EU Council adopts Directive to boost cooperation between national taxation authorities

The evolving landscape of digital assets and the significant crypto market growth has signalled an essential response from the European Union (EU) to ensure effective tax compliance. This has led to the adoption of a directive (DAC8) that amends the EU rules on administrative cooperation concerning tax matters. This directive seeks to strengthen the current legislative structure.

The directive aims to magnify the cooperation between tax administrations by expanding the range for registration and reporting obligations. One of the notable challenges so far has been the decentralized nature of crypto-assets. This decentralization amplifies the need for member states' tax administrations to ensure compliance.

Crypto-assets: A Central Focus

The directive meticulously addresses crypto-assets, with definitions rooted in the 'Markets in Crypto-assets' (MiCA) regulation. All crypto-asset service providers, irrespective of their size, will be mandated to report EU resident client transactions. This encompasses a spectrum of crypto-assets - those decentralized at inception, stablecoins, e-money tokens, and specific non-fungible tokens (NFTs).

E-money: Bridging the Gap

E-money, as defined by Directive 2009/110/EU, has been witnessing a consistent and steady rise in its usage within the EU. However, its status remained ambiguous under Directive 2011/16/EU, with member states adopting varied approaches. Recognizing the potential pitfalls, the DAC8 directive introduces specific rules to ensure that reporting obligations adequately cover e-money, thereby streamlining its taxation and reducing discrepancies.

Journey to DAC8 Directive: Objective and Purpose

On 17th of October 2023, the Council formally adopted the DAC8 directive, amending the EU rules on administrative cooperation in taxation matters. The directive primarily centres on:

i. Extending the scope of the automatic exchange of advance cross-border rulings for high net-worth individuals;

ii. Requiring all reporting crypto-asset service providers, irrespective of their size or location, to report transactions of clients residing in the EU and

iii. Requiring financial institutions to report on e-money and central bank digital currencies.

The timeline leading to its adoption is as follows:

January 2021
The Court of Auditors assesses Directive 2011/16/EU and suggests including crypto-assets.

7th of December 2021
The Council communicates the need for a legislative proposal in 2022 focusing on crypto-assets.

8th of December 2021
The European Commission introduces the initial DAC8 proposal.

16th of May 2023
ECOFIN meeting results in a general approach on DAC8's compromise text.

17 October 2023
ECOFIN meeting results in a general approach on DAC8's compromise text.

Click here for Council directive amending directive 2011/16/EU on administrative cooperation in the field of taxation (DAC8).

Next Steps: Final Remarks

Post the Council's adoption, the Member States will have a timeframe leading up to 31 December 2025 to embed the new rules into their national legislationslegislation. Following this, the rules under DAC8 are scheduled to be applicable from 1 January 2026 (with some exceptions).

This directive signifies the EU's proactive approach towards ensuring tax compliance in the digital age. For businesses and individuals operating or planning to engage in the crypto-asset space, awareness and compliance with this directive will be paramount. Proper understanding and adherence will not only ensure compliance but also open avenues to leverage in this evolving financial landscape.

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