



**TOWARDS  
A SIMPLIFIED,  
SUSTAINABLE AND  
ROBUST VAT SYSTEM**

# WHO ARE WE?

BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance.

A recognised social partner, we speak for all-sized enterprises in 35 European countries whose national business federations are our direct members.

**For further information:**

Economics Department

Pieter Baert, Adviser

Tel. : +32 (0)2 237 65 21

E-mail: [p.baert@businesseurope.eu](mailto:p.baert@businesseurope.eu)

BUSINESSEUROPE

Av. de Cortenbergh 168 – 1000 Brussels

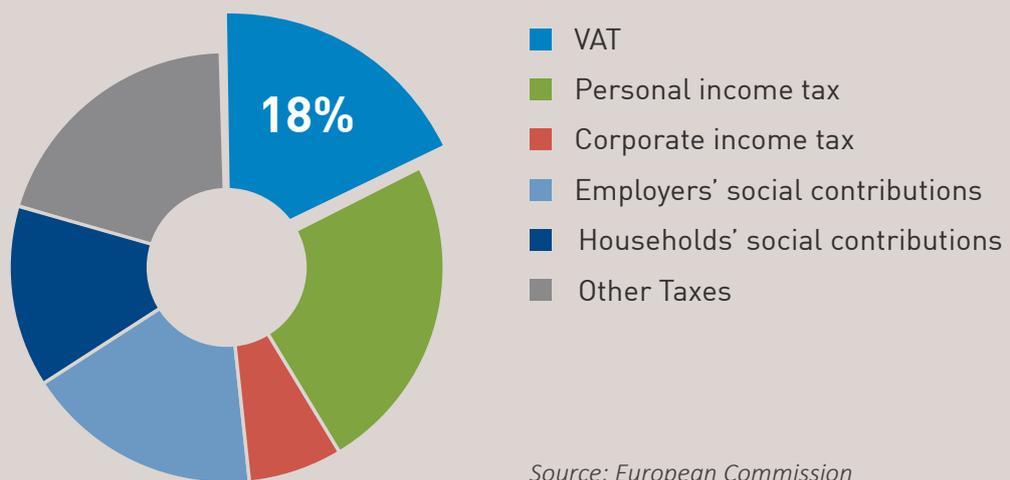


# WHAT IS VAT AND WHY IS IT IMPORTANT?

The importance of value-added taxes (VAT) to the European economy cannot be underestimated.

VAT is a consumption tax borne by the final consumer which is charged on nearly all supplies of goods and services by businesses to both consumers and other businesses, whereby businesses are responsible for collecting the required VAT and sending it to the tax authorities. As a result, the VAT system in each EU member state has **a significant influence on the daily lives of businesses** that play a key role in facilitating the smooth handling of millions of transactions every day and sharing the required information with trading partners and tax authorities. It is also one of the main revenue raisers for EU member states.

Graph: Total tax revenue in the EU according to type of tax – 2017

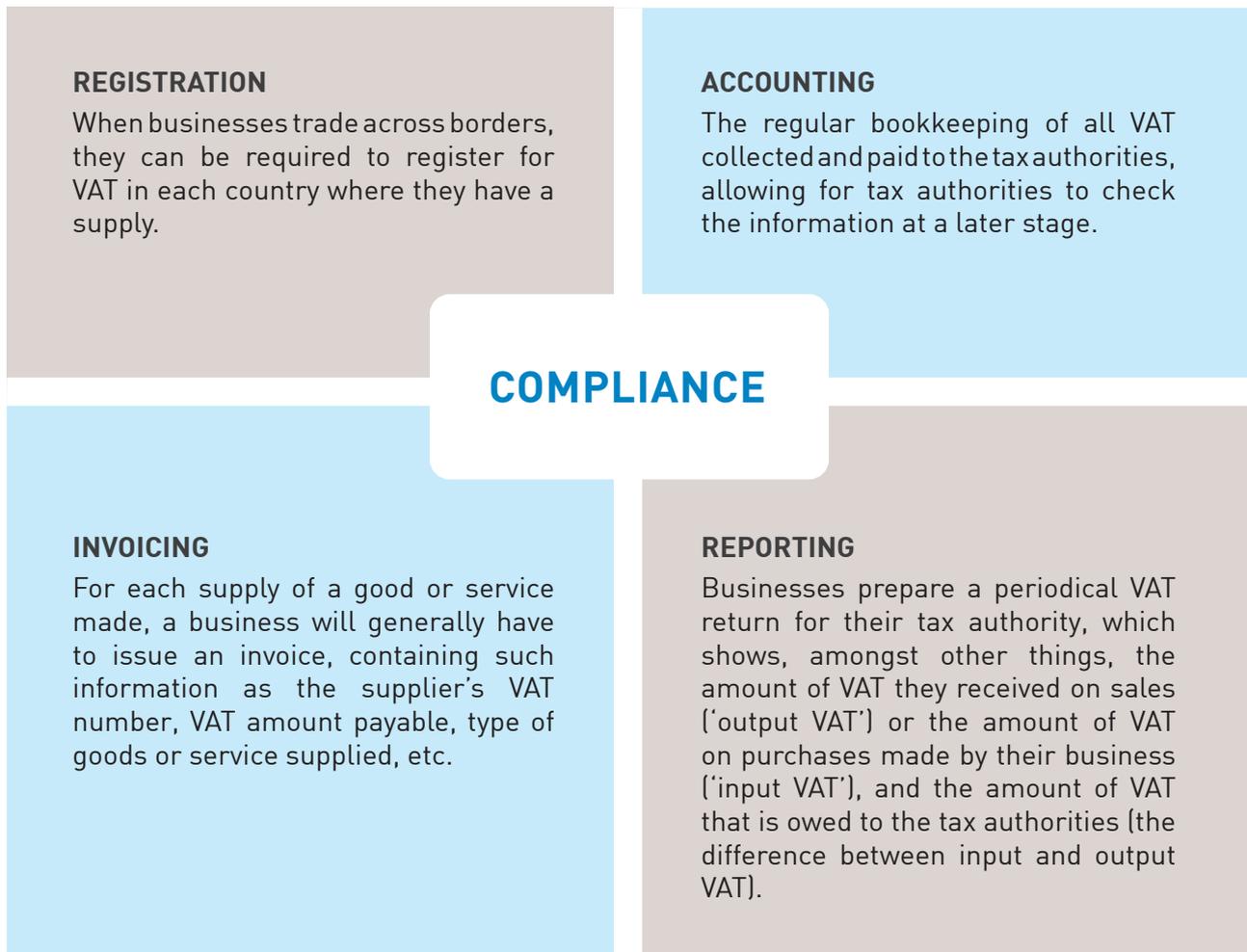


The European Commission estimates that **over €1 trillion of VAT** was collected in the EU in 2017 – equivalent to 7% of the EU's total GDP, a share that has been growing for over a decade - or nearly one fifth of the EU's total tax revenue. It goes to show that even the smallest of changes to the VAT system, at EU or member state level, can have huge repercussions on the EU's overall economic performance and member state tax revenue.



# HOW DOES VAT AFFECT BUSINESSES?

In a standard scenario, businesses' VAT obligations can be roughly divided into four categories, whereby each category entails different formalities that must be observed.

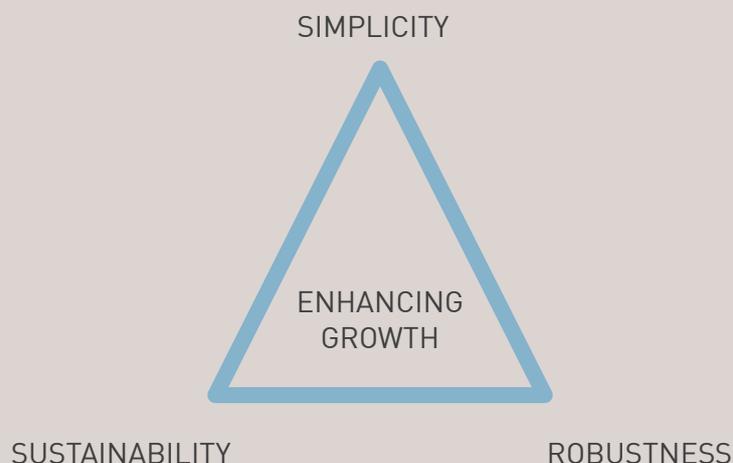


Whilst there are some EU-wide minimum standards in place, there is an **increasing fragmentation between member states** in the amount, speed, nature and format of delivery of the required information for all these categories. This makes life for businesses in Europe that operate (or would want to operate!) cross-border especially difficult. With no extensive resources (in terms of both tax practitioners and technical resources) in place, businesses are increasingly less able to cope with all the different interpretations, particularities in practice as well as changes in domestic and foreign VAT legislation. It is no surprise that in a 2018 EU-wide survey **VAT was named as 'the most burdensome tax' by businesses** (KPMG study for the European Commission).

Therefore, any changes that are made to the VAT system can come with a possibly significant impact on revenue and time required for businesses to adapt to the changes, with further repercussions on trade and employment. Thus, the health of the EU VAT system is one of the key elements to incentivise businesses trading within and across the Single Market.



# PRINCIPLES FOR A GROWTH-FRIENDLY VAT SYSTEM



## SIMPLICITY

In order to reach the full potential of growth, the VAT system must facilitate and enhance trade within, to and from the Single Market. **It is important that the EU VAT system makes it above all simpler to trade.** This requires certainty and consistency. To achieve this, directives should be as simple and as unambiguous as possible for both companies and tax administrations, with as much regulatory alignment as possible between the member states. To keep simplicity in the system, it is also important not to change it too frequently and to evaluate changes carefully – both in advance and afterwards.

## SUSTAINABILITY

The tax system needs to be foreseeable for both companies and tax administrations. A sustainable system is harder to elude and ensures a level playing field. The system should not affect business decisions, such as forcing extra transports in order to avoid compliance burden and cost such as a foreign VAT registration or exclusion of certain types of customers to avoid certain obligations. **A VAT system which affects business decisions is neither sustainable nor growth-friendly.** If, for example, the system results in extra transportation (as it can be cheaper to transport the goods back to the member state where they came from than to register VAT for abroad) it is also detrimental to the environment. From frequent changes, due to an unsustainable system, new types of fraud will usually arise.

## ROBUSTNESS

In order to fight fraud, it is important to first understand the different types of fraud. The VAT gap should be broken down in several categories in order to understand how and where to respond to the fraud. Experience teaches us that an effect of anti-fraud measures can be a substantial increase in compliance costs for all companies, despite only a handful committing fraud willingly. This affects all other principles negatively. Research by the European Court of Auditors shows that organised crime is behind 80% of the overall revenue lost due to VAT carousel fraud (€40-€60 billion). Organised crime must be fought in a goal-oriented way. This fight should not have adverse spill-over effects on businesses acting in good faith, e.g. by being penalised with extra layers of complex legal and reporting obligations. **It is of utmost importance that VAT is respected as a tax on consumption – and not a tax on business.**





## 6 VAT PRIORITIES FOR BUSINESSES

Businesses are currently in dire need of simplification measures in the area of VAT and the European Commission and member states should do everything they can to incentivise an environment for businesses that is conducive to growth with a VAT system that is modern, sustainable, simplified and robust, where businesses can seize the opportunities the Single Market provides.

While today's VAT regulations are currently complicated for all companies regardless of size, **the compliance cost for smaller businesses is particularly acute** as they work with more limited resources than large enterprises. This cost only increases when SMEs deal in cross-border transactions as rules between member states are different and often lack access to information and explanation in a language that SMEs can understand up to a point where an SME may deliberately scale back or even decline to operate in cross-border transactions. **As a first step, the European Commission should address those barriers that can form a real obstacle to an SME's expansion.**

A **10% reduction** in differences in VAT procedures could boost intra-EU trade by up to **3.7%** and GDP by up to **0.4%**

*Source: Institute for Fiscal Studies*

# 1

### IMPROVE AND FURTHER EXPAND THE ONE-STOP-SHOP (OSS)

The best long-run solution would be for all businesses to be able to use an extended OSS, an online portal where businesses can account for VAT and deduct VAT on transactions in member states where they are not registered for VAT. However, the (mini) OSS that is currently in place is limited and is only available in the event of a small number of business transactions. Member states should be encouraged to enhance their IT systems and widen the opportunities for businesses to make use of the OSS, and in particular SMEs. In particular, the inclusion of home-country audits, bad debts schemes, and the ability to offset incurred input VAT would already be a significant step forward.

Businesses engaging in cross-border activity face a **67% higher tax compliance** cost compared to businesses that only operate in their home country

*Source: KPMG study for the European Commission*

## 2 RETHINK THE PROPOSED DEFINITIVE VAT REGIME

While we support the creation of a single EU VAT area, the proposed definitive VAT system whereby VAT will be charged on cross-border trade between businesses, will significantly increase compliance costs, as businesses will have significant difficulties identifying the different VAT-rates in the different member states. Additionally, the model will also significantly impact cash-flow and the proposed application of the destination principle, whereby suppliers will have to deal with the tax administration of the country where the goods are transported to, rather than the administration of the country where the customers are established will bring an unnecessary increase in the overall administrative burden, which will be particularly troublesome for SMEs.

A firm trading in only two Member States already deals with **11 differences** in VAT compliance requirements on average

*Source: Institute for Fiscal Studies*

## 3 INCREASE DIALOGUE WITH AND BETWEEN ALL STAKEHOLDERS (EUROPEAN COMMISSION, MEMBER STATES AND BUSINESSES)

While we respect member states' competences to set their own VAT rates, they should be encouraged to streamline and better align administrative procedures, such as the Standard Audit File (SAF-T), as much as possible. The fewer differences in terms of administration, reporting, invoicing and different application of rules, the easier it will be for SMEs to do business in Europe. We also call on the European Commission and the EU member states to improve current cooperation between the different national tax administrations to establish greater levels of efficiency and more opportunities to share best practices.



**13% of businesses** in the EU do not or cannot submit their VAT filings digitally

*Source: KPMG study for the European Commission*

## 4 PREPARE THE VAT SYSTEM FOR THE DIGITALISATION OF THE ECONOMY

Upcoming digital tools, such as blockchain, could be efficient in simplifying VAT compliance, member state cooperation as well as detecting VAT fraud in the midium and long term. These should be explored extensively, before deciding on any significant overhaul of the major principles of the current VAT system. In addition, further VAT reforms should take into account the fast-changing (digitalised) economy, which blurs the line between goods and services more and more. Any initiative which does not take these commercial and technological developments into account, by making a strong distinction between goods and services, is likely to lead to legal uncertainty and maladministration. We therefore encourage the Commission and member states to do further research on how these commercial developments impact on the VAT place-of-supply rules.

The average cost for SMEs to account for VAT in another Member State is estimated to be **minimum €4,100 annually** per member state of supply

*(This figure merely reflects the compliance cost and not the actual amount of tax that is paid to the tax authority.)*

*Source: Deloitte study for the European Commission*

## 5 INTRODUCE A VAT WEB INFORMATION PORTAL

Businesses, and in particular SMEs, often have difficulties to understand the different VAT rules in the different member states. There is an urgent need for quick, legally binding and accurate access to the relevant information about the implementation of the VAT system in the different member states. Part of the digital agenda in the European Commission should be aimed at finding ways of providing this information swiftly, easily and in a language that businesses can understand. We therefore urge the Commission and member states to establish an EU VAT web information portal for businesses, with a particular focus on SMEs.

On average, an EU company spends **73 hours per year** to comply with VAT alone

Source: PwC

## 6 FIGHT VAT FRAUD WITH TARGETED TOOLS

We strongly support the fight against VAT fraud, which harms the vast majority of businesses that pay their taxes in full. This fight must be targeted and not affect legitimate businesses. Moreover, the fight can only be won once we have a clear view of the scale of the problem. The European Commission estimates that we lose €40-€60 billion in VAT carousel fraud each year (the often cited so-called 'VAT gap' of €137 billion covers other areas next to fraud). The European Court of Auditors argues that the vast majority of this fraud (80%) is due to criminal gangs, and not regular businesses. Therefore, any further initiatives to counter VAT fraud should be proportionate and not come with excessive burdensome reporting requirements for all businesses, before assessing the quality and relevance of the large amount of data businesses already have to collect. The European Commission and national tax authorities should increase their dialogue and invest in their IT systems to follow the flow of goods across borders more closely, to deliver a strong and most efficient response against VAT-fraud. As mentioned above, the use of new technologies, such as blockchain, should be thoroughly explored in the medium to long term. Having a long-term vision in the fight against VAT fraud is crucial, with sustainable solutions being envisaged from the outset.

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Turkey



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Avenue de Cortenbergh 168  
B - 1000 Brussels, Belgium  
Tel: +32(0)22376511 / Fax: +32(0)22311445  
E-mail: [main@businesseurope.eu](mailto:main@businesseurope.eu)

[WWW.BUSINESSEUROPE.EU](http://WWW.BUSINESSEUROPE.EU)

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