of intangible services. What has traditionally been viewed as a purchasing decision could increasingly become a compliance exercise, requiring enhanced scrutiny not only of the service itself but also of the provider behind it. With the expected effective date of **1 October 2026** approaching, businesses should already be reviewing their supplier verification procedures, service documentation standards and internal control frameworks.



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Poland: Polish tax optimization via the B2B-model: potential challenges in VAT

Why the Polish B2B model attracts attention

Poland's sole-trader model is commonly viewed as a means of tax optimization: unlike a standard employment contract, it provides access to various preferential regimes, including lump-sum taxation and, in some cases, more favourable social security and health insurance contributions.

This makes the model particularly popular among middle- and high-income professionals, including those working in IT and consulting. As the relationship is structured on a B2B basis, it also has VAT implications for both parties: the sole trader issues invoices and accounts for VAT, usually at the standard rate of 23%, while the customer generally deducts the corresponding input VAT.

Current problems with the B2B-model

The B2B model has, in a sense, become a victim of its own popularity.

Every few years, the Polish government seeks to restrict its use by introducing criteria intended to distinguish genuine entrepreneurs from individuals who, in substance, operate in a manner similar to employees. Such criteria may relate, for example, to the assumption of business risk, the method of remuneration and the degree of organisational independence.

The latest initiatives, aimed at increasing public revenues, involve two separate but interrelated measures: the reform of the Polish National Labour Inspectorate (NLI) and the far-reaching income tax changes proposed in the comprehensive draft bill UD116. Taken together, these developments may lead to closer scrutiny and, in some cases, the reclassification of existing B2B arrangements. Where a relationship is found not to constitute an independent economic activity, the consequences may extend to VAT and affect not only future settlements but also previous tax periods that remain open, potentially going back almost six years.

In practice, this could even result in both parties being retrospectively denied the right to deduct VAT. For recipients of the services, the main issue would be the VAT shown on invoices issued by the purported entrepreneur. The entrepreneurs themselves could, in turn, be denied input VAT deductions on leasing costs and other business expenses, such as laptops, printers and similar equipment.

New competences of the NLI already in force

The main provisions of the NLI reform entered into force on 8 July 2026. A district labour inspector may issue an administrative decision determining that a civil-law contract or B2B arrangement is, in fact, performed under conditions characteristic of an employment relationship and should therefore be treated as an employment contract. Such a decision may be appealed to a labour court. Importantly, and unlike under the first draft of the bill, the decision is not automatically enforceable upon issuance.

The reform also applies to civil-law contracts concluded before its entry into force and still in effect on that date. It expands the exchange of information between the NLI, the Social Insurance Institution and the tax administration, facilitates risk-based and remote inspections, and increases the applicable penalties.

From a VAT perspective, the evidence relevant to such inspections substantially overlaps with the criteria used to assess whether an economic activity is carried out independently for the purposes of Articles 9 and 10 of Directive 2006/112/EC and the related CJEU case law. Relevant factors include control and subordination, working time and place, integration into the client's organisation, the assumption of economic risk, the method of remuneration and the existence of a genuine right of substitution.

Bill UD116: focused on income tax, still VAT-related

The current UD116 draft does not introduce a formal "entrepreneur test" under which an individual's business status would be determined by reference to factors such as independence in organising their work, the use of their own resources, exposure to economic risk, liability towards customers or third parties, or dependence on a single client. Instead, it seeks to restrict selected income tax preferences associated with certain business structures.

UD116 remains at the government legislative stage. It does not alter the EU-law criteria governing taxable person status or the right to deduct input VAT. Instead, it proposes to narrow selected income tax advantages. The key measures relevant to individual entrepreneurs include:

- Related-party IP arrangements: Income from the lease, licensing or similar exploitation of intellectual property and comparable products, other than copyright-protected works, would be subject to the 17% rate of lump-sum PIT where the arrangement is concluded with a related party.

- Related-party rental: Rental income exceeding PLN 100,000 would be taxed at 15%, rather than 12.5%, where it is received from a related party.

- IP Box: Access to the preferential 5% tax rate on services related to Intellectual Property (IP) would generally require either the employment of at least three unrelated individuals on a full-time-equivalent basis or a specified minimum level of remuneration expenditure relating to at least three unrelated individuals.

When considered together with the enhanced enforcement powers of the NLI, the proposed bill results in a broader policy direction aimed at reducing the tax attractiveness and use of B2B arrangements, particularly where they resemble employment relationships.

UD116 could therefore have an indirect impact on the VAT treatment of both existing and future B2B arrangements, particularly where the proposed changes lead businesses to review, restructure or terminate such arrangements.

What VAT teams should do now?

- Identify and rank B2B relationships by VAT exposure, taking into account the amounts involved, the duration of the cooperation and the extent of the individual's economic dependence on the client.

- Review the factual working model, including economic risk, remuneration, control over working time and place, organisational integration, the use of the individual's own resources, substitution rights and liability towards customers or third parties. Merely amending the wording of the contract may appear to be a viable solution but is unlikely to withstand closer scrutiny if the actual working arrangements remain unchanged.

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United Kingdom: Capital Goods Scheme changes

After two years of waiting for change, we finally had new legislation.

From 29 July 2026 (not sure why this is not 1 August) there is a significant change being made to the Capital Goods Scheme ("CGS").

- Removal of a computer or computer equipment valued over £50k + VAT

- Threshold increased on land, buildings and civil engineering works from £250k to £600k + VAT

This applies to refurbishments in buildings as well as acquisitions.

No changes will be made to acquisitions and works prior to 29 July 2026 these will still follow the old rules and threshold.

If a building project is part way through, the expenditure value will fall under the old threshold.

What is the Capital Goods Scheme (CGS)?

CGS is an adjustment system that ensures that VAT is reclaimed based on how much the asset is use for vatable (0%, 5% or 20%) business activities over 10 years.

A simple example:

A company buys a commercial building for £1,000,000 plus £200,000 VAT.

- Year 1: The building is used for the company's business activities, manufacturing car parts generating 100% vatable sales, the full £200,000 VAT is reclaimed.
- Year 4: The company has outgrown the building and decides to lease the premises, a VAT exempt activity.

The Adjustment: Because the usage has changed to non-vatable. a portion of the VAT that was initially claimed from HMRC must be repaid each year it has an exempt use until year 10.

An adjustment would also apply if the property was being sold.

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United Kingdom: School's out for Summer (and so is the Standard Rate of VAT)

The UK government announced in May 2026 that it will be introducing a temporary reduced rate of VAT (5%) for supplies of children's meals and tickets to certain attractions in the UK, in a bid to ease the burden of cost for parents trying to keep their children entertained throughout the summer holidays.

The temporary reduction in VAT will apply to selected services and activities taking place in the UK during 25 June 2026 and 1 September 2026. Some examples of the types of supplies that will be included within the scope of the reduced rate are as follows:

- Children's meals
- Children's cinema, theatre, show and concert tickets
- General admission to certain attractions

Although the above seems vague, as always there are more detailed conditions/criteria to be met for each category, when you read the fine print. The overriding theme of each category seems to lie with how the supply is presented in that it needs to be "held out for sale for a child, based on how it is marketed, priced and presented by the supplier." In addition, there is great emphasis on the time of the supply.

Of course, there is no legal obligation for UK businesses to lower their prices in line with the reduction in VAT and there may be some challenges where businesses offer a 'family package/bundle'.

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