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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE**

**on the future of VAT
Towards a simpler, more robust and efficient VAT system tailored to the single market**

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1. INTRODUCTION

Accelerating globalisation, intensified competition from new key economic regions of the world, as well as rapidly changing business models and technical progress, are presenting new challenges to the effectiveness and efficiency of the European tax system.

Moreover, the financial crisis has exposed the Member States to a twofold economic policy challenge: namely to foster sustainable economic growth and to consolidate public finances. As recognised in the Annual Growth Survey 2012¹, taxation policies are an important lever for that purpose. More attention is needed in the design and structure of the tax systems to make them more effective, efficient and fairer, and this is particularly true as regards the EU VAT system.

It is in this context that on 1 December 2010 the Commission adopted a Green Paper on the future of VAT², inviting all stakeholders to take a critical look at all aspects of the EU VAT system which has now been in place for over 40 years.

The overwhelming reaction from businesses, academics, citizens and tax authorities (more than 1 700 contributions)³ confirmed there was a need for such a debate.

The European Parliament⁴, the European Economic and Social Committee⁵ and the Tax Policy Group consisting of the personal representatives of the finance ministers welcomed the Green Paper and confirmed the need to reform the EU VAT system.

In parallel, the Commission carried out an economic evaluation of the VAT system⁶ and proposed setting up a new own resource based on VAT to finance the EU budget⁷.

2. GENERAL CONCLUSIONS FROM THE PUBLIC CONSULTATION

There is a general feeling amongst stakeholders that the fragmentation of the common EU VAT system into 27 national VAT systems is the main obstacle to efficient intra-EU trade and thus prevents citizens from reaping the benefits of a genuine single market.

Internationally active businesses consider that the price they actually pay for this lack of harmonisation comes in the form of complexity, extra compliance costs and legal uncertainty. SMEs do not always have the necessary resources to deal with this and therefore refrain from engaging in cross-border activities.

¹ COM(2011) 815, 23.11.2011.

² COM(2010) 695, Commission Staff Working Document, SEC(2010) 1455, 1.12.2010.

³ They are available together with a report summarising their main elements at http://ec.europa.eu/taxation_customs/common/consultations/tax/2010_11_future_vat_en.htm

⁴ Resolution of 13 October 2011, P7_TA(2011)0436.

⁵ OJ C 318, 29.10.2011, p. 87.

⁶ http://ec.europa.eu/taxation_customs/common/publications/studies/index_en.htm

⁷ COM(2011) 510, 29.6.2011.

These shortcomings have an impact on commercial behaviour which may prevent the most effective business decisions from being taken. When tax rules influence the decision on where to buy or sell goods and services, the economic neutrality of VAT is no longer guaranteed and the functioning of the single market is severely undermined.

Several contributors even pointed out that, as a result, doing business with non-EU partners is becoming ever easier and more profitable than doing business with EU firms.

Stakeholders currently benefiting from exemptions, derogations or reduced rates are generally in favour of maintaining them; others even want to extend this preferential treatment to include their own activity.

On the whole, the Green Paper has generated great expectations for change. At the same time, there is general acknowledgement that a fundamental overhaul of VAT will inevitably be a long-term project.

Member States are understandably unwilling to take any risks that are triggered by reform efforts and could threaten VAT revenues, which accounted for around EUR 784 billion in 2009 or 21 % of national tax revenues⁸. They seem therefore to be only prepared to consider gradual changes, for which the risks, benefits and costs are clear, well understood and fully assessed.

These are the most striking general conclusions that are to be drawn from the public consultation; more specific conclusions have been included hereafter under the specific topics to which they relate.

3. THE PURPOSE OF THIS COMMUNICATION

Being confronted with such disturbing facts almost 20 years after the introduction of the single market makes it clear that to simply stay in the comfort zone of ‘business as usual’ will not be enough. Responding to these challenges demands a more ambitious reform of the current VAT system. Such a reform will play a crucial role in supporting the delivery of the *Europe 2020*⁹ objectives and a return to growth through its potential to reinvigorate the single market and underpin the current fiscal consolidation efforts in the Member States.

This Communication — based on the outcome of the public consultation, but also on the discussions with Member States and the opinions expressed by the European institutions — has a dual purpose:

- It sets out the fundamental features of a future EU VAT system which can continue to perform its function of raising revenue, while increasing the competitiveness of the EU. These basic features should be the long term objectives guiding all future work on VAT.

⁸ Including social security contributions, *Taxation trends in the European Union*, 2011, annex A, table 8.
⁹ COM(2010) 2020, 3.3.2010.

- It lists the priority areas for further action in the coming years with a view to moving in the direction of these objectives.

4. THE FUNDAMENTAL FEATURES OF A RESHAPED VAT SYSTEM FOR THE EU

4.1. A EU VAT system based on the destination principle

The *Single Market Act*¹⁰ stressed the fundamental importance of establishing a definitive VAT regime applicable to cross-border transactions.

The Green Paper provided an ideal opportunity to examine whether the commitment made in 1967¹¹ to establish a definitive VAT system operating within the EU in the same way as it would within a single country, based on the principle of taxation in the country of origin, is still relevant.

Recent discussions with Member States confirmed that this principle remains politically unachievable. This deadlock is even recognised by the European Parliament – until now a fierce defender of the principle of origin – which has called for a move towards the destination principle.

Also, stakeholders acknowledge that the origin system, which is in theory the most attractive choice for them, will not be achievable in the foreseeable future. They therefore promote a properly functioning system based on taxation at destination as a pragmatic and politically achievable solution.

Thus, the Commission has come to the conclusion that there are no longer any valid reasons for keeping this objective, and will propose that it should be abandoned. Indeed, maintaining this commitment while not making progress on this track politically would affect the credibility of the European decision-making process.

Abandoning the origin principle makes it possible to launch substantial efforts to devise alternative concepts for a properly functioning destination-based EU system of VAT. No work has been done in this area since 1993, because that option had been discarded in favour of a commitment to the origin principle.

The guiding principles of this work will be, first, that doing business across the EU must be as simple and as safe as engaging in purely domestic activities and, secondly, that the VAT compliance costs for doing business in Europe must be reduced. In any event, cross border trade must not generate additional costs.

4.2. A simpler, more efficient and robust VAT system

The reform process launched by the Green Paper should ultimately result in a VAT system that has all the following attributes:

- **‘Simple’**: A taxable person active across the EU should be faced with a single set of clear and simple VAT rules: an EU VAT Code. Such a code would lay

¹⁰ COM(2011) 206, 13.4.2011.

¹¹ First Council Directive 67/227/EEC and Second Council Directive 67/228/EEC of 11 April 1967.

down rules adapted to modern business models, and standardised obligations which take full account of the progress made in new technologies. A taxable person should only deal with the tax authorities of a single Member State;

- **‘Efficient and neutral’**: Introducing a broader tax base, as well as implementing the principle of taxation at the standard rate, would generate more revenue at less cost, or alternatively allow the standard rate to be reduced in a revenue-neutral way. Any derogation from those principles would have to be rational and uniformly defined. Neutrality also requires equal rules governing the right of deduction and very limited restrictions on the exercise of that right;
- **‘Robust and fraud proof’**: Modern methods of collecting and monitoring of VAT should maximise the revenues actually collected and limit fraud and avoidance as far as possible. Besides easing compliance for business, this will require the national tax authorities to concentrate on risky behaviours, target actual fraudsters and ultimately act collectively as a European VAT authority. An intensified, automated and rapid exchange of information between national tax administrations will be vital in achieving this goal.

5. THE PRIORITY AREAS FOR FURTHER WORK

The various priority topics are grouped below under four headings. However, they are closely interlinked: a simpler VAT system for domestic combined with intra-EU transactions makes compliance easier and therefore contributes to its robustness.

Some of the corresponding key actions can be implemented relatively quickly, whereas others will obviously require more time. Where appropriate, the Commission will carry out the usual impact assessment.

5.1. Towards a simpler VAT system

The responses to the public consultation contain a strong and urgent call for simplification. This demand covers EU VAT legislation issues, but also so-called tax administration issues. Divergent practices at national level are increasingly being highlighted as a frustrating burden. Although tax administration is an area that is mainly within the competence of the Member States, the Commission’s aim will be to substantially improve the efforts of coordination and cooperation in this area.

The economic evaluation concludes that compliance costs for businesses are high, with estimates ranging from 2 % to as much as 8 % of VAT collection. Smaller businesses are burdened over and above their capacity, and these costs will not decline over time without targeted policy action.

Furthermore, businesses are confronted with additional burdens when they engage in intra-EU trade. The economic evaluation suggests that the removal of national obligations that go beyond EU requirements or a 10 % reduction in the mismatches between Member States in administrative procedures could deliver an increase in intra-EU trade of 2.6% and 3.7% respectively, while real GDP could increase by 0.2% and 0.4%. Although the report admits these figures might be overstated, they

indicate nevertheless that the harmonisation of VAT procedures could bring substantial gains in trade and in GDP.

SMEs should benefit in particular from the actions set out below. They have fewer resources for coping with the difficulties resulting from the differences in rules and obligations. The economic evaluation shows that the cost is proportionally higher for them too.

Giving priority to simplification in the coming years is in line with the ‘Think Small First’ principle of the ‘Small Business Act for Europe’¹², which promotes the use of e-government and one-stop-shop solutions for simplifying the regulatory and administrative environment in which SMEs are operating.

5.1.1. The One-Stop-Shop concept

Given the difficulties mentioned by businesses trading in several Member States, the One-Stop-Shop (OSS) – a measure proposed in the Commission’s plan to reduce the administrative burdens¹³ and supported by the High Level Group of Independent Stakeholders on Administrative Burdens¹⁴ – is of course still a high priority.

The supply of a mini OSS for the EU providers of telecommunications, broadcasting and electronic services provided to final consumers within the EU will enter into force in 2015. Some businesses – exposed to cross border trade - do not understand why their activities have been excluded from this facility, despite the fact that they are confronted with the same difficulties.

The implementation of the mini OSS is seen by many Member States and by business as a major milestone. Its smooth functioning should pave the way for a more general use of this concept. However, given the lack of experience of an OSS for intra-EU trade, Member States appear to be somewhat reluctant to consider broadening its scope at such an early stage.

The Commission remains convinced that, in a VAT system based on taxation at destination, an OSS is a crucial instrument to facilitate access to the single market, in particular for SMEs.

- (1) *Ensuring the smooth introduction of the mini OSS in 2015 is a high priority for the Commission, and it is relying on Member States to make the necessary resources available.*
- (2) *From 2015 onwards the Commission will envisage a managed broadening of the concept over time.*

¹² COM(2008) 394, 25.6.2008.

¹³ COM(2009) 544, 22.10.2009, Annex, p. 83.

¹⁴ http://ec.europa.eu/enterprise/policies/better-regulation/administrative-burdens/high-level-group/index_en.htm

5.1.2. *Providing business with more accessible and better information at EU level*

Stakeholders stressed that the availability of accurate, reliable and timely information on the details of the VAT regimes currently in place in Member States is a key factor in facilitating compliance for businesses until such time as there are similar rules throughout the EU. Moreover, language is still perceived as a barrier to intra-EU trade.

The Commission considers that a web portal, which provides such information in several languages on issues such as registration, invoicing, VAT returns, VAT rates, special obligations and limitations to the right of deduction, is the obvious way forward. Businesses themselves could play a role in defining the information needed.

(3) With the help of the Member States, the Commission will set up an EU VAT web portal. It invites Member States to confirm their willingness shown in the Tax Policy Group by making a commitment to provide the necessary information and to keep it up-to-date in a timely manner.

5.1.3. *Improving the governance of VAT at EU level*

Stakeholders want greater involvement and more transparency in the process of establishing and interpreting EU VAT law.

The Commission will assume its responsibilities and respond positively to this valid claim. Exchanges of views between the Commission and stakeholders will be organised in a more structured way. The Commission will ensure that more information related to EU VAT law is made available to the public.

However, the call to improve governance is in part also aimed at the Council, as the legal framework governing the adoption of legislative proposals goes beyond the Commission's remit. The Commission therefore invites the Council to consider how best to involve stakeholders when the proposals are being negotiated.

Stakeholders have advocated setting up a channel of communication at EU level where tax authorities, the Commission and business representatives would be able to exchange views on practical issues of VAT administration. Currently they can discuss such issues with national tax authorities, but they lack a broader forum which would involve all tax authorities, in particular on cross-border issues.

Member States have shown a willingness to participate in such a forum. Identifying best practices could contribute to streamlining the VAT system and thus to reducing compliance costs, while securing VAT revenue at the same time.

(4) The Commission will publish in 2012 the guidelines agreed by the VAT Committee on EU legislation and, whenever appropriate, explanatory notes on the new legislation before its entry into force in order to inform businesses and promote a more consistent application.

(5) The Commission will set up a tripartite EU VAT forum (Commission, Member States, stakeholders) in the course of 2012.

5.1.4. *Standardising VAT obligations*

Invoicing rules have recently been further harmonised and the principle of equal treatment of paper and electronic invoicing is embodied in the VAT legislation. However, differences in other VAT obligations still oblige businesses to tailor IT specifications and procedures to each Member State in which they operate. This weakens the benefits of shared service centres for EU-wide accounting and tax obligations.

- (6) *The Commission will propose in 2013 that a standardised VAT declaration should be available in all languages and optional for businesses across the EU.*
- (7) *The same standardisation approach could then be followed with regard to other obligations such as registration, invoicing and evidence to justify an exemption or the reverse charge.*

5.2. **Towards a more efficient VAT system**

Broadening the tax base and limiting the use of reduced rates would generate new revenue streams at less cost or alternatively would enable a significant reduction in the current standard rate in place which would be revenue-neutral. A more efficient VAT system is therefore primarily in the interest of Member States, but would also reduce the administrative burdens for businesses.

5.2.1. *Broadening the tax base*

Public bodies

A recent study on VAT in the public sector and exemptions in the public interest¹⁵ highlighted the shortcomings of the current rules from an economic point of view – namely, their lack of neutrality, the distortions of competition that they create and their complexity. Moreover, privatisation and deregulation have frequently resulted in situations where public bodies compete with private companies.

Considering the potentially significant impact in terms of cost of public goods or on social security of phasing out existing exemptions on a large scale such as on education or health, a gradual approach towards taxation will be carefully considered.

- (8) *The Commission will table a proposal which will concentrate on activities with a greater degree of private sector involvement and a heightened risk of distorted competition.*

Passenger transport services

The European Parliament believes, and the outcome of the public consultation confirms that the fact that passenger transport services are exempt in certain Member

¹⁵ http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat_public_sector.pdf.

States, depending on the means of transport used, creates distortions of competition within the single market. Where the exemption does not apply, the complexity of the current place-of-supply rules increase the compliance costs of businesses operating in several Member States and could result in mistakes and even evasion.

The public consultation reveals two main conflicting approaches: maintaining the status quo or abolishing the exemption, with the latter option being in line with the objective of increasing the neutrality and efficiency of the tax.

(9) The Commission will propose a more neutral and simpler VAT framework for passenger transport activities.

Other exemptions

Other exemptions which act as restrictions in the tax base and which might create distortions will be examined to see whether the economic, social or technical reasons for them are still valid and whether the way they are applied can be improved. In seeking to broaden the tax base, no options should be discarded at this stage. However, some stakeholders have advocated maintaining or even broadening the scope of certain exemptions.

The VAT treatment of non-profit-making organisations has prompted numerous reactions. However, those organisations already benefit from an exemption which covers their activities in the general interest. The residual activities not covered by this exemption are the only cause of concern. However, these activities could be covered by the general exemption scheme for small businesses that have a turnover below a certain threshold and through further simplification measures and procedures which Member States can introduce. Member States can also introduce targeted compensation mechanisms, outside the VAT system, to alleviate the cost of VAT on their acquisitions.

(10) The Commission calls on Member States to make use of the existing options to alleviate the burden of VAT on non-profit making organisations. It can provide them with guidance on the VAT regime applicable to them.

5.2.2. Reviewing the rate structure

Many stakeholders pointed out that differences in VAT rates lead to additional compliance costs. The economic evaluation provides an estimate of this impact. It established that reducing by 50% the dissimilarity of the VAT rates structure between Member States could yield a rise of 9.8% in intra-EU trade and an increase in real GDP of 1.1% but at the same time indicated that these figures might be overstated.

The economic evaluation also confirmed the views already expressed in earlier economic studies¹⁶ that the use of reduced rates is often not the most suitable instrument for pursuing policy objectives, particularly for ensuring redistribution to

¹⁶ Copenhagen Economics, *Study on reduced VAT applied to goods and services in the Member States of the European Union*, Final Report, 21.6.2007.

poor households or encouraging the consumption of a good that is deemed socially desirable.

Stakeholders benefiting from reduced rates invoke those objectives to justify the existing reduced rates or even to extend them to environmentally friendly products in particular. Also, the issue of equal treatment for products which are available in both traditional and online formats provoked considerable reactions in the public consultation. Those issues need to be addressed.

It is worth noting that already the existing application of reduced rates translates into significant subsidies. Its magnitude largely differs between Member States, depending on the use made of reduced rates. The economic evaluation calculated that, for a sample of 9 Member States¹⁷, these subsidies represent between 8.2% and 53.3 % of the VAT revenues of those Member States. Abolishing the reduced rates would theoretically enable the standard rate to be reduced by between 1.9 and 7.5 percentage points.

The application of the standard rate remains the basic principle and the VAT Directive does not compel Member States to make use of reduced rates. The Member States are therefore primarily responsible for limiting as far as possible the scope of such rates where they constitute an unjustified tax break. The current economic and financial context, which demands a strong fiscal consolidation of national budgets, is a further reason for limiting their use as compared to increasing the standard rates. Nonetheless, the potential benefits of a limited use of reduced rates, if rationally defined and applied, should not be disregarded.

There are therefore a number of factors justifying a review of the current VAT rates structure. The Commission believes that such a review should be based on a thorough impact assessment covering all aspects and on the following guiding principles:

- Abolition of those reduced rates which constitute an obstacle to the proper functioning of the internal market. Reduced rates justified in the past can have distorting effects today because the economic, business and legal environments have changed in the meantime;
- Abolition of reduced rates on goods and services for which the consumption is discouraged by other EU policies. This could notably be the case for goods and services harmful to the environment, health and welfare;
- Similar goods and services should be subject to the same VAT rate and progress in technology should be taken into account in this respect, so that the challenge of convergence between the on-line and the physical environment is addressed.

¹⁷ Belgium, France, Germany, Greece, Hungary, Italy, Poland, Spain and United Kingdom.

- (11) *In order to increase the efficiency of the VAT system, the Commission favours a restricted use of reduced VAT rates. It will launch in 2012 an assessment of the current VAT rates structure in the light of the abovementioned guiding principles and will subsequently make proposals along those lines after ample consultation with stakeholders and Member States by the end of 2013.*
- (12) *To tackle the legal uncertainty and the compliance costs stemming from the 27 different rate structures, the Commission will propose to include in the EU VAT web portal a clear and binding information on the list of the goods and services that are not covered by the standard rates in each Member State. To this end, the Combined Nomenclature could be used.*

5.3. Towards a more robust and fraud-proof VAT system

A study carried out on behalf of the Commission some years ago demonstrated that, generally, 12% of the theoretical VAT is not collected. Fraud is an important aspect of the so-called VAT gap, but this gap also consists of other aspects, such as VAT that is not collected due to errors, negligence and bankruptcy.

This is why the Commission believes that, in addition to the ongoing need to tackle VAT fraud, there is also a need to look at the broader picture and explore better ways of collecting and monitoring VAT.

5.3.1. A quick reaction mechanism to deal with sudden fraud

Recent experience with organised, massive and sudden VAT fraud schemes showed that the procedure for amending the legislation or granting derogations to Member States is not always flexible enough to ensure a prompt and appropriate reaction.

Many Member States have welcomed the possibility of having a legal base to take immediate national measures, albeit on a temporary basis, to stop certain fraudulent practices.

(13) The Commission will table a quick reaction mechanism proposal in 2012.

5.3.2. Combating VAT fraud

The ‘Anti-Fraud Strategy’ launched in 2006¹⁸ resulted in a short-term action plan which was presented by the Commission in December 2008¹⁹. Since then the Commission has tabled all the legislative proposals announced in this action plan and the Council has adopted almost all of them.

The result is a range of new measures such as the creation of Eurofisc²⁰ and more automated exchanges of information, which are about to enter into force or have done so only recently.

¹⁸ COM(2006) 254, 31.5.2006; COM(2007) 758, 23.11.2007.

¹⁹ COM(2008) 870, 1.12.2008.

²⁰ Council Regulation (EU) No 904/2010 of 7 October 2010.

Their efficiency in terms of reducing VAT fraud will be carefully assessed, but this can only be done once all the measures are fully in force. New initiatives may be needed if these measures prove to be insufficient.

A few proposed measures have not been adopted or have been watered down in Council in search of unanimity, such as automated access to information. The Commission will revisit these measures with a view to achieving a consensus on them. It will notably explore an extension of information to which an automated access would be granted between those Member States who would be willing to do so.

Multilateral controls (MLC) have proven to be a valuable tool to deal with complex fraud situations involving operators in different Member States. In the long run, attached to Eurofisc, a EU cross border audit team, composed of experts from national tax authorities, could be envisaged. It could lead to more systematic cross border audits and benefit from the knowledge and experience already gained by auditors and MLC-coordinators in this field.

- (14) The Commission will ensure and monitor the full implementation of the Anti-Fraud measures and report on their efficiency and the need for further action in 2014.*
- (15) The Commission encourages the Council to progress in the adoption of the proposals still on the table. It will examine ways to significantly broaden automated access to information.*
- (16) The Commission will explore the possibility of setting up a EU cross border audit team to facilitate and improve multilateral controls.*

The success of any anti-fraud measure depends directly on the administrative capacity of the national tax authorities. This has become more apparent in light of the current budgetary difficulties that several Member States are facing and for which the need for an efficient and effective tax administration has been advocated.

Under the current VAT own resources Regulation²¹, the Commission has to report on a regular basis on the procedures applied by Member States to administer and control VAT and examine possible improvements (the "Article 12" Report).

In the next report, the Commission will establish some benchmarks to measure the performance of each tax administration. This approach would allow Member States to position themselves as compared to EU averages.

Successful approaches from certain Member States in fraud-sensitive sectors should be shared in a more methodical way. Tax authorities do face common problems and could make large benefits in terms of resources from being able to build their action upon the experiences from other Member States. In this context the Commission will also follow closely the activities of Eurofisc, more specifically its working field dealing with new fraud trends (the VAT Observatory).

²¹ Council Regulation No 1553/89 of 29 May 1989.

- (17) *The Commission will strengthen the monitoring of the efficiency and effectiveness of the tax administrations of the Member States in the next Article 12 Report.*
- (18) *The Commission will, with the help of the Member States, intensify the exchange of best practices in combating fraud in high risk sectors.*
- (19) *The Commission will continue to follow the work of Eurofisc and encourage Member States to further develop this tool in order to try to find new fraud schemes or to prevent them from developing.*

The Commission considers also a ‘soft law’ (administration of the tax) approach a promising step forward in the fight against VAT fraud. Member States will therefore be encouraged to focus on increasing compliance by enhancing their relationship with business and their VAT procedures.

Such an approach will aim in particular at preventing potential fraudsters to enter the VAT system and enable tax authorities to reallocate staff to combat non-compliant behavior.

- (20) *The Commission will support Member States in their efforts to enhance compliance by using the EU VAT forum mentioned in point 5.1.3.*

Since VAT fraud patterns change rapidly and include third countries, a new impetus will be needed to address the need for a further and coordinated cooperation with these countries. The changing fraud patterns also require a stronger cooperation and exchange of information between tax and customs authorities.

- (21) *The Commission will explore the possibilities of strengthened cooperation with third countries with a view to exchanging information in the field of indirect taxation by requesting a EU mandate for making agreements with third countries.*
- (22) *The Commission will initiate and facilitate initiatives for a stronger cooperation between tax and customs authorities.*

5.3.3. *Reviewing the way VAT is collected and monitored*

The new methods of collection as mentioned in the Green Paper were the subject which provoked probably the most outspoken reactions.

In particular, the split payment model²², which was considered to be the most far reaching change, prompted generally negative reactions from business and tax practitioners. The latter were concerned about the impact of the method with regard to cash flow, compliance costs and commercial issues. Moreover, they had doubts about its ability to actually reduce the VAT gap. However, some Member States still have an interest in exploring it further.

²² A model in which the purchaser pays the VAT to a blocked VAT bank account with the tax authorities’ bank which can only be used by the supplier for paying VAT to his suppliers’ blocked VAT bank account.

The lack of detailed data about its impact and imprecision about its workings might go some way to explaining this criticism. The Commission therefore believes that it is premature to discard the model.

As regards the data warehouse model (SAFT)²³, which is already implemented by some Member States, many stakeholders asked for its implementation to be made easier and uniform.

(23) The Commission will further analyse the feasibility of the split payment and its design in order to allay the concerns expressed, with a view to deciding on the appropriate follow-up at a later stage.

(24) The Commission will seek a common approach at EU level on the SAFT in order to streamline its implementation.

5.4. A VAT system tailored to the single market

The Green Paper described several ways of achieving taxation at destination. Two fundamental issues need to be addressed in this connection: firstly, the definition of the place of destination and, secondly, whether the supplier charges VAT on intra-EU transactions or the acquirer accounts for the VAT instead (reverse charge).

The current transitional VAT arrangements for intra-EU B2B transactions are already based on taxation at destination. However, given the shortcomings described under point 2, most stakeholders are against making them the definitive regime. In their current form, they are not in line with the fundamental objective that cross-border transactions should not be treated differently from domestic transactions.

Businesses stakeholders and the European Parliament have called for the concept of taxation at the place of establishment of the customer to be explored further. This would ensure that supplies of goods and services are treated in the same way. Decoupling taxation rules from the physical flow of the goods, while connecting them to the contractual flow, seems like a promising approach that deserves further examination.

As to the second issue, charging of VAT by the supplier on cross-border B2B supplies could lead to equal treatment for domestic and cross-border transactions. The principle of fractioned payment of VAT would be reinstated since it would apply to both domestic and intra-EU transactions. Such an approach would therefore deal with the VAT system's current vulnerability to fraud.

However, intra-EU trade represents about EUR 2 500 billion which would mean that several hundreds of billions of VAT would have to be charged on transactions in which the acquirer currently only accounts for the VAT. The impact on businesses, particularly in terms of cross-border cash flow, would be substantial. As regards the tax authorities, the business that is liable for the payment of the tax would no longer be the one established in the Member State where the tax is due.

²³ A model whereby the taxable person uploads predefined transaction data structured in an agreed format into a secured VAT data warehouse maintained by the taxable person and accessible to the tax authorities.

In terms of compliance costs, charging VAT on such supplies would require the implementation of a comprehensive One-Stop-Shop. For the purposes of securing the revenues, additional measures or guarantees might be needed.

(25) The Commission will proceed with in-depth technical work and a broadly-based dialogue with Member States in the Group on the future of VAT and stakeholders in the VAT expert group examining in detail the different possible ways to implement the destination principle.

(26) The Commission will table in the 1st half of 2014 a legislative proposal laying down the definitive regime of taxation of intra-EU trade.

6. OTHER ACTIONS TO BE LAUNCHED IN THE MEDIUM TERM

The Communication has now laid down the priorities and a practical work programme for the coming years with several proposals, both legislative and non-legislative, as well as a number of in-depth studies to be launched with a view to preparing further proposals.

These priority initiatives are coherent with and should also reinforce the proposed development of a new own resource based on VAT. Broadening the tax base, restricting the use of reduced rates and reducing the scope for fraud could increase revenue for the Member States. A part of these gains could be attributed to the EU level, and these could be further increased through improving the performance of the VAT system.

Other aspects of EU VAT already raised in the Green Paper will be addressed in the medium term.

A number of provisions in the VAT Directive are outdated and do not take the single market aspect into account. This is particularly the case for the small business scheme and the VAT grouping provisions.

To better ensure the neutrality of the tax, it will also be necessary to review the complex and divergent rules on the right of deduction and to provide a mechanism for resolving double taxation issues.

A level playing field for non-EU and EU suppliers also has to be ensured. The treatment of small consignments and other internet sales is to be tackled in this context.

7. CONCLUSION

The Communication has designed a way forward to achieve a simpler, more robust and efficient VAT system, adapted to the single market.

The Commission invites the Council, the European Parliament and the European Economic and Social Committee to provide political guidance, confirming their willingness to explore the directions set out in this Communication.

In order to ensure a continued steering of the overhaul of the EU VAT system, the Commission will report regularly on the state of play of this review and set out new actions.