



European Commission

THE FUTURE OF VAT

#FairTaxation

WHY WE NEED VAT REFORM NOW

- Cross-border VAT fraud is a huge problem which needs to be addressed. The VAT system needs to be made fraud-proof so that we can protect government revenue.
- The current VAT system remains fragmented in the EU and creates significant administrative burdens, especially for SMEs and online companies.
- The system is too complicated and should be modernised to promote innovative ideas and technological progress.
- Under the current rules, Member States need to stick to a pre-defined list of goods and services when it comes to applying reduced VAT rates.

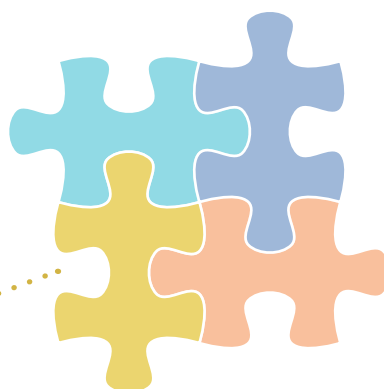
WHAT'S IN THE ACTION PLAN?

ACTION TOWARDS A ROBUST SINGLE EUROPEAN VAT AREA

ACTION ON VAT RATES

ACTION TO TACKLE VAT FRAUD

ACTION TO SUPPORT E-COMMERCE AND SMES



KEY VAT FACTS



€50 billion: The value of cross-border VAT fraud in the EU.



Almost €1 trillion: All VAT collected in the EU in 2014 – equivalent to **7%** of the EU's total GDP.



The current rules for VAT came into force **23 years** ago.



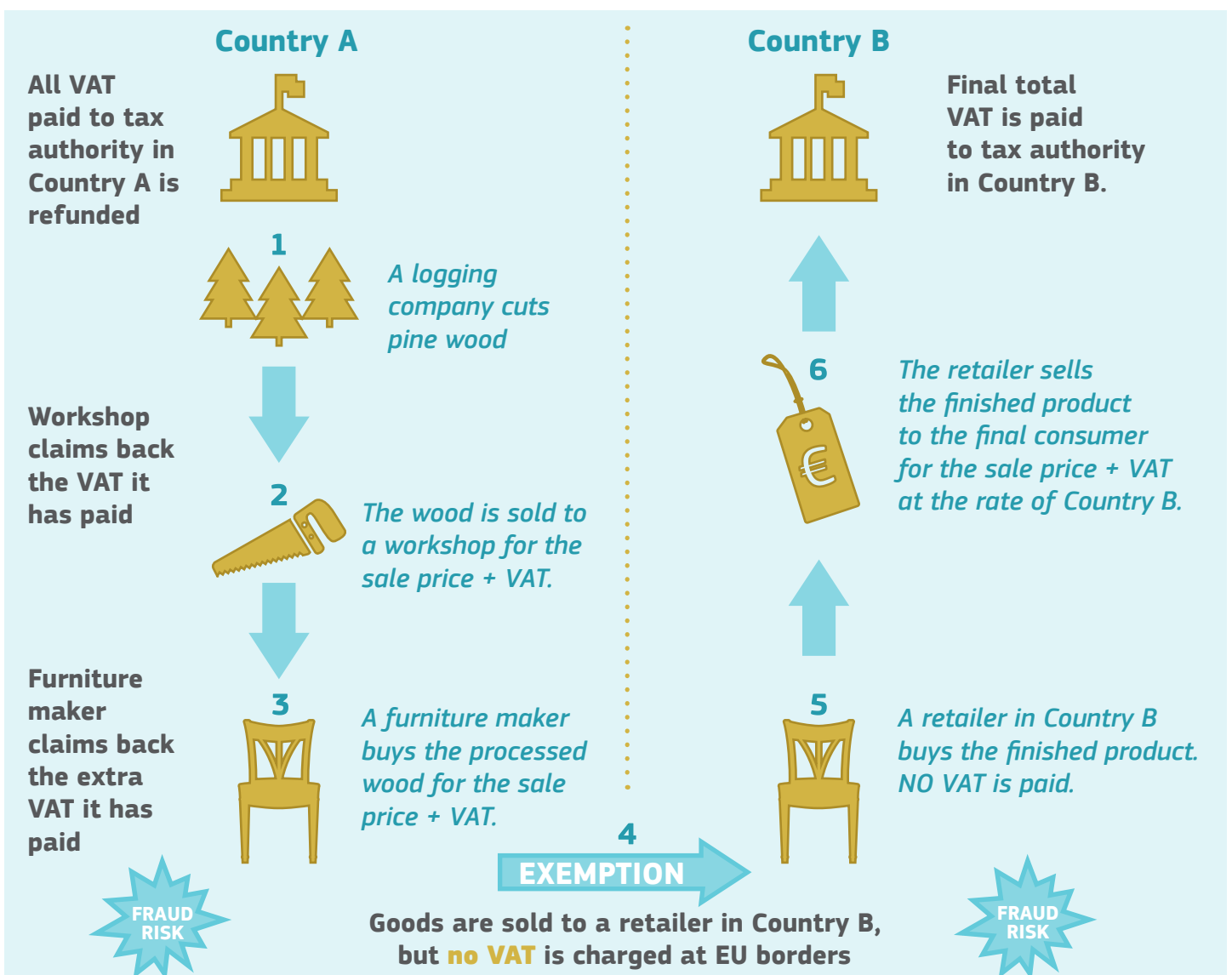
€168 billion: Size of the "VAT Gap", or the difference between VAT revenues expected and VAT actually collected in 2013.



Cross-border VAT fraud could be reduced by **80%** for businesses with the future VAT system.

HOW DOES THE CURRENT EU CROSS-BORDER VAT SYSTEM WORK?

- A company in Country A sells goods to a company in Country B without VAT being added, since cross-border transactions are exempt from VAT.
- The VAT is paid to the treasury of Country B when the product has been sold to the final consumer.
- This VAT system is open to fraud, e.g. where the 'retailer' in Country A could buy the goods VAT free, charge VAT to the final consumer, but not pay the VAT to the treasury.
- This type of VAT fraud accounts for €50 billion a year in the EU.



COMMON EXAMPLES OF VAT FRAUD

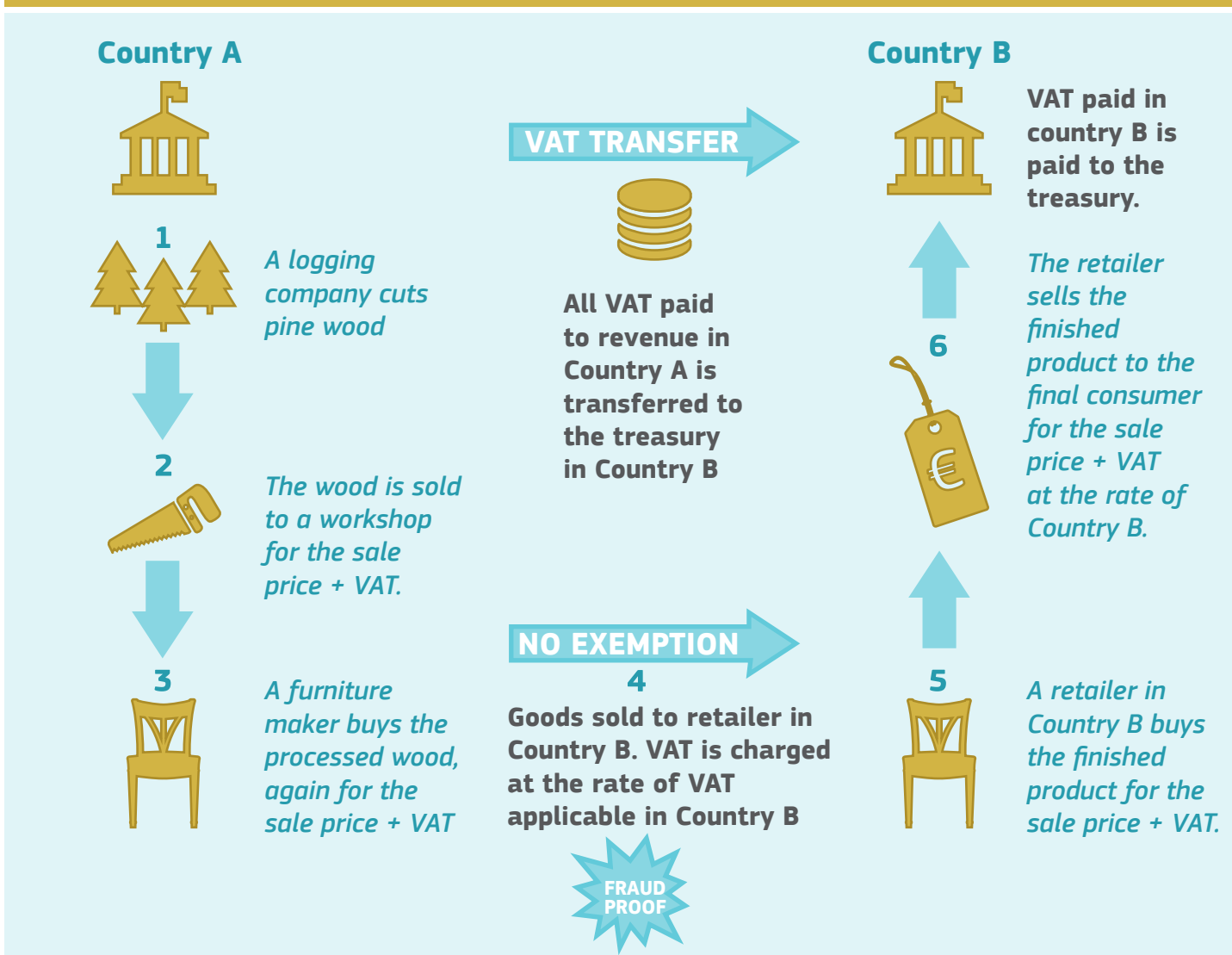
"Missing Trader" fraud occurs when the importing company sells the imported goods and collects VAT, but disappears before passing on the VAT collected to tax authorities.

Closely related is "carousel" fraud, where goods are sold and resold across borders to dishonest companies so that the cycle of fraud continues.

HOW WOULD THE PROPOSED SINGLE EU VAT AREA WORK?

- A supplier in Country A sells goods to a retailer in Country B. The retailer in Country B pays the supplier the sale price + VAT at the rate applicable in Country B.
- This VAT is collected by the treasury of Country A and transferred to the treasury of Country B.
- Estimates show that this option could reduce cross-border fraud by about EUR 40 billion (80 %) a year. Businesses would need to register for VAT only in their home country, rather than in every country where they trade.
- Less red tape would result in savings of an estimated €1 billion a year for businesses.
- In order to allow for a gradual transition, trustworthy businesses certified by their tax administrations, including SMEs, could initially continue to purchase goods free of VAT in another Member State and pay VAT in their own country.

SINGLE EU VAT AREA



HOW WOULD VAT BE COLLECTED IN THE NEW SYSTEM?

In the future system, all businesses that trade in other Member States would be able to sort out their VAT via an online portal in their home country. Otherwise, traders would have to register for VAT, file returns and make payments in every EU country where they operate. The online portal would also allow VAT to be collected by the country where the sale is made and transferred to the country where the goods are consumed. VAT continues to be collected in the country of destination, as before. It's fiscally neutral.

WHAT'S THE CURRENT SITUATION FOR VAT RATES IN THE EU?

Under the current EU VAT system, Member States:

- must apply a standard VAT rate of minimum 15% to all taxable supplies of goods and services;
- may apply reduced rates of minimum 5% to a limited list of goods and services;
- may apply exceptional derogations, using the same rates they had when joined the EU. This allows them to tax some goods and services at levels lower than the 5% limit or even to be exempted ('zero rates').

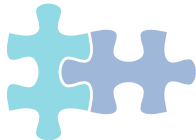
THE FUTURE FOR VAT RATES:

The Commission proposes two options for Member States to choose from:



OPTION 1:

EXTENSION AND REGULAR REVIEW OF THE LIST

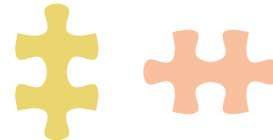


- Maintain the minimum standard rate of 15%.
- The list of goods and services that can benefit from reduced rates would be reviewed regularly, with Member States suggesting potential adjustments.
- All currently existing reduced rates and derogations would be maintained. They could also be made available to all Member States to ensure equal treatment.



OPTION 2:

ABOLITION OF THE LIST



- Abolish the list of goods and services that can benefit from reduced rates.
- Member States would have control of the number of reduced rates and their level they could put in place. But this would require safeguards to avoid unfair tax competition within the single market and to prevent fraud and could increase compliance costs.
- Member States would also have to continue abiding by EU legislation, such as Single Market and competition rules and the EU's economic governance framework.