Future of VAT

2011/2082(INI) - 13/10/2011 - Text adopted by Parliament, single reading

The European Parliament adopted by 521 votes to 50 with 58 abstentions, a resolution in response to the Commission's Green Paper on the future of VAT.

Members welcome the Green paper and agree that a comprehensive VAT system should reduce operational costs for users and administrative charges for authorities while combating fraud. They emphasise that rendering the VAT system fraud-proof must be a key priority, given the massive losses incurred by Member States, possibly amounting to EUR 100 billion. Particular attention needs to be paid to 'carousel' fraud. In this regard, Parliament recalls the detailed suggestions contained in its resolution of 2 September 2008 on a coordinated strategy to improve the fight against fiscal fraud which are still valid and should be implemented without delay. In addition, Member States are called upon to continue to build relationships based on trust, transparency and cooperation between national tax administrations, and to build 'tax partnerships' with businesses as the 'unpaid tax collectors' for tax authorities.

Members emphasise that in order to ensure neutrality, VAT on goods and services that are used for taxed economic activities must be deductible.

The VAT design, exemptions and reduced rates: the resolution calls upon Member States to move towards a 'broad based' VAT system. Parliament recalls that one of the key features of VAT is the principle of neutrality and therefore that businesses should, as far as is possible, not be made to bear the burden of VAT collection. Member States should ensure that in principle all commercial transactions are taxed as far as possible and that any exemptions are construed narrowly, whilst also ensuring that similar goods and services are subject to the same VAT treatments. Members underline, for example, that all books, newspapers and magazines regardless of format should be treated in exactly the same way, which means that downloadable and streamed books, newspapers and magazines should be subject to the same VAT treatment as books, newspapers and magazines on physical means of support and that different cross-border transport services should be given identical VAT treatments irrespective of the mode of transport used. They note that when exemptions present no obstacle to the proper functioning of the internal market Member States should retain the right to grant exemptions based on narrowly construed social and cultural criteria.

With regard to **cross-border intra-Community transactions**, Members agree with the Commission's proposal to **recognise the status quo and move towards a destination principle**. They consider that a VAT system based on the place of consumption, for both goods and services, appears to be a promising route that should be further analysed. They emphasise that the introduction of VAT one-stop shops (OSS) by Member States by 1 January 2015 should continue to be a key priority for the EU.

Member States are called upon to:

- further narrow the standard-rate band, in the light of the converging trend of VAT standard rates;
- agree by January 2012 on a list of common goods and services that should benefit from tax exemptions or a reduction in the VAT rate.

The Commission is called upon to:

- come up with a proposal by the end of December 2012 on **simplifying cross-border taxation**;
- propose a mechanism allowing Member States wishing to strengthen civil society to generally exempt from VAT all or most of the activities and transactions carried out by these organisations;
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submit by the end of 2013 a report to the European Parliament and the Council comprising a binding list of common goods and services, on the basis of the findings of the Member States and the VAT committee, that are eligible for a reduced VAT rate or an exemption under the VAT Directive.

Parliament calls for a **Green VAT** strategy to be devised, centred on reduced rates for energyefficient and environmentally friendly products and services.

Reducing Red Tape: Members call upon Member States to better coordinate and converge administrative practices by focusing on exchanging best practices and to implement the measures proposed by the Commission in 2009 to **reduce the administrative burdens** from EU legislation in the area of VAT, notably by:

- reducing the frequency of the periodic VAT returns,
- simplifying the proof required for the VAT export exemption,
- abolishing 'nil' intra-EU sales listings,
- increasing the use of e-government solutions in line with the Digital Agenda for Europe – in particular for the electronic submission of VAT returns and lists,
- abolishing interest and penalty payments on VAT related to errors of form if the individual legal entity has not caused the Member State in question to suffer any shortfall in VAT revenue,
- considering the introduction of a single VAT reimbursement procedure, VAT identification number and an electronic storage system for VAT for the whole of the EU

The Commission is invited to present, within a reasonable period of time, a proposal for a **Standard European Invoice** (paper and electronic) based on a linguistically neutral template that could include information such as full name and address, date of registration and closure of a VAT number and group VAT information, so as to facilitate cross-border transactions and reduce costs for business. Member States are called upon to agree at EU level in the short/medium term on a **maximum set of standardised VAT obligations** that may be imposed on businesses by Member States.

Efficiency of VAT collection: the Commission has undertaken an extensive study, looking at several potential collection methods of VAT, to improve efficiency and reduce VAT fraud. The study examines specifically 4 collection methods.

Members consider that the **limited Data Warehouse Model** (with a Standard Audit File), combined with the **Certified Taxable Person model**, are the most promising of the VAT collection models currently being examined by the Commission study, as they are already successfully implemented in some Member States and have proven to increase the efficiency of VAT collection.

Parliament stresses the importance of more intensive and rapid cooperation between Member States, better monitoring of exchanges of information and more direct contacts between local tax offices by means of a common online information portal.

The resolution points out the need for a clear **European interpretation body** where Member States can get binding answers with a view to a common tax methodology and equal application of the VAT rules.

Legal Process: Members consider that the business community requires clear VAT rules that increase legal certainty and the likelihood of uniform interpretation by Member States. They call upon Member States to increase the level of harmonisation by:

- **using Regulations instead of Directives**, as far as possible, as they create immediate harmonisation and legal certainty;

- allowing the Commission to issue a ‘Common EU VAT Rulebook’ in the form of Implementing Decisions with the consent of the majority of Member States , changing the role of the VAT Committee;
- setting up a process of streamlining and coordinating the national implementation process at EU level, giving a stronger role to the Commission;
- involving stakeholders and businesses in the drafting and implementation process for VAT legislation both at EU and national level, and in particular involving external experts in the work of the VAT Committee at EU level.