Tax-free sales: vendor control systems applied by the Member States

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OBJECTIVE: to provide an overview of the monitoring of intra-Community tax-free sales.
SUBSTANCE: the Commission report on the situation regarding intra-Community tax-free sales presents a quite negative picture of the operation of Member States' vendor control systems. The Commission argues that the Member States have not introduced any systems ensuring that the value limit for exemption (ECU 90) is adhered to, since operators of tax-free shops do not have information on the amount of previous tax-free purchases by passengers, who are therefore able to make purchases repeatedly during the course of a single journey, on board either aircraft or vessels. For instance, virtually no Member State has done anything to ensure that information on a passengers's previous purchases is transmitted from airport to plane to be taken into account in the event of subsequent on-board tax-free purchases. In the case of sea crossings, particularly by ferry, the report stresses that not one bilateral agreement between Member States has been notified to the Commission and that in practice only one agreement of this kind seems to have been concluded. The Commission notes that vendors are generally subject to checks by the tax authorities. Doubts can be expressed as to the effectiveness of such checks, which consist solely in ensuring that the goods have not left the warehouse or the tax-free area without being recorded and do not include any check on the conditions for further exemption. In view of these findings, the report concludes that the Member States have not taken very seriously their responsibility for setting up appropriate control mechanisms. They have not even met the minimum standards set by the Council. The Commission stresses that such practices could distort competition not only with regard to shops selling tax-paid goods but especially between different means of transport. Furthermore, they could reduce the Community's VAT own resource base. It is also noted in the report that turnover at tax-free shops did not suffer as a result of the new regime for tax-free sales. It also demonstrates that the increase in the value limit, from ECU 45 to 90, was sufficient to meet the objectives of the transitional period, so that a further downward or upward adjustment would not be needed. Winding up, the Commission considers that even though tax-free sales are to be abolished in three years, Member States must try to make their control procedures more effective during the remaining period. It also recommends that operators and Member States prepare themselves quickly for the end of tax-free sales on 1 July 1999.