Common system of VAT: a programme for the single market

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OBJECTIVE: the Commission communication sets out the work programme it intends to follow in order to shift over to a new common system of VAT, which will be based on taxation in the country of origin of the goods. SUBSTANCE : the Commission believes that the present VAT system can be made to function more effectively but cannot be fundamentally changed. The creation of a unified European tax area, a vital element of the single market, is only possible through a complete recasting of the system. The new system envisaged would include the following elements : - reducing to only two the number of tax systems (intra-Community transactions and transactions with third countries); - registration and taxation of operators at a single place, whether for transactions within the operator's country or for intra-Community transactions; - so that Member States can receive the VAT revenue which is rightly theirs, the Commission proposes a mechanism based on a quantification of consumption by means of statistics (and not on the tax returns of taxable persons); - finally, to ensure the neutrality of VAT vis-à-vis the conditions of competition, a very large degree of harmonization is essential: as far as the standard rate is concerned, an approximation within a two-point band could prove sufficient, though a single rate would be a much better solution; as regards the reduced rates, only a small number of rates is compatible with the objective of simplifying the tax. The draft work programme leading to the new common system of VAT would be based on five steps: 1. before 31 December 1996: in addition to the proposal on the standard rate of VAT (15- 25%) which is already on the Council table, the Council will put forward proposals changing the status of the VAT Committee, improving the arrangements on mutual assistance on recovery, and a programme to establish a new spirit of administrative cooperation. 2. mid-1996 : presentation of the Communication on the broad lines of the new common system of VAT envisaged and the work programme. 3. mid-1997: the Commission will present its proposals concerning the broad general principles governing the operation of VAT and its essential features: determination of the physical scope of VAT (including the precise definition of taxable transactions); definition of the concept of the taxable person for VAT purposes; determination of the taxable amount for taxable transactions; maintenance, abolition and harmonization of exemptions; the right to deduct. Late 1997, the Commission will propose a second round in the approximation of Member States' VAT rates. 4. mid-1998 : the Commission will present proposals relating to: definition of the territorial scope of VAT; the place of taxation for transactions; Community-wide organization of the control of taxable persons. 5. late 1998/mid-1999: the Commission will present proposals relating to: the machinery for allocating the tax revenue; special schemes (abolition, harmonization); transitional measures. Finally, mid-1999, the Commission will present its proposals relating to the final round in the harmonization of rates.