



THE SECRETARY GENERAL

Dr Andrej Bajuk  
Minister of Finance of the Republic of Slovenia  
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1502 Ljubljana  
Slovenia

Brussels, 9 May 2008

Dear Sir,

The ECOFIN Council of 5 June 2007 requested the Commission to examine “far-reaching” measures to tackle VAT fraud, including the introduction of an optional general reverse-charge system. The Council also asked the Commission to analyse the possibilities for running a generalised reverse-charge pilot project for a limited period of time in an interested Member State.

BUSINESSEUROPE fully endorses the fight against VAT fraud. The European Union needs a well developed and coordinated strategy in this area with adequate resources for tax administrations and deeper international cooperation to ensure efficient combating of cross-border VAT fraud.

At the same time, the business community is concerned about the ongoing discussions on the introduction of a reverse-charge mechanism, which would represent a fundamental change to the EU VAT system without any evidence of the effectiveness of such a measure to prevent existing or potential new forms of VAT fraud. In addition, a reverse-charge mechanism is burdensome to handle as several additional duties require manual intervention by both taxpayers and tax authorities and it shifts financial risks relating to the non-payment of VAT from national treasuries to legitimate businesses.

A harmonised and simple VAT system is of utmost importance for the functioning of the internal market – 14% of small and medium enterprises and 10% of large companies refrain from economic activities in other EU Member States solely because of VAT rules. Introducing a reverse-charge pilot would significantly add complexity and could lead to a legislation stalemate due to the need to run two parallel systems.

Moreover, the introduction of a reverse-charge pilot would have serious consequences for the country in which it is introduced and for the functioning of the Internal Market. Firstly, it could lead to a shift of fraud. This has been observed in the EU Member States where sectoral reverse charge systems have not eliminated fraud but produced a shift of fraud to other sectors or countries. Secondly, distortions could arise since the business subject to the reverse-charge mechanism will face a substantially higher burden of tax obligations and compliance costs.

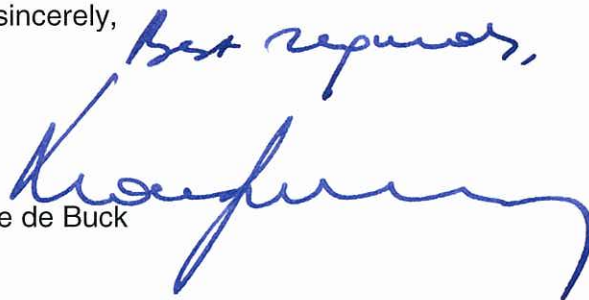
Thirdly, foreign investment and trade will be affected as the compliance burden of doing business in the EU will increase due to having to deal with two very different VAT systems.

Finally, uncertainty regarding the duration and the reversibility of the pilot scheme, as well as uncertainty about the final decision reduce predictability in the VAT system with potentially harmful consequences for investment decisions in the Internal Market.

BUSINESSEUROPE considers that the current VAT system can function well, provided governments work together more closely, enhance risk management systems and increase the resources dedicated to early detection of fraudsters.

We strongly support the general aims of the Commission set out in the Lisbon Agenda and shown in the endeavour to reduce bureaucracy. Both aims would be severely contradicted by introducing a reverse-charge pilot that would result in a two-layer VAT system and impose extensive reporting requirements and financial risks on legitimate business.

Yours sincerely,

*Best regards,*  
  
Philippe de Buck