



FEE Future of VAT Roundtable

Time for action! How the Commission's Action Plan will shape VAT in Europe

18 February 2016, Brussels

Summary

On 18 February 2016 FEE organised the 3rd roundtable of its series dedicated to VAT legislation in Europe, titled *Time for action! How the Commission's Action Plan will shape VAT in Europe*. It brought together over 100 representatives from the policy-making and business communities. The purpose of the Roundtable was to share views on and hopes for the anticipated Commission VAT Action Plan, and to identify limitations in existing VAT rules as well as issues with potential solutions.

FEE President **Petr Kriz** welcomed the attendees and speakers. He emphasised the importance of VAT for societies, and highlighted the need to address limitations in the current European VAT landscape especially with regard to VAT fraud, administrative burdens, and adaptation to the realities of the growing digital economy. Mr. Kriz however warned that the proposed solutions should not constitute a **double-edged sword**, whereby measures to address fraud and compliance burdens would generate new complications for businesses, in particular SMEs.

Examining the options

Mr. Donato Raponi, Head of the VAT Unit at DG TAXUD, presented some insights into the anticipated European Commission **VAT Action Plan**. The Commission will seek to establish the direction for the **definitive regime**, and a number of solutions have been considered. A recently published study by EY to the Commission looked at five possible options, and ultimately narrowed the options down to two. The first one would be a system based on taxation of intra-community supplies, and the possibility of a one-stop shop for B2B transactions. This would effectively create a single VAT area, and thereby fulfil the requirements of a truly Internal Market. The second possible approach is the application of a generalised reverse charge mechanism. At the end, it will be up to Member States to choose the general direction.

The European Commission will moreover seek to address the question of **VAT rates**. Mr. Raponi stated that with a move to the destination-system, there might no longer be need for close approximation of VAT rates. This means that the Commission will look into giving Member States **greater flexibility**, including common lists of rates and the possible extension of zero and low rates. During the subsequent panel discussion he moreover stated that the Commission proposes to **limit the number** of different VAT rates that can be applied for specific purposes. Questioning the added value of **reduced rates** overall, Mr. Raponi pointed to the lack of economic evidence that reduced rates are effective in benefiting poorer households, but it is above all a political choice.

With regard to an **extended One Stop Shop**, Deloitte is currently conducting an impact study to be finalised by mid-2016. The results of the study will feed to a Commission proposal in November or December. The European Commission will moreover put forward a proposal concerning **public bodies** in 2017, and reflect to a possible extension on an EU-level **dispute resolution mechanism** similar to the one on the customs side. On the digital economy side, the Commission will assess possible action with regard to new business models in the sharing economy, which poses particular challenges from a VAT perspective. Mr. Raponi also confirmed that the Commission will put forward provisions on **thresholds** for cross-border trading by the end of the year.

Finally, Mr. Raponi emphasises the need for **better cooperation** between taxpayers, tax authorities and Member States. There is a lot of room for improvement, and the Commission would in particular like to improve cooperation between Member States and exchange of best practices.

What Changes to the European VAT System May Mean in Practice

Mr. Ralph Korf, VAT Expert and Chair of the FEE VAT Taskforce opened the panel discussion and invited the panellists to share their views on the main challenges and hopes for the Commission proposals from their respective sectoral perspectives. The panellists highlighted a number of different elements, including the following:

- Key factor for SMEs is the question of **thresholds** to assist small businesses in cross border trading and the bewildering variety of **special rates** that result in unnecessary complications for smaller businesses;
- The **Mini One Stop Shop (MOSS)** is not the way forward in terms of tackling fraud, as it is a reporting and payments tool for those who already wish comply with the laws;
- Limiting the number of **possible VAT rates** is worth considering;
- The importance of **communication and information** was emphasised. One of the speakers stated that a majority of taxpayers are willing and motivated to comply but might not be aware of when and what is required. The possibility of an **EU web portal** was brought up in this context.
- Policy makers should consider giving businesses **greater flexibility** in terms of how they collect VAT;
- The VAT system should also be **conducive to growth** and SMEs should not face disproportionate burdens when operating cross-border;
- The Commission should consider the virtues of **pilot projects**;
- Beneficial reforms and action can be undertaken already within the current framework, and we should consequently not necessarily go for a “big bang approach”;
- Any changes facilitating digitalization of compliance and reducing compliance costs and mistakes are very much welcome;
- The **role of accountants** will evolve as complex VAT systems are subject to simplification, harmonisation and digitalization. In the future, accountants might be more involved in **interactions** with legislators, tax authorities and businesses, and in helping ensure that the right systems are in place.

Mr. Korf closed the roundtable and thanked the attendees for their participation.