



Booking.com's comments to the Finnish Ministry of Finance regarding the implementation of the VAT in the Digital Age (ViDA) Directive with respect to the Platform Economy

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Booking.com welcomes the opportunity to provide its comments on the Finnish Government's planned implementation of the EU's VAT in the Digital Age (ViDA) Directive with respect to the platform economy. Given the significant complexity of these rules and their potential impact on the tourism sector, we consider it important that accommodation providers and platforms are closely consulted to ensure a smooth, fair, and evidence-based implementation. We therefore welcome the Finnish Ministry of Finance's early consultation and are ready to provide further information as the government proceeds with the law's transposition.

While we support ViDA's objective of modernising the EU VAT system, we are concerned about the ramifications for the EU's tourism sector and the negative impact on small accommodation businesses. With this in mind we respectfully encourage the Finnish Government to implement the option of exempting businesses who qualify from the VAT exemption for Small and Medium Size Enterprises (SME) from the platform economy rules. In our view, exercising this option will protect the valuable contributions of small accommodation providers to the Finnish economy whilst delivering on the objectives of ViDA.

About Booking.com

Founded in 1996 in Amsterdam, Booking.com has grown from a small European startup to one of the world's leading digital travel companies. Booking.com's mission is to make it easier for everyone to experience the world. By investing in the technology that helps take the friction out of travel, Booking.com seamlessly connects millions of travellers with memorable experiences, a range of transport options and incredible places to stay - from homes to hotels and much more. As one of the world's largest travel marketplaces for both established brands and entrepreneurs of all sizes, Booking.com enables properties all over the world to reach a global audience and grow their businesses.

We want to help EU businesses grow, succeed and create a competitive and prosperous business environment in the EU. We look forward to working with the Finnish Ministry of Finance to develop a ViDA implementation approach which is fair, proportionate, and protects the Finnish economy and small businesses.



ViDA's background and Booking.com's approach to policy development

The platform economy component of ViDA was originally proposed to address an alleged distortion of competition associated with the expansion of the travel short term rental accommodation and passenger transport sector to small and micro businesses. It was alleged that small and micro businesses, many of whom are exempt from VAT, create a competitive challenge for large established businesses that also operate in the tourism and accommodation sector and charge VAT on their services.

The ViDA proposals set out to address this alleged distortion through the implementation of the so-called 'platform fiction'. Under this fiction, platforms assume responsibility from the underlying accommodation suppliers for charging VAT on their services to guests. Crucially however, while VAT is to be charged on these accommodation services, the underlying accommodation suppliers will have no ability to recover any VAT incurred on their costs. This is a significant divergence from general VAT principles of fiscal neutrality and this unfairness was highlighted by accommodation providers, platforms, and Member States throughout ViDA's policy development process.

We do not agree with ViDA's assumption that the increased market access for small accommodation businesses has created a distortion of competition in the sector and we consider that the divergence from VAT neutrality principles caused by the platform fiction is unfair to these businesses. However, in the interests of cooperation and to help ensure a sensible policy design, Booking.com, along with other accommodation platforms and short-term rental trade associations, provided constructive input on the shape of the platform economy rules. We recognise that both established hotel chains and small accommodation providers play an important role in providing traveller choice and innovation in the EU's tourism sector and therefore it is important to create a fair and equitable treatment for all businesses.

As such, we were supportive of the EU Council's decision to include an optional provision for Member States to disapply the platform fiction for businesses who are exempt under the EU's Small Business Scheme for VAT under Article 28 a paragraph 4 of the Directive (SME exemption). We believe that Member States who exercise this option will mitigate the unfair impact on small businesses and restrict the application of the platform fiction to instances of non-compliance by accommodation providers. Across the EU, we are supportive of this exclusion and recommend that it is implemented in a fair and simple way to help support local small accommodation businesses while not creating a disproportionate burden for the digital platform.

Exercising the SME exclusion

Booking.com remains a constructive stakeholder in the ViDA implementation process. We believe that ViDA's 'platform fiction' can be implemented simply while protecting small

businesses by adopting the exclusion for those qualifying for the Finnish VAT SME scheme. We would therefore be supportive of Finland exercising the option under **Article 28a(4)** of the Directive to exclude small businesses qualifying for the SME scheme from the deemed supplier rules. This will help ensure that the platform economy rules do not become a vehicle for unintended tax increases on the smallest market participants. We have outlined below some key reasons how exercising the SME exclusion will lead to a more effective ViDA implementation.

1. Protecting small accommodation providers

Exercising the SME exclusion would preserve Finland's existing simplified rules for small entrepreneurs and would protect thousands of accommodation providers earning under €20,000 annually. Without the exclusion, these hosts face a 13.5% VAT charge on turnover without the ability to recover input VAT, creating an unfair fiscal burden and market distortion. While the ViDA rules originally aimed to create a level playing field among providers, the additional price pressures caused by the platform fiction will place the smallest businesses (who already cannot achieve the same economies of scale of larger providers) at a significant financial disadvantage to larger businesses.

In our view, ViDA's platform fiction should aim to increase collection and remittance of VAT only in respect of non-compliant providers who do not qualify for the SME exemption, thereby addressing a potential 'VAT compliance gap' that may exist. However, the application of the platform fiction to businesses operating below the €20,000 VAT registration threshold, where no 'VAT compliance gap' currently exists, is unfair and counterproductive. Such businesses are legally entitled under Finnish law not to apply VAT to their rental prices.

2. Increase in VAT registrations

Without the abovementioned exclusion, many affected businesses may voluntarily register for VAT solely to reclaim input VAT, creating a disproportionate administrative burden for both taxpayers and the Finnish Tax Administration. This would be counterproductive to the intentions of ViDA.

This concern was discussed throughout the EU policy development deliberations on ViDA and several stakeholders noted and analysed the number of SME partners who are likely to voluntarily register for VAT following ViDA's implementation. In particular this concern was outlined by the European Commission and documented in their ViDA impact assessment study (See page 146 VAT in the Digital Age_Final Report Volume 2_V Pdf, 2022). The incentive to register for VAT is created due to the increased cost that ViDA will create for SMEs, which will in turn incentivise such businesses to seek cost savings via input VAT recovery. The above-mentioned ViDA impact assessment study noted that businesses with revenues above EUR 10,000 would likely register. This is likely to amount to many thousands of new VAT registrants and some platforms could encourage this activity.

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The onboarding of thousands of small and micro businesses could be costly for the Finnish Tax Authorities and for the small businesses themselves, while resulting in relatively little additional VAT revenue for the Government. Furthermore, VAT compliance even on a small scale is complex for both businesses and governments. It is likely that certain VAT issues may lead to difficulties in correct VAT assessment for governments. One example cited in the above mentioned study regards recovery of VAT on renovations which can lead to higher VAT recovery for small businesses than the VAT charged on the accommodation services themselves (see page 145 of aforementioned report). Further to this, small and occasional accommodation businesses will likely be unable to employ tax specialist advice for complex issues and could be prone to more non-deliberate VAT reporting errors thereby increasing audit costs for the tax authority. It is of course, for these reasons that the SME exemption is in place in Finland and many other EU Member States. Therefore it would appear counterproductive to implement ViDA in such a way that it negates the administrative benefits for the Government.

3. Minimising unintended consequences of ViDA

If the SME exclusion is not implemented as part of the platform economy rules, platform bookings of accommodation will be subject to a 13.5% VAT rate whereas non-platform bookings will not be subject to VAT. This will create a significant financial differential between platform and non-platform transactions for small accommodation providers. Such a distortion could be counterproductive for the Government and undermine some of the successful existing policies regarding tax compliance for small businesses driven by the platform economy.

Given the large differential between online platform and informal transactions, we are concerned that the proposed platform fiction will encourage non-platform transactions, thereby reducing the benefits of platform reporting and leading to lower reporting in future EU STR regulations, CESOP, e-invoicing, and DAC7. Thus, any increased VAT revenue intended by ViDA could be significantly reduced by the tax authorities' diminished ability to assess transactions for income and corporate taxes under DAC7.

4. Utilising existing tax administration tools to address non-compliance

As yet there is no evidence that the Short term rental accommodation sector suffers from significant VAT compliance gaps that would justify the need for the full implementation of the ViDA platform fiction. Furthermore, there is no evidence that there is a competitive distortion between those small businesses who are exempt from VAT under the SME scheme and large VAT registered hotels. We therefore do not consider that there is a strong case for implementing the platform fiction in full.

As an alternative instrument for the Finnish government to address any tax non-compliance risks arising in the short term accommodation sector, we recommend that data from DAC7 reporting is utilised. This data can help ensure that the correct tax is paid by small businesses in Finland and help determine whether further steps are required to ensure tax compliance.

Additional technical challenges for accommodations and platforms

The implementation of the platform economy rules also present significant operational hurdles that require careful design in line with the upcoming EU Explanatory Notes on ViDA:

- **Information Gaps:** In many instances, platforms do not have access to the necessary information to determine the correct VAT treatment of a transaction (e.g., whether a host is truly a "non-taxable person" or an "SME scheme user"). Extensive data collection from accommodation providers will be required before launching the platform economy rules. We therefore encourage the Finnish government to implement the rules in an efficient way and allow platforms to rely on the data provided by the underlying accommodation providers to determine whether the platform fiction should or should not apply.
- **Operational Lead Time:** To avoid market fragmentation, implementation of the rules should begin no earlier than 18 months after the finalisation of the EU Explanatory Notes (expected in 2027). This will allow platforms sufficient time to review rules and build the necessary technical infrastructure.
- **VAT number validation:** The operation of the platform economy rules will require that VAT numbers of accommodation suppliers can be validated via the EU's VIES VAT system. If validation in a Finnish national database is instead required, then platforms will require further implementation time to set up validation processes.
- **Addressing non-compliance by non-EU platforms:** It has been noted throughout the ViDA policy development process that future non-compliance by non-EU platforms may create an unfair advantage over Finnish and EU platforms. Under ViDA, small overseas platforms, who do not have a significant EU presence, may ignore the platform fiction and allow accommodations to list properties without VAT. This is currently a known issue with respect to DAC7 compliance and we are concerned that this problem will be exacerbated by the introduction of ViDA and especially considering the price sensitivity of the accommodation market. The Finnish Government should therefore outline steps to prevent non-compliant overseas platforms from undercutting homegrown businesses.

A proportionate and fair approach to ViDA

For the reasons outlined above, we have significant concerns regarding the proposed implementation of the deemed supplier rules under the ViDA package. Full implementation without the use of the SME exclusion presents a risk of disproportionate administrative burdens for small accommodation providers and will create additional complexity within the Finnish tax environment for platforms.

We respectfully recommend that the Finnish Ministry of Finance works towards a ViDA implementation which incorporates an SME exclusion for the accommodation sector. We propose that the following factors be considered to support this revised position:

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- Protecting small businesses: Finland's VAT registration threshold (€20,000) is relatively low compared to other Member States. Maintaining an exclusion for those under the threshold protects the smallest Finnish "micro-entrepreneurs" from an immediate 13.5% price increase, ensuring they remain viable compared with larger providers. The exclusions should be implemented in a way that enables platforms to easily identify which accommodation providers should be subject to the platform fiction and those who should not.
- Risk of market fragmentation: A full implementation may inadvertently incentivise providers to migrate toward less transparent, "offline," or non-compliant booking channels to avoid the platform-intermediated VAT. This would undermine Finland's broader tax compliance goals and reduce the efficacy of DAC7.
- Alignment with EU Explanatory Notes: Optimal harmonisation can only be achieved once the EU's Explanatory Notes are finalised. We therefore recommend that the Ministry allows sufficient lead time for platforms to implement these complex technical changes, ensuring that the Finnish system is interoperable with the rest of the EU.
- Data-Driven Policy Making: The Government should utilize the data already being provided through DAC7 reporting to monitor compliance within the sharing economy. Any identified gaps should be addressed through existing Tax Administration processes rather than a broad-brush deemed supplier model that penalizes compliant small actors.

Conclusion

We appreciate the opportunity to engage with the Ministry of Finance on this critical legislative development. As Finland is known for its pragmatic and digital-first approach to regulation, we believe there is a significant opportunity to set a best-practice precedent for the EU.

We remain at your disposal to provide further data or technical insights to assist in designing a framework that ensures tax integrity while protecting the vital contribution of small businesses to the Finnish economy.