

OPINION OF THE VAT EXPERT GROUP

ON THE DEFINITIVE VAT REGIME

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The definitive VAT regime is a strategic and urgent priority for Europe

The European Union (“EU”) has lived with a transitional VAT system for cross-border trade (“the transitional VAT system”) for more than 20 years. During these years cross-border trade has developed and the internal market now sees substantive trade both in goods and services. However, the transitional VAT system is causing significant administrative burdens and unacceptable risks for business and tax administrations alike.

The transitional VAT system is a barrier to the greater growth of Europe

The growth of the EU is of crucial importance for Member States and their citizens. Such growth requires a true single market in which it is easy to do business. A consensus amongst stakeholders (i.e. business, the Member States and the Commission) is that one of the main barriers to achieving this objective is the current transitional VAT system, which is outdated in a globalised and interconnected economy for three principal reasons.

1 The transitional VAT system is a barrier to trade because:

- it is more difficult to trade within the EU than to export goods to or import goods from non-EU countries;
- it specifically hinders small and medium-sized enterprises to expand across borders.

2 The transitional VAT system is creating high costs and significant administrative burdens to doing business:

- by the cash flow impact on business where traders have to wait for VAT refunds to be made;
- as the cost of compliance has become disproportionate;
- because the use of technology to lower costs of compliance to the maximum extent is missing, as the efficient use of technology requires a clear, certain, simple and uniformly applied EU VAT system;
- as the cost of collection is increasing for tax administrations (see Green Paper Consultation and White Paper action items of the Commission).

3 The transitional VAT system generates high and disproportionate risks for business, the unpaid tax collectors, due to:

- non-legitimate traders committing fraud. Fraud-prevention measures taken increase the complexity of the current VAT system for legitimate traders, create legal uncertainty when doing business in the EU and shift risks to legitimate traders;

- “inflating” the number of VAT disputes and litigation in the Member States and at the Court of Justice of the EU owing to non-harmonisation, resulting in complexity and the legal uncertainty.

VEG Statement

The first mandate of the VAT Expert Group (VEG) is now coming to an end. The VEG has in the past 2 years contributed to identifying the possible options for moving from the transitional VAT system to a definitive system and evaluated those options against various criteria. Five options selected are currently being reviewed for developing the definitive VAT system for the supplies of goods. In light of this the VEG has decided to issue the following statement showing its strong commitment to the urgent development of the definitive regime.

Business in general, and the VEG in particular, are highly committed to the Commission’s initiative on the definitive system; and business involvement in it is crucial. The VEG reconfirms its commitment to this work in close collaboration with the Group on the Future of VAT (GFV).

In order to reach sustainable solutions all stakeholders - Member States and VEG-members alike - should have a very high commitment, willingness and open mindedness to move this difficult, but promising initiative forward. Together, we have started the process. Every option on the table should be thoroughly and seriously considered by all. It is of utmost importance that all Member States put time and resources in this work as we move forward, if we want to make Europe more competitive.

The fundament of the work should be based on the following common principles, shared by all stakeholders, with the aim to work together towards a simple, efficient, fair and robust definitive VAT system, namely:

- 1) legal certainty and simplicity. Clear and uniform rules should be easy to comply with for business, the unpaid tax collectors, and easy to apply for tax administrations;
- 2) neutrality and proportionality;
- 3) efficiency, thereby safeguarding VAT revenues, easing collection and reducing the administrative burden for businesses. Simplicity should allow efficiencies to be achieved through the effective use of technology;
- 4) effective enforcement and collection by the Member States in close cooperation with each other, including dispute resolution mechanisms.

In order to ensure a successful outcome of the work on the definitive system, the VEG calls for action by all stakeholders. More specifically:

- 1) **the Commission to continue to further explore the avenue of a definitive system through studies and impact assessments with the involvement of business and Member States. A transparent and efficient collaboration between the VEG and the GFV is crucial. Regular meetings and open discussions between the GFV and VEG should be facilitated by the Commission;**

- 2) all Member States to commit to this high priority initiative in an open-minded, thorough and serious way by putting the required time and sufficient resources into it;**
- 3) business and the VEG to continue with the high commitment already put into this work; and**
- 4) the Commission, the Council i.e. all Member States, and the Parliament to make this a strategic and urgent priority in order to reach an agreement with an implementation plan on the definitive VAT system as soon as possible and by 2019 at the latest.**