Basic information

2011/2082(INI) INI - Own-initiative procedure	Procedure completed
Future of VAT **Subject** 2.70.02 Indirect taxation, VAT, excise duties 5.10.01 Convergence of economic policies, public deficit, interest rates 8.70.01 Financing of the budget, own resources	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	CASA David (PPE)	17/02/2011

Committee for opinion	Rapporteur for opinion	Appointed
CONT Budgetary Control	STAES Bart (Verts/ALE)	05/05/2011
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	IVANOVA Iliana (PPE)	13/04/2011
TRAN Transport and Tourism	FERBER Markus (PPE)	29/06/2011
JURI Legal Affairs	The committee decided not to give an opinion.	

European Commission

Commission DG	Commissioner
Taxation and Customs Union	ŠEMETA Algirdas

Key events

Date	Event	Reference	Summary
01/12/2010	Non-legislative basic document published	COM(2010)0695	Summary

12/05/2011	Committee referral announced in Parliament		
22/09/2011	Vote in committee		Summary
30/09/2011	Committee report tabled for plenary	A7-0318/2011	
13/10/2011	Decision by Parliament	T7-0436/2011	Summary
13/10/2011	Results of vote in Parliament		
13/10/2011	Debate in Parliament		
13/10/2011	End of procedure in Parliament		

Technical information

Procedure reference	2011/2082(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 55
Other legal basis	Rules of Procedure EP 165
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/05688

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE466.976	08/06/2011	
Amendments tabled in committee		PE467.220	05/07/2011	
Committee opinion	CONT	PE465.006	15/07/2011	
Committee opinion	IMCO	PE467.151	02/09/2011	
Committee opinion	TRAN	PE469.769	08/09/2011	
Committee report tabled for plenary, single reading		A7-0318/2011	30/09/2011	
Text adopted by Parliament, single reading		T7-0436/2011	13/10/2011	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2010)0695	01/12/2010	Summary

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary

Contribution	SE_PARLIAMENT	COM(2010)0695	20/05/2011	
Contribution	IT_CHAMBER	COM(2010)0695	16/11/2011	

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;
- 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.

Future of VAT

2011/2082(INI) - 01/12/2010 - Non-legislative basic document

PURPOSE: to launch a debate on the future of the VAT system in the European Union (Commission Green Paper).

BACKGROUND: **VAT is one of the main sources of revenue for Member States.** By 2008, VAT receipts accounted for 21.4% of the national tax revenues of EU Member States (including social security contributions), a rise of 12% since 1995. VAT receipts represented in 2008 on average 7.8% of the GDP of a Member State.

The **financial and economic crisis** has resulted in severe challenges for public finances in many Member States. Several Member States have recently increased VAT rates or are considering it, either as a reaction to the consolidation needs resulting from the crisis or in the context of a longer-term shift towards indirect rather than direct taxation.

Moreover, given the **impact of ageing societies** on labour markets, savings and consumption patterns and public expenditure in the years to come, taxation systems will have to be adapted. The financing of the welfare state may have to rely less on labour taxes and tax revenues from capital income (savings), thereby further arguing in favour of a shift to indirect taxation.

The approach followed in the last decade has been to simplify and modernise the current VAT system by increments. It has produced positive results, although it has reached its limits. The **complexity of the current VAT system** results in unnecessary costs and burdens for businesses and administrations and may be an **obstacle to the single market**. Furthermore, due to certain endemic weaknesses, it appears to be susceptible to fraud and tax evasion. Lastly, **technological developments** may also offer new or alternative ways of collecting VAT to reduce burdens on business and VAT losses.

This is why, after 40 years, the time has come to have **a critical look at the VAT system** with a view to strengthening its coherence with the single market, its capacity as a revenue raiser by improving its economic efficiency and robustness, and its contribution to other policies whilst reducing the cost of compliance and of collection.

CONTENT: discussions on the future of VAT have been divided between two major headings. The first of these concerns the **principles of taxation of intra-EU transactions** on which an EU VAT system, fully adapted to the single market, should be based. It examines, firstly, if it is appropriate to revise the basis of the current VAT system and whether goods and services should be taxed **in the Member State of origin or in that in which they are sold**.

The second heading covers those **major issues** which need attention irrespective of any choice to be made on the treatment of intra-EU transactions. These relate to the introduction of a more robust, but simplified and more efficient VAT system, which would be more in keeping with the principles of the single market. The issues are the following:

1) How to ensure the neutrality of the VAT system: among other things, this concerns:

- whether the current VAT rules for public authorities and holding companies are acceptable, particularly in terms of tax neutrality;
- problems encountered in relation to the scope of VAT;
- whether certain current VAT exemptions should be maintained;
- the main problems with the right of deduction and what changes would improve the neutrality and fairness of the rules on deduction of input VAT;

- the main problems with the current VAT rules for international services, in terms of competition and tax neutrality or other factors, and whether more coordination is needed at international level.

2) What degree of harmonisation does the single market require?: any rethink of the VAT system must identify, on the one hand, the extent to which further harmonisation is essential in order to improve the functioning of single market and reduce compliance costs for businesses and, on the other hand, the degree of flexibility needed by the Member States that is compatible with these objectives. The following need to be determined:

- which, if any, provisions of EU VAT law should be laid down in a Council regulation instead of a directive?;
- whether guidance on new EU VAT legislation would be useful even if it is not legally binding on the Member States;
- what should be done to improve the legislative process, its transparency and the role of stakeholders in the process;
- whether the current rates structure creates major obstacles for the smooth functioning of the single market (distortion of competition), unequal treatment of comparable products, notably online services by comparison with products or services providing similar content or leads to major compliance costs for businesses;
- whether there should be no reduced rates (or a very short list of them), which might enable Member States to apply a lower standard VAT rate, or whether there should be a compulsory and uniformly applied reduced VAT rates list in the EU.

3) Reducing 'red tape': following on from the European Council's endorsement in 2007 of the Commission Action Programme to reduce the administrative burdens arising from EU legislation by 25% by 2012, the Commission presented, in 2009, a plan for VAT, among other areas. This plan contains 16 measures such as abolishing the annual summarising VAT return or intra-EU acquisition listings and reducing the frequency of VAT returns. The Green Paper asks:

- what are the main problems experienced with the current rules on VAT obligations;
- what is the feasibility and relevance of the suggested measures including those set out in the reduction plan for VAT;
- whether the current exemption scheme for small businesses should be reviewed and the main elements of that reassessment;
- whether additional simplifications should be considered and what should be their main elements;
- whether the one stop shop concept is considered as a relevant simplification measure;
- whether the current VAT rules create difficulties for intra-company or intra-group cross-border transactions and, if so, how these difficulties might be solved.

A more robust VAT system: as part of the ongoing debate on the strategy to combat VAT fraud, which questioned the efficiency of this collection method, in 2009 the Commission launched a feasibility study on ways of improving and simplifying the collection of VAT by means of modern technologies and/or via financial intermediaries. The Green Paper asks interested parties to identify which model looks most promising, as well as for their views on the feasibility and relevance of an optional split payment.

The Commission invites all interested to contribute to the public consultation, which will be open until **31 May 2011**. Based on the feedback received, the Commission will present the priorities for the future VAT system in a Communication at the end of 2011.