Towards a definitive VAT system and fighting VAT fraud

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The European Parliament adopted by 459 votes to 87, with 74 abstentions, a resolution concerning a definitive VAT system and fighting VAT fraud.

Members recalled that VAT, the proceeds of which yielded almost EUR 1 trillion in 2014, is a major and growing source of revenue in the Member States and contributes to EU own resources, the EU's total revenue from the VAT own resource standing at **EUR 17 667 million** and accounting for 12.27% of the total revenue of the EU in 2014.

The fraud challenge: the current VAT system, in particular as it is applied by large corporations to cross-border transactions, is vulnerable to fraud. According to a Commission study, MTIC fraud (Missing Trader Intra-Community fraud, commonly called carousel fraud) alone is responsible for a VAT revenue loss of approximately **EUR 45 billion to EUR 53 billion annually**. The estimated 'VAT gap' amounts to around EUR 170 billion annually, and better digital technologies are becoming available to help close this gap.

Towards a simple, fair, robust and efficient system: Parliament welcomed the Commission’s intention to propose a definitive VAT system by 2017 and welcomed the Commission communication of 7 April 2016 and the projected additional measures designed to prevent fraud.

Members noted that concerted efforts between Member States are needed to reach agreement on a definitive VAT system, while recognising that **unanimity** will be a necessary precondition for an agreement on this issue. They called for **fewer exemptions** to fight VAT fraud and that the best and most efficient way to tackle fraud is a simple VAT system with as **low a rate as possible**.

Country-of-destination principle: Members shared the Commission's view that the VAT system decided upon should be based on the principle of taxation in the country which is the final destination of the goods and services, given that the country-of-origin principle could not be implemented. They are in favour of the country-of-destination principle being applied as a **general rule** in the case of distance sales to individuals, and of introducing harmonised measures for small businesses.

Parliament supported the aim of the action plan to establish a **single European VAT area** to buttress a deeper and more equitable single market. It called in this regard for **services to be incorporated fully** into the new system as soon as possible and called, in particular, for financial services to be subject to VAT.

Noting that the current plethora of VAT rates causes great uncertainty for companies involved in cross-border trading, the report called on the Commission to study the impact by mid2017 of missing trader fraud and on the Member States to agree on **increasing convergence in VAT rate**.

Reduced tax rates: Members took the view that the complete abolition of minimum tax rates as an alternative, as advocated by the Commission, might cause considerable distortions of competition and problems in the single market. They called for an examination of whether a single European list of reduced goods and services could be compiled with the aim of finding an alternative to the current system of reduced VAT rates. They stated that fewer exemptions are important to fight VAT fraud and that the best and most efficient way to tackle fraud is a simple VAT system with as low a rate as possible.

Reverse charge mechanism: Parliament called on the Commission to study carefully the consequences of the reverse charge mechanism and to examine whether this procedure will simplify the situation for SMEs and reduce VAT fraud. The Commission is called upon to **evaluate the effects of the reverse charge procedure**, and not only for individual sectors which are particularly susceptible to fraud, in terms of benefits, compliance costs, fraud, effectiveness and implementation problems and long-term advantages and disadvantages through pilot projects.

One stop shop: Members noted that a **'one-stop shop'** is essential if the country-of-destination principle is to be imposed and made less prone to fraud. They noted that even with the Mini One-Stop Shop, small and micro-businesses can face a significant administrative burden under the new destination principle. They noted that creating a one-stop-shop would alleviate administrative burdens that prevent companies from operating across borders and reduce costs for SMEs.

The Commission is called upon to further facilitate the payment of VAT obligations by companies across the EU.

The report stressed that a new simplified system for VAT must be designed in such a way that SMEs can easily follow the rules on cross border trade and can find support in each Member State not only on how to adapt to them but also on managing the VAT procedures. Members noted that, for **e-commerce sales**, the lack of harmonisation in the VAT threshold entails high transaction costs for SMEs operating in e-commerce activities.

Information on VAT rates: Parliament called in the short term for a comprehensive and **publicly accessible internet portal** for companies and end-users to find, clearly and easily, detailed information on the VAT rates applicable to individual products and services in the Member States.

Own resources: Members are concerned that the goal of simplifying the system of accountability for VAT as an own resource has not been totally achieved. They recalled the **need for further simplification of the management system related to own resources** in order to reduce the possibilities of errors and fraud; regrets that the new action plan does not address the impact on the VAT own resources.

Administrative cooperation between the Member States: Members regretted that administrative cooperation among Member States in fighting VAT fraud is still **not efficient** when it comes to coping with intra-EU VAT evasion and fraud mechanisms, or to managing cross-border transactions or trading. They called therefore on the Commission to **carry out more monitoring visits** to Member States, selected on a risk basis, when assessing administrative cooperation agreements and stressed that the information exchanged through Eurofisc is targeted on fraud.

The Commission is called upon to **make proposals enabling effective cross-checks of data** from customs and tax authorities.

Members deemed it crucial that the Member States use multilateral controls (MLCs) – a coordinated control by two or more Member States of the tax liability of one or more related taxable persons – as a useful tool for combating VAT fraud. They also encouraged the Member States to exchange information received from non-EU countries among themselves in order to facilitate the enforcement of VAT collection, particularly in e-commerce.