

Value added tax (VAT) system: harmonising and simplifying certain rules and definitive system for the taxation of intra-Union trade

2017/0251(CNS) - 04/10/2017 - Legislative proposal

PURPOSE: to improve the Union VAT system in the context of cross-border business-to-business (B2B) trade between Member States and to define the principles for a definitive VAT system.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the European Commission has long-standing commitment to implementing a definitive VAT system that is well-suited to the functioning of the single market. The main idea in this regard was that doing business across the European Union should be as simple and as secure as engaging in purely domestic activities.

In its April 2016 [action plan on VAT](#), the Commission announced, *inter alia*, its intention to adopt a **definitive VAT system** for intra-Union cross-border trade based on the principle of taxation in the Member State of destination of the goods in order to create a robust single European VAT area.

The **Council** reiterated its view that the principle of ‘taxation in the Member State of origin of the supply of goods or services’ should be replaced by the principle of ‘taxation in the Member State of destination’.

In its [resolution](#) of 24 November 2016, **Parliament** also welcomed the Commission’s intention to propose a definitive VAT system by 2017 that is simple, fair, robust, efficient and less susceptible to fraud.

On 8 November 2016, the Council stated that, while the Commission is working on the definitive VAT system for intra-Union trade, **improvements to the current VAT system should be made in the meantime**.

IMPACT ANALYSIS: the preferred option, chosen in the impact assessment, would reduce cross border VAT fraud by **EUR 41 billion** and compliance costs for businesses by EUR 1 billion.

CONTENT: this proposal to amend [Directive 2006/112/EC](#) (VAT Directive) is a **step** forward to replacing the transitional arrangements, applicable since 1 January 1993, by a definitive VAT system for intra-Union B2B trade under which domestic and cross-border transactions of goods will be treated in the same way.

It makes improvements to the current VAT system and lays the foundations for the definitive system for intra-Union B2B exchanges. Its main elements are:

1) Certified taxable person: the Commission proposed introducing the concept of the certified taxable person which would allow for an attestation that a particular business can globally be considered to be a **reliable taxpayer**. The concept is important because certain simplification rules, which could be fraud-sensitive, will apply only where a certified taxable person is involved in the relevant transaction.

The provision sets out the **overall criteria** on the basis of which the Member States will be able to certify taxable persons.

In parallel, a [proposal to amend the Regulation on administrative cooperation](#) is presented in order to enable the certified taxable person status of taxable persons being integrated in the VIES (VAT information and exchange system).

2) Call-off stock: the proposal provides for a **simplification and uniform treatment for call-off stock arrangements** in cross-border trade. The proposed solution consists in considering the call-off stock arrangements as giving rise to a single supply in the Member State of departure and to an intra-Community acquisition in the Member State where the stock is situated. This simplification is limited to certified taxable persons who will no longer need to register and pay VAT in another Member State when they store goods there.

3) VAT identification number: the proposed amendments provide as a substantive condition for the application of the exemption, that the acquirer has to be identified for VAT purposes in a Member State other than that in which dispatch or transport of the goods begins. The correct filing of the VIES listing becomes a substantive condition which can lead, where that condition is not met, to the rejection by the tax administration of an applied exemption

4) Chain transactions: VAT rules when determining the VAT treatment of chain transactions would be **further harmonised**. The Commission proposed that the simplification for those elements of a chain transaction which do not involve the physical movement of goods, for example when goods are sold via several traders, but physically the goods move directly from the original seller to the final buyer. This simplification is limited to certified taxable persons.

5) Definitive system for intra-Union trade: the main foundations of the new single and definitive VAT area shall be:

VAT shall be levied on cross-border business-to-business exchanges within the Union;

- the definitive VAT system for intra-Union trade is based on the **principle of taxation in the Member State of destination** of the supply of goods or services; of liability for VAT of the supplier, or the acquirer if he is a certified taxable person, and of a single registration scheme for the declaration, payment and deduction of the tax;
- where the person liable for VAT is not established in the Member State where the tax is due, he shall be able to settle his declaration and payment obligations via a so-called **One-Stop Shop system**. Use of that system shall also be possible for the deduction of input VAT.

Lastly, although at this stage not yet explicitly stipulated, the system could or should further be based on the **abolition of the recapitulative statement** (the so-called VIES listing), the application of the overall invoicing rules of the Member State of the supplier, and the harmonisation of certain rules related to invoicing (such as the time of issuing of invoices).