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BUSINESSEUROPE MESSAGE ON COMBATING VAT FRAUD

IMPROVE EFFICIENCY OF TAX ADMINISTRATIONS AND REMOVE EXCESSIVE RISKS AND BURDENS ON BONA FIDE BUSINESSES

BUSINESSEUROPE supports the European Commission in its endeavours to develop a coordinated strategy to improve the fight against VAT fraud.

Overall, the present VAT system, introduced in 1977, is an efficient and modern tax, yielding high revenue with, by way of comparison with other taxes, a low administrative burden for national tax administrations. However, the increased level of cross-border trade since 1977 has led criminals to exploit the VAT system through various types of fiscal fraud. This abuse of the system is only possible because Member States have failed to manage and monitor VAT effectively in both intra-EU and domestic transactions. Instead, without successfully tackling the fraud, administrative responsibilities and tax loss risks related to combating tax fraud have been gradually shifted on to legitimate businesses.

BUSINESSEUROPE believes that it is still too early to replace the current VAT framework with an alternative system, including a possible extension of the reverse charge mechanism for domestic business-to-business transactions. In the fight against VAT fraud it would be more promising first to make full use of all possible means of building up an efficient tax administration in the current framework. This requires both human and technical resources. National tax authorities must focus on finding the fraud, eliminating the fraud and managing the risk effectively.

BUSINESSEUROPE also strongly believes that administrative responsibilities and tax loss risks related to combating VAT fraud should be borne by Member States.

BUSINESSEUROPE therefore urges Member States to take the following measures, which are all intended to improve the risk management process in the fight against VAT fraud and to strengthen the rights of legitimate businesses:

1. Improve the working of the tax administrations at the European level

- by having sufficient human as well as technical resources dedicated to the fight against cross-border fraud (this could be encouraged by allowing Member States which collect other Member States' VAT in cross-border fraud situations to retain a proportion of the amount collected)
- by making a better use of existing obligations (tax authorities should, as an example, perform more effective controls in assessing applications for VAT registration to ensure that only bona fide businesses enter the system)



- by making efficient use of administrative cooperation and of the exchange of information
- by setting-up a pan-European team of VAT fraud investigators with cross-border competence (to enable them to take quick action against fraudsters throughout the EU).

2. Remove excessive risks and burdens on bona fide businesses

- by shifting back the administrative responsibilities and tax loss risks related to combating tax fraud to Member States. It is no longer acceptable that business is burdened either by widely ineffective obligations (such as extension of the required content of invoices) or with unreasonably heavy ones (such as application of joint and several liability to companies acting in good faith)
- by creating an equitable partnership between tax authorities and businesses to improve communication and trust
- by installing a reliable database, thus enabling businesses to check the validity and the ownership of VAT numbers by running an electronic query (improving VIES system). Use of recent technology to protect VAT numbers of bona fide enterprises better could also be envisaged
- by extending to the VAT area systems like the customs system of lighter obligations for authorised companies (AEO), with adaptations where necessary in the context of the VAT system.

Conclusion

BUSINESSEUROPE strongly supports a cooperative and effective combat against VAT fraud that protects legitimate businesses. Member States are required to manage VAT fraud in adherence to the principles of legal certainty, neutrality and proportionality, without transferring the tax loss risks and the administrative burden to legitimate businesses. The latter, which already bear the cost of collecting the tax, should be protected rather than penalised.

Lastly, BUSINESSEUROPE supports the general target of the European Council to achieve a reduction of 25% of the existing administrative burden by 2012 as set out in the “Action Programme for Reducing Administrative Burdens in the European Union”. In this programme, VAT is identified as one of 13 priority areas. We therefore appeal to the Commission and the Member States to start reducing reporting duties and financial risks for the tax payer.