Accelerating VAT modernization with cloud and AI

VAT in the Digital Age (ViDA)

Contents

VAT is now critical, as the shift to indirect taxation accelerates

Demographic shifts are making the collection of broad-based consumption taxes increasingly important. VAT in the Digital Age (ViDA) reforms will digitalize VAT, helping the European Union to collect around €11 billion more in VAT revenues annually[1]. Mandatory e-invoicing and real-time digital reporting will tackle carousel fraud and tax evasion, bringing complete transparency to the charging and collection of VAT.

The challenge? Right now, most EU tax authorities need to radically reform existing systems to deliver this digitally connected world of taxation.

The ongoing demographic shift is characterized by aging societies and shrinking workforces. This shift is steadily reducing the revenue potential of direct taxes, while increasing pressure on public finances. As the income tax base erodes, governments depend more heavily on stable, broad-based consumption taxes. In this context, VAT becomes even more critical, offering a resilient revenue source less affected by demographic trends.

Put simply, when fewer people are paying income-based taxes in an ageing population, it makes sense to charge a universal consumption tax, paid by everyone, based on what they consume.

At the same time, the growing fiscal importance of VAT underlines the need to systematically combat VAT fraud and tax evasion. Ensuring the integrity of the VAT system through effective enforcement, digital reporting, and cross-border cooperation is essential. These measures will safeguard revenues and maintain fairness as tax systems adapt to ongoing demographic change.

Reforms digitalizing VAT will help the European Union to collect around **€11 billion more** in VAT revenues annually

1. EU-Commission: The move to e-invoicing will help reduce VAT fraud by up to €11 billion a year.

Taxation is always a divisive subject. The pragmatic view from the European Commission is that moderate VAT rises, coupled with cuts in social contributions, can deliver increases in both employment and real net wages[2]. One thing is for sure. As the demographic shift intensifies, VAT is increasingly important in the wider sphere of government taxation. And, increasingly, it's seen as a catalyst for change.

The European Commission's 2025 VAT Gap Report estimates EU countries collectively **lost a staggering €128 billion** in VAT revenues in 2023

Close the gap, grab the opportunity

The opportunity speaks for itself. The 2025 VAT Gap Report estimates EU countries collectively lost a staggering €128 billion in VAT revenues in 2023[3]. It's clear that the ViDA reforms require EU member states to close that gap.

Tax authorities must adopt EU ViDA standards in the next two to three years to comply with EU directives. And they must be ready for mandatory electronic invoicing for intra-EU B2B transactions by 2030. Whilst compliance is compulsory, the benefits are huge. ViDA not only offers a vast revenue generating opportunity, but it will also accelerate digitalization, cut costs, and reduce bureaucracy.

What is ViDA?

The VAT in the Digital Age (ViDA) package is a comprehensive reform package introduced by the European Commission to modernize the VAT system across the EU.

ViDA obliges member states to implement real-time digital VAT reporting, based on B2B e-invoicing, by 2030.

- helps combat VAT fraud, especially carousel fraud.
- enables national digital reporting systems for domestic trade.
- acts as the catalyst for the real-time economy.

A single VAT registration will enable businesses to fulfill their VAT obligations via an online portal in one EU country, while trading across the EU.

Platform economy businesses, such as those in the passenger transport and short-term accommodation sector, will become responsible for collecting and remitting VAT, when their users do not.

2. European Commission, The Economic Effects of a Tax Shift from Direct to Indirect Taxation in France, Discussion Paper 077, Mars 2018, p15
3. European Commission, VAT Gap in Europe Report 2025

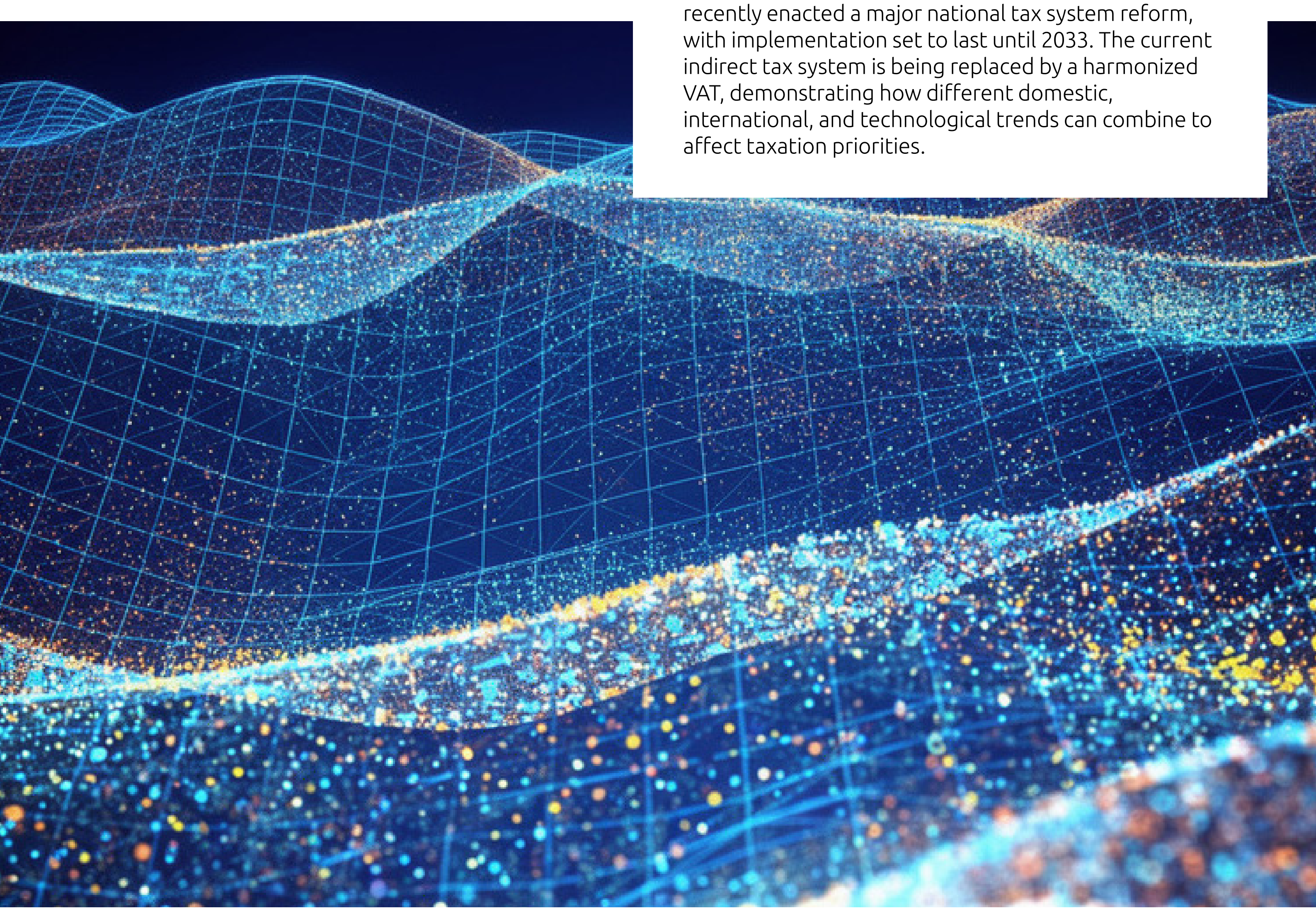
Harness the macro trends driving an irresistible opportunity

ViDA will enable the seamless, automated flow of trusted transaction data between businesses and tax authorities, accelerating the creation of the real-time economy across the EU. A series of macro trends is compelling tax authorities to act. First is a constant pressure to reform. Second is the clash between global harmonization efforts and geopolitical tensions. And third is the relentless evolution of the technology landscape, which is in a state of constant flux.

Leverage the pressure to reform

National and regional tax systems are never static, but evolve constantly. They transform continuously to meet political and taxpayer expectations around fair and effective tax collection. Generally, taxpayers will not resist reform of taxation systems, if they think they will benefit. Often, pressure comes from diverse sources. For example, policy changes occur in response to economic and political pressures, but authorities must also contend with global reform initiatives.

The impact of these pressures can be huge, often resulting in the reassessment or even the replacement of entire information systems. For example, Brazil recently enacted a major national tax system reform, with implementation set to last until 2033. The current indirect tax system is being replaced by a harmonized VAT, demonstrating how different domestic, international, and technological trends can combine to affect taxation priorities.



Balance harmonization efforts with geopolitics

The clash between global harmonization efforts and geopolitical tensions drives a constantly evolving body of global and regional initiatives around tax cooperation, tax compliance enforcement, anti-money laundering measures, and regulatory integrity. Their impact can be significant. For example, evolving global trade and customs policies continue to create uncertainty around international tax cooperation.

In contrast, the ViDA proposal by the European Commission shows how combined domestic, international, and technological trends can have a positive impact. Real-time digital reporting for cross-border trade, based on e-invoicing aims to reduce VAT fraud by up to €11 billion a year. This will bring down administrative and compliance costs for EU traders by over €4.1 billion per year over 10 years.[4]

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Navigate a turbulent technology landscape

Perhaps surprisingly, tax authorities are more likely to adopt new technologies than many other government organizations. This occurs for a variety of reasons. Firstly, taxes play a critical role in the functioning of society and the financing of public services. Secondly, taxpayers have increasingly high and rapidly evolving expectations of easy, convenient interactions. And thirdly, new technologies are exploited with incredible speed for illegal tax evasion practices. Similarly, financial organizations led the way in the private sector, with banks and insurance companies at the forefront of digitalization.

As the EU starts to implement ViDA, rapid progress in the Nordic nations shows how digital reporting can evolve beyond compliance. It's clear that, once implemented, ViDA becomes an enabler of the real-time economy, where business processes, financial administration, and tax reporting operate in an integrated, data-driven ecosystem.

Together, these macro trends create a perfect storm. The constant pressure to reform, the clash between global harmonization efforts and geopolitical tensions, and the relentless evolution of the technology landscape, are compelling tax authorities to act.

4. European Commission; VAT in the Digital Age (ViDA)

Optimize opportunities at a local level

ViDA represents a massive opportunity, but tax authorities will need to focus on the regulatory, technology, and skills perspectives, tackling challenges and optimizing opportunities at a local level.

The regulatory perspective is clear. As we've seen, tax authorities must be ready for mandatory electronic invoicing for B2B transactions within the EU by 2030. The upside is that these changes will help member states collect up to €11 billion more in VAT revenues annually.

The technology perspective is less distinct. Tax authorities will need to implement new systems for e-invoicing. They may need to modernize the wider systems landscape. For many, the challenge is to overcome legacy technologies, integrating new capabilities with back-end systems. The costs of managing legacy technology continue to consume a large share of tax authorities' budgets.

Meanwhile, the skills perspective brings the challenge into sharp focus. Many authorities continue to invest in the resources they need to deliver innovative solutions. However, many still lack the skills and capabilities to deliver cutting edge responses to the rapidly developing tax environment. Many are still more oriented to data centers rather than to the cloud. Right now, the skills and capabilities gap is the critical challenge facing many tax authorities.

Evaluate the local context

How quickly ViDA reforms accelerate progress towards a real-time economy depends on the immediate context in the individual countries. Currently, each national tax authority operates in the context of different priorities and approaches. It's evident that all EU tax authorities need to modernize core taxation systems and platforms, but there are shifting strategies in place to reach national goals.

Currently, progress falls into three categories. Some authorities, for example in Germany, need to quickly modernize their core taxation systems and platforms. Others, for example in Finland, have progressed modernization, but have further to go. But there are a few, for example in Italy, that have already made good progress on modernization and want to adopt AI.

Sequencing priorities on the journey to a real-time economy

Focusing on the implementation of digital reporting in VAT will accelerate the creation of the real-time economy. To stay ahead, tax technology leaders will need to focus on three key priorities.

First, improving the taxpayer experience to reflect the standards consumers have come to expect from sectors such as retail, financial services, and leisure. Second, raising compliance and collection to reduce tax gaps and reduce VAT fraud. And third, modernizing core systems and platforms to enable these priorities and ensure the delivery of the digitally connected world of taxation.

01 Transform the taxpayer experience

The first priority for tax authorities must be to transform services and enhance the taxpayer experience.

The taxpayer experience varies considerably across the EU and beyond. This is evident if we look, for example, at the digitalization of tax systems. At one extreme, Denmark provides electronic personal income tax forms with prefilled income info to 100 percent of its citizens. On the other end of the spectrum, 82% of citizens in Luxembourg still file their personal income taxes on paper forms. In the US, while a lot of income tax returns are filed electronically, only basic information, if any, is prefilled to reduce the burden on taxpayers.[5]

Embracing human-centered design across all channels and touchpoints is critical to enhancing the taxpayer experience. Tax authorities can go beyond traditional, reactive responses to create proactive service models that anticipate and satisfy customer needs. Optimizing data sharing and automation will make innovations like prefilled tax returns, e-invoicing, and real-time reporting the norm. By accelerating and normalizing the use of digital identity, authorities will enable the authentication and delegation of authority between taxpayers, intermediaries, legal entities, and technology.

Expediting the application of AI and analytics will deliver proactive and innovative services, taxpayer nudging and education, and automated tax assessments. The transition from cash to digital solutions, including digital taxpayer accounts and real-time settlement, will modernize payments and settlements. Nurturing a culture of innovation and experimentation will establish labs and sandboxes, crucial to exploring new service models, touchpoints, and technologies.

Denmark provides electronic personal income tax forms with prefilled income info to

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5. Source: Share of Total PIT returns, Selected OECD countries.

02 Support compliance and collections

The second priority for tax authorities is investment in technologies that enhance compliance and collections efficiency to reduce tax gaps.

It's no surprise that AI and generative AI are already in use, supporting collection and compliance. Data sharing, analytics, and AI investments are helping tax authorities to inform, educate, and nudge taxpayers. They're invaluable to pre-filling and automating declarations, as well as to detecting fraud and grey economy activities. They also help to enhance the accuracy of audits, inspections, and enforcements, and to optimize synthetic data for hypothesis and model testing. Of course, AI and generative AI technologies require rigorous governance to ensure purposeful, responsible, and ethical use across the wider tax ecosystem.

Low-code/no-code development platforms are being deployed to increase productivity and effectiveness in tax collection. Digital identity technologies enable advanced authentification and are particularly useful as a means to address tax base erosion in corporate income taxes. Other technologies that help accelerate compliance and enhance collections include industry cloud platforms, distributed cloud, and synthetic data.

AI and generative AI are already in use, supporting collection and compliance through automating declarations, detecting fraud, and enhancing audit accuracy

03 Prioritize modernization and innovation

The third priority for tax authorities is the modernization of core systems and platforms.

Tax authorities increasingly undertake major replacements of core systems as they move to the cloud, instead of upgrading or phasing replacements.

As noted by a 2023 Gartner® survey, "50% of government respondents report major replacements of core taxation systems, up from 28% in 2018."[6]

In truth, legacy core systems are often challenging to upgrade because options are limited, costly, and time-consuming for existing, custom-built applications. The task is made more difficult as there is generally limited in-house expertise, particularly in cloud architectures.

It's best to plan a continuous modernization process, rather than attempt a single, overnight transformation. This will allow the prioritization of modernization initiatives that drive priorities and satisfy leadership objectives.

It's also important to focus on building tax system agility through modularity, composability, and co-development with vendors. Initiatives should leverage SaaS and other cloud-based delivery models, while ensuring supply chains remain resilient in the face of evolving geopolitical and global trade policy shifts.

In this landscape, tech sovereignty returns to the top of the agenda, but the race is now for resilient interdependence, balancing open collaboration with strategic self-reliance. Success will depend on designing systems that remain globally connected yet controllable, embedding sovereignty principles into architecture rather than isolationist strategies.

Modernization strategies must also constantly adapt to cyberthreat evolutions. This includes the development of cryptographic algorithms designed to remain secure even if quantum computers break current encryption safeguards. And finally, but critically, it's vital to orchestrate strategies to attract, nurture, and retain the best talent to enable continuous modernization.

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6. Gartner, Leadership Vision for 2026: Government Tax and Revenue Authority CIO, Arthur Mickoleit, 4 February 2026
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Step up to the ViDA transformation challenge

ViDA is best approached as a multi-step transformation. Its implementation will enable a digitally connected world of taxation.

The new ViDA legislation is much more than a single bureaucratic reform. In fact, it's a coordinated sequence of structural changes that will redefine how VAT information is created, exchanged, and orchestrated across EU member states. The successful delivery of ViDA requires national tax authorities to modernize their systems and redesign processes to align with a new European digital architecture. The result will be an integrated, transparent, and data-driven taxation ecosystem. But, in the process, ViDA will deliver much more than that, kickstarting the real-time economy across the EU.

Let's look at what's required for a successful ViDA transformation.

B2G e-invoicing rollout

The first step is the full digitalization of B2G e-invoicing. This is the foundation on which the wider transformation rests. Tax authorities and their suppliers must adopt a standardized, fully electronic invoicing model that eliminates traditional paper processes. It's essential that consistent data quality, interoperability, and security are established across all public procurement channels, as these standards will cascade into the broader VAT ecosystem.

B2B e-invoicing mandate design

Building on this foundation, each member state must design and implement its national model for mandatory B2B e-invoicing. This is a pivotal decision point. The chosen model must support seamless data capture, minimizing disruption for businesses, and integrating seamlessly with both domestic reporting systems and the emerging EU level framework. The balance between national flexibility and cross border compatibility will determine how effectively the system functions in practice and how easily businesses can operate across the single market.

Real-time digital reporting infrastructure

Real-time or near real-time digital reporting forms the next layer of the transformation. Tax authorities will have to enable infrastructure capable of analyzing transactional data at high speed and at scale. This demands investment in modern platforms, robust cybersecurity, and advanced analytics. The goal is to reduce fraud and strengthen audit capability. Throughout, privacy-by-design principles and GDPR compliance must be embedded into reporting architecture from the outset, ensuring citizen data is processed lawfully and with appropriate safeguards. Most importantly, it will provide a more accurate, dynamic view of real-time economic activity. For many tax authorities, this will be the most technically demanding element of ViDA.

EU ViDA compliance alignment

All national reforms must be aligned with the umbrella EU ViDA legislative package. Harmonization is essential to ensure that businesses face a coherent and predictable set of obligations across borders.

EU public sector interoperability

Finally, member states must embrace interoperability to enable secure and standardized exchange of VAT related data. All data must be compatible with the EU Customs Data Hub, which will centralize data, risk analysis, and import supervision information across the EU. This cross border cooperation is central to ViDA's ambition. It establishes a connected, real-time VAT environment that strengthens compliance and reduces administrative burdens.

The EU's Interoperable Europe Act (IEA) provides a framework for governments to better communicate and interact with citizens, businesses, and other governments within and across borders. But interoperability in the public sector is not only about aligning IT systems. There are also legal, organizational, and semantic considerations, with benefits extending to every corner of life, including trans-border business affairs.

A multi-step transformation

Taken together, these steps create a rigorous modernization agenda. It crystallizes ViDA as so much more than a compliance exercise, establishing it as the blueprint for Europe's real-time tax economy.

Our dynamic, co-creative partnership with Microsoft elevates every ViDA journey

Our partnership with Microsoft amplifies every ViDA project by combining deep taxation expertise with a mature, globally proven technology ecosystem. This is a deliberately integrated approach, designed to support the entire transformation journey, from strategic framing to industrialized delivery. It also provides tax authorities with a coherent, end-to-end pathway through this critical transformation.

Capgemini

Capgemini brings a strong and recognized position as a leader in European tax and VAT, supported by extensive global experience in tax and customs modernization. Over time, we have developed an industrialized delivery model for ViDA, built around pre-configured building blocks that accelerate implementation and reduce risk. Our blueprint approach to ViDA and B2B e-invoicing enables us to refine and replicate our processes. This continuously enhances our delivery model, strengthening competitiveness, and shortening time to value.

Capgemini is expert at addressing sovereignty concerns, having established sovereignty passports for more than 20 cloud providers. In our experience, many clients struggle with finding a balance between data sovereignty, compliance, and optimizing opportunities to advance their services through an extended data ecosystem. We address this as a trusted advisor, leveraging Microsoft as our cloud platform in scenarios with public and hybrid cloud.

In hybrid scenarios, we can manage the need to scale and process huge data volumes, while maintaining control and taking wise sovereignty decisions. We're experienced at orchestrating all kinds of hybrid scenarios, from on-premise solutions, via sovereign clouds like DELOS and Bleu, through sovereign public cloud to full public cloud solutions.

Microsoft

Microsoft contributes complementary strengths that significantly reinforce the partnership. We share a unified vision of the challenges facing tax authorities and the transformation outcomes they seek. The partnership leverages Microsoft's deep industry capabilities and proven cloud platform, enabling a robust, industrialized approach to ViDA-aligned architectures.

Microsoft Azure provides the scalable, compliant, and sovereign-ready cloud infrastructure for real-time e-invoicing, digital reporting, and high-volume transactional data processing. Microsoft Dynamics 365 Finance enables end-to-end VAT management integrated with e-invoicing workflows, while Power Platform empowers tax authorities to rapidly build low-code compliance automation solutions. Microsoft's Sovereign Cloud ensures full data residency and regulatory control, directly addressing the sovereignty requirements of EU member states.

AI is at the heart of Microsoft's contribution. Azure AI and Microsoft Copilot accelerate fraud detection, predictive compliance analytics, and intelligent taxpayer service – all governed by Microsoft's Responsible AI Standard, ensuring purposeful, ethical, and transparent use across the tax ecosystem.

Together, Capgemini and Microsoft orchestrate unified, pre-defined hybrid solutions that can be deployed across Europe and globally. Shared delivery responsibilities ensure alignment, resilience, and scalability, giving tax authorities a trusted, integrated pathway to ViDA compliance and the acceleration of the real-time economy.

Kickstarting the real-time economy across the EU

ViDA will transform the fiscal landscape, kickstarting the real-time economy across the European Union. Beyond the fiscal uplift, these reforms will give governments unprecedented visibility into the health of their economies, enabling faster, more informed policy decisions. The benefits are significant for both businesses and individuals. Simpler compliance, reduced administrative burdens, and a more competitive commercial environment.

Yet the scale of this opportunity is matched by the scale of the challenge. To realize the full value of ViDA, tax authorities must establish new digital platforms, or overcome legacy constraints to integrate modern capabilities. This requires architectural redesign, new operating models, and the secure management of high volume, real-time data flows. In reality, many tax authorities just don't have the internal skills, capacity, or experience to deliver such a transformation alone.

Collaboration with a trusted and experienced partner like Capgemini is essential. Our work across Europe demonstrates how a value chain driven approach can address the varied needs of tax authorities as they prepare for ViDA. Although each member state operates within its own regulatory and organizational context, key objectives remain consistent. The universal goals are to simplify and digitize business operations. To enhance competitiveness, and reduce bureaucracy for both business and the state. And to close the VAT gap by strengthening fraud prevention.

Working with Capgemini and Microsoft, tax authorities will accelerate their ViDA journey, reducing implementation risks and ensuring that new systems are designed for long term resilience. Together, Capgemini brings deep domain expertise and proven delivery models, while Microsoft provides the cloud platform, AI capabilities, and sovereign infrastructure needed to power the transformation. This collaboration will not only unlock the full promise of ViDA, but also revolutionize tax collection ecosystems, laying the foundations for the real-time economy across the EU.

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About Capgemini

Capgemini is an AI-powered global business and technology transformation partner, delivering tangible business value. We imagine the future of organizations and make it real with AI, technology and people. With our strong heritage of nearly 60 years, we are a responsible and diverse group of over 420,000 team members in more than 50 countries. We deliver end-to-end services and solutions with our deep industry expertise and strong partner ecosystem, leveraging our capabilities across strategy, technology, design, engineering and business operations. The Group reported 2025 global revenues of €22.5 billion.

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