Future VAT system: pro-business, pro-growth

Brussels, 6 December 2011 – "Value Added Tax (VAT) is paid for by citizens, collected by businesses and accounts for over 20% of national revenues. It therefore has a significant impact on every single EU citizen. However, it is now 40 years since the EU VAT system was first set up, and the regime no longer fits with our service-driven, technology-based economy. The time has come for an ambitious VAT reform." said Algirdas Šemeta, Commissioner for Taxation, Customs, Anti-fraud and Audit.

On this basis, the Commission today adopted a Communication on the future of VAT. This sets out the fundamental characteristics that must underlie the new VAT regime, and priority actions needed to create a simpler, more efficient and more robust VAT system in the EU.

Three overriding objectives shape the vision for the new VAT system:

First, VAT must be made more workable for businesses. A simpler, more transparent VAT system would relieve businesses of considerable administrative burdens and encourage greater cross-border trade. This, in turn, will be good for growth. Among the measures envisaged for a more business-friendly VAT are expanding the one-stop-shop approach for cross border transactions; standardizing VAT declarations; and providing clear and easy access to the details of all national VAT regimes through a central web-portal.

Second, VAT must be made more efficient in supporting Member States’ fiscal consolidation efforts and sustainable economic growth. Broadening tax bases and limiting the use of reduced rates could generate new revenue for Member States without the need for rate increases. The standard VAT rate could even be reduced in some Member States, without any impact on revenue, if exemptions and reductions were removed. The Communication sets out the principles that should guide the review of exemptions and reduced rates. The Commission will also be analysing Member States’ use of reduced rates and exemptions when reviewing their fiscal policies in the context of the European Semester (see MEMO/11/11).

Third, the huge revenue losses that occur today due to uncollected VAT and fraud need to be stopped. It is estimated that around 12% of the total VAT which should be collected, is not (so-called VAT Gap). In 2012 the Commission will propose a quick reaction mechanism to ensure Member States can respond better to suspected fraud schemes. Furthermore, the Commission will see whether current anti-fraud mechanisms, such as Eurofisc, need to be strengthened and will explore the possibility of a cross-border audit team to facilitate multilateral controls.
Finally, the Commission has concluded that the long-standing question of changing to a VAT system based on taxation at origin is no longer relevant. Therefore, VAT will continue to be collected in the country of destination (i.e. where the customer is located), and the Commission will work on creating a modern EU VAT system based on this principle.

Background

On 1st December 2010, the Commission adopted a Green Paper on "The future of VAT – Towards a simpler, more robust and efficient VAT system". This Green Paper was followed by a six month public consultation in which the Commission received 1700 contributions from businesses, academics, citizens and tax authorities.

The European Parliament, the European Economic and Social Committee 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 system.

For the full text of the Communication and more details on VAT, see: http://ec.europa.eu/taxation_customs/taxation/vat/key_documents/communications/index_en.htm

Homepage of Commissioner Algirdas Šemeta, EU Taxation and Customs Union, Audit and Anti-fraud Commissioner:

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