

**SURVEY ON THE  
COMMON VAT SYSTEM  
AND  
PROBLEMS LINKED TO THE  
PRESENT VAT SYSTEM**

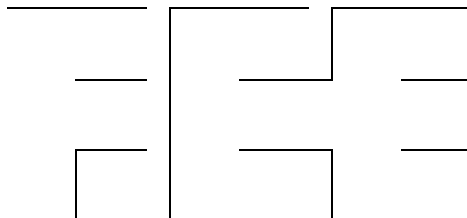
*Part I: Introduction*

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## **PART I**

### ***INTRODUCTION***

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 38 professional bodies from 26 countries, including all 15 Member States of the European Union and the 3 main member countries of EFTA. Between them, these bodies have a combined membership of over 400.000 individuals, of whom approximately 95 % are from EU countries. Roughly 45 % of the accountants represented in FEE work in public practice, providing a wide range of services to clients, whilst the other 55 % work in various capacities in industry, commerce, government and education.

### **The Project**

In July 1996, the European Commission issued a strategic working programme on a new “Common System” of VAT throughout the European Union. The Commission’s programme entails a significant amount of work to be done in both the technical and the communications field.

In order to raise business awareness of the Commission’s programme and to seek the views of business thereon, FEE conducted a survey at the level of its individual members (i.e. professionals working in practice and/or enterprises) throughout the European Union.

The idea was to assess the views and seek the opinions of the business community on the general concept of the Commission’s work programme and the broad format of the new origin system and to involve traders in the technical work of the Commission in the formulation of the different proposals laid down in the programme, so that the proposals are best matched to businesses’ needs and to reduce businesses’ costs in VAT compliance within the EU.

In particular, the main objectives of the research were:

- gather the reaction of a broad business environment,
- make widely known the contents of the Commission’s proposals,
- obtain business’ views of the benefits of the “Common System” compared to the existing “transitional system,”
- identify whether the “transitional system” is holding back the development of the single market;
- determine whether the existing regime is more of a hindrance to smaller businesses than to larger ones in their developments outside of their own national boundaries.

To conduct this survey FEE and the European Commission drafted a questionnaire, translated by FEE EU Member Bodies into their national language and circulated to FEE individual members and their clients.

The survey was finalised in then second half of 1998.

873 businesses throughout the European Union responded to the questionnaire.

## PART II

### **SIGNIFICANT RESULTS AND CONCLUSIONS**

#### **Lack of Information about the European Commission's Proposals**

One of the main findings of the survey is the lack of information amongst European businesses about the contents of the European Commission's proposals:

65% of the organisations haven't received any information about the common VAT system.

<i>Significant deviations :</i>	<b>Belgium</b>	45 %
	<b>Ireland</b>	86,4%

72% of the organisations haven't considered the changes which the common VAT system might bring about.

<i>Significant deviations :</i>	<b>Belgium</b>	50 %
	<b>Ireland</b>	88,8%

#### **Consensus to the Commission's work programme**

*The Commission's work programme aims at eliminating any distinctions between domestic and intra-community transactions. As a condition for ensuring equality of treatment in the Single Market, the new system would provide for a single place of taxation, i.e. all transactions giving rise to consumption in the EU would be taxed from their point of origin. A more uniform application and modernisation of the present system should prepare the ground for the new common VAT system.*

The major finding of the survey is the extremely broad consensus of the business community to the Commission's work programme:

95% of the organisations consider it advantageous to have a common system of VAT throughout the Community whereby all the VAT rules and the way they are interpreted are the same in each country.

88% of the organisations agree that pending the changeover to the common VAT system, the actual system should be modernised and more uniformly applied throughout Europe.

<i>Significant deviations :</i>	<b>Netherlands</b>	97,3%
	<b>Germany, Sweden</b>	83,9%

86% of the organisations welcomes the general aims of the Commission's work programme and the broad format of the new origin system.

<i>Significant deviations :</i>	<b>Belgium</b>	93,8%
	<b>France</b>	79,8%

Only 20% of the organisations see disadvantages of or practical difficulties associated with the Commission's single place of establishment model.

**Significant deviations :**      **Germany**    11%  
                                                                 **United Kingdom**    35,1%

### **Problems of the present VAT system**

*According to the Commission, the main obstacle to equality of treatment arises from the present rules on the determination of the place of taxation of the transactions. The application of the transitional system generates costs, and transactions carried out in a Member State other than the one in which a business is established remain more expensive than purely domestic transactions (in particular because businesses are required to use tax representatives).*

78% of the organisations shares the Commission's opinion that the main source of difficulty in the operation of the current system are the 25 place of supply rules and their implications.

**Significant deviations :**      **Netherlands**      91,9%  
                                                                 **United Kingdom**    65,7%

For 78% of the businesses with customers in other Member States, additional costs are involved in dealing with those customers.

**Significant deviations :**      **Ireland**              86,5%  
                                                                 **Belgium**             57,1%

For 21% of the businesses additional costs are more than 5% greater than costs of selling an identical product/service in their national market.

**Significant deviations :**      **Netherlands**      33,4%  
                                                                 **Belgium**             14,3%)

For 67% of the businesses with suppliers in other Member States, additional costs are incurred to obtain the refund of VAT paid in Member States in which the company is not established.

**Significant deviations :**      **Germany**            77,6%  
                                                                 **Belgium**             40%

### **Most attractive aspects of the new VAT system**

*Under the new VAT system, an operator will only need a single VAT identification number for the whole of the EU. At this place, he will fulfil all his VAT obligations with regard to operations within the scope of VAT in the EU. This approach also implies that the right to deduct input VAT must be exercised strictly and exclusively at that place. Also, all transactions of a given operator will be administered by a single tax administration, that of his 'tax domicile'.*

The following aspects of the new VAT system have been found most attractive:

- 69% equal tax treatment between domestic and intra-community transactions,
- 61% deduction of VAT suffered in other member States in the domestic VAT return as part of normal input tax deduction,
- 60% taxation at origin of all transactions without having to differentiate according to the VAT status of the purchaser,
- 56% reduction in compliance burdens and administrative costs-
- 51% one single identification number,
- 35% one single supervisory tax administration.

### **Effects of the New VAT System on the Single Market**

*The Commission believes that difficulties involved in applying foreign rules and extra costs of managing reporting and payment obligations in other Member States have a penalising and deterrent effects for enterprises particularly for SMEs and prevent the benefits of the Single Market being fully reaped, especially in terms of economies of scale.*

57% consider it helpful to their business wishing to penetrate the Single Market to be registered in just its home country and more generally that the VAT systems were more aligned.

<i>Significant deviations :</i>	<i>France</i>	32,1%
	<i>Germany</i>	75,7%

43% of those companies which would do more cross-border business within the EU (57% of the sample) expect an increase of business of more than 5%; 18% an increase of more than 10%; 5% an increase of more than 20%.

### **Determination of the Single Place of Taxation**

*According to the new VAT system, all transactions giving rise to consumption in the EU would be taxed from their point of origin, i.e. all inland and intra-Community supplies will be taxed with the VAT of the supplier's home territory. Under the new system, the point of origin would be the 'tax domicile' of the taxable person. Currently, the concept of the single place of taxation/tax domicile is not yet defined. In order to formulate concrete proposals, the Commission needs to undertake preliminary studies on the issue.*

The following places are considered to be the most appropriate to meet the company's VAT obligations and rights:

- 45% place where the company is incorporated or legally established,
- 20% place where the company is effectively managed,
- 18% headquarters,
- 14% genuine centre of activity.

## **Differences in VAT Rates**

*The Commission is aware that the new VAT system will call for more harmonisation than is achieved at present, especially on rates and the right to deduct input VAT, because major differences in rates and the deduction of input VAT would create major distortions of competition and might ultimately lead to dislocations of businesses.*

For 48% of the organisations no range of different VAT rates would be acceptable in order to avoid significant distortions of competition (for 22% a range of 2%, for 11% a range of 3%, for 6% a range of 5%).

A difference less than 5% in VAT rates would be an incentive for a company registered in a high rate country to organise its operations in a lower rate country (12% of the business are motivated by a difference less than 2%, 25% of the business are motivated by a difference greater than 5%).

## **Conclusions**

On the basis of the above findings, the following conclusions can be drawn up:

- Immediate action must be taken to close the information gap between the European Commission's proposals and the European businesses, particularly at national level.
- There is a clear indication from the European businesses that the new Common VAT system proposed by the European Commission should be urgently implemented.
- The need for consistency of VAT treatments between countries will be exposed by the introduction of the euro. The globalisation of the European market will make much more evident any differences in the treatment of domestic and intra-community transactions as well as in the VAT rates.

## PART III

### *SOME SPECIFIC PROBLEMS RELATED TO THE PRESENT VAT SYSTEM*

#### 1. VAT TREATMENT OF HOLDING COMPANIES

Value Added Tax costs of raising business finance

The current costs of non-recoverable VAT being incurred by EU businesses are putting them at a significant disadvantage compared to non-EU competitors. A solution that FEE would like to put forward is to allow all businesses a right to deduction in full if their activities otherwise give rise to a full deduction of their input tax, or alternatively to allow suppliers to "zero-rate" their supplies to capital issuers, as for example the system of export certification operated in France under Art 275 of the French General Tax Code, both solutions eliminating the additional VAT cost linked to capital raising.

Such considerations come from the conclusions of two comparative studies on the VAT treatment of holding companies in EU Member States FEE carried out in October 1996 (VAT on holding companies - Transactions within and outside the scope of VAT). FEE noted that following different decisions of the European Court of Justice (e.g. Polysar, BLP Plc, Satam, etc.), holding company activities are no longer considered to fall within the scope of VAT and as such these companies lose their right to deduct input tax on their expenses incurred relative to their holding activity.

This position creates additional business costs which are passed onto final consumers in the form of a hidden tax charge. This cannot have been the intention of the original legislators, nor is such a position supportable by the wording of the Treaty or of the VAT Directives.

It was also noted that more and more questions are being brought before the European Court of Justice (ECJ) regarding the fundamentals of the European VAT system: the right to deduct input VAT being one major example. Decisions of the ECJ, gave the impression that the borderline was clear between activities giving rise to the right to deduct and those not giving rise to the right to deduct .

However, FEE fears that recent developments in the jurisprudence may strike at the roots of the principles of the EU VAT regime. This position of the ECJ seems to limit the scope of VAT in a manner which the original legislators cannot have intended. VAT is supposed to be a tax on consumption borne by the final consumer at the end of the production and distribution cycle, and not a charge on businesses.

In FEE's view a company or concern with fully (VAT) taxable activities, should have a full right to deduct input VAT. In our opinion issuing shares, selling shares in fully owned subsidiary companies, investing excess funds and even the financial support (granting loans) to subsidiaries for taxable activities, should not affect the entitlement to deduct input VAT of the company concerned. To suggest that the ancillary activities of a company having otherwise only taxable supplies, or supplies giving rise to the right to deduct, should have its rights to input tax credit restricted, creates a hidden charge when passed onto the final consumer which distorts the transparency of the EU VAT regime.

FEE believes that the European legislator should intervene as follows:

1. The notion of "taxable person acting as such" needs to be defined to include the activities of businesses such as those set out in the case of *Welcome* at the ECJ. A redefinition of the activities of state bodies within the scope of VAT should also be undertaken.

2. The notion of ancillary exempt services should be defined, following the reasoning of the ECJ in the case of Régie Dauphinoise, but that any non-ancillary activities, which are by definition so closely related to the taxable supplies of the business should allow full input tax recovery whether they are or not otherwise exempt.

More generally, FEE would recommend a uniform VAT treatment of holding companies, improving harmonisation and securing tax neutrality, taking advantage of the occasion of the transition to the Common System to provide for a new definition of the scope of VAT as follows:

1. Principle that the VAT treatment of a holding company applies irrespective of the legal personality of the holding company;
2. Definition of criteria of economic activity performed by or linked to a holding activity (based on the Polysar case) e.g. by a negative definition, stating that the receipt of dividends without any activity going beyond the mere receipt is outside the scope of VAT;
3. An explicit criterion on whether the bilateral flow of a supply and a consideration is required for an activity of the holding to fall within the scope of VAT;
4. Application of the general principles to compute the amount of recovery, which means pro-rata if not allocable directly, defining the amount of deemed consideration, if there do not exist the two elements of a supply, to be included in the pro-rata calculation.

Value Added Tax problems arising on supplies of services between head office and branch, when they are located in two different Member States.

EU businesses may face problems on supplies of services between head office and branch, when they are located in two different Member States.

A supply of services between a head office and its branch is considered as a VAT supply in Italy, Portugal and Sweden, while in other Member States it is considered a non taxable supply.

In Germany, the supply is considered outside of the scope of VAT with no consequence on input tax deduction. In France, it is considered outside of the scope, but then the “prorata” system has effectively to be applied (and it also has to be applied the other way round, in the case of supplies between a branch and its head office).

Problems arise in cases of cross border supplies of services between countries which consider the supply of services outside of the scope and countries which consider the supply as being within the scope, while this kind of transaction does not cause any problems if carried out within the same Member State.

## **2. VAT TREATMENT OF SOFTWARE**

FEE has carried out (and updated in 1999) a comparative study on the VAT treatment of computer software in the Member States of the European Union, including a detailed description of the VAT implications of different transactions involving software.



The FEE survey shows that significant differences still exist between the EU Member States. In particular FEE calls for urgent attention on the differences related:

- to whether a supply of software is defined as being a supply of goods or of services (especially in the case of the transfer of the property or licensing), and
- to the burden of proof for exemption from VAT when software is exported.

In detail:

#### Supply of Goods or Supply of Services

Where software is acquired "off the shelf" most EU states treat the supply as one of goods. When the software package is specifically produced (i.e. "tailor made") for the purchaser's needs it is treated as a service. However, there are notable exceptions to the general treatment.

- i) In Germany and Portugal, a standard software package treats as a supply of services. In the case of Germany, software when it is supplied with hardware, the combined acquisition as a supply of goods. In Portugal where non-software items are also received, such as diskettes then those items can be separately treated as goods.
- ii) Austria, France and Finland generally follow the EU VAT Committee 1988 decision but standard software which is delivered "on-line" is treated as a service.
- iii) Italy does not treat software as a distinct item of supply in its own right instead it is equated to either the copy right for its use, in which case it is a service, or to the physical media it is sold on such as diskettes in which case it is goods.
- iv) Sweden follows the general treatment of software agreed by the EU VAT Committee 1988 decision but with certain exceptions. Where the acquirer of the software falls within the following exceptions then it is treated as a supply of services:
  - a) where the purchaser does not have the same rights as an owner to dispose of the software,
  - b) the right to use the software is the same as that of a user of a copyright.In addition the view is gradually being adopted, in Sweden, that due to the specific contractual limitations as to the use of standard software packages the software is thus specific and should be treated as a service.

#### VAT Consequences of the Treatment

There are a number of negative consequences of the supply being treated as a supply of goods or a supply of services, for example in some Member states the rate of VAT applicable will be different i.e. Italy and Luxembourg. In addition, the treatment of software as a good may cause increased reporting requirements.

#### Intra-Community Operations

It is for intra-community supplies to non-VAT identified customers, individuals, hospitals, etc, that the classification of software is important. Where the software is treated as a supply of services the place of supply rules under article 9.2e of the 6th VAT Directive impose a requirement for a reverse charge to be applied in the recipient's state except where the service is supplied to a non-VAT identified customer, in which case the VAT rate of the Member State of the supplier will apply.

Particular problems arise in the application of the "distance selling" regime to software, as it only applies to goods, which can lead to non-taxation, or tax being due but not accounted for

due to unawareness of the provisions, giving rise to an exposure to penalties and interest charges.

#### Importation of Software

Differences appear to arise in the determination of the value of updated "standard" software. Some Member States apply VAT to the current medium only and not to the total value of the good.

#### Export of Software

##### - EU Operations

Generally where "off the shelf" software is "exported" it is a "zero rated" supply so long as the recipient in the other state is VAT registered. There are however some significant problems in some states such as Sweden in obtaining the required level of proof of "export".

##### - Non-EU Operations

Exports outside the EU are "zero rated". Again the main problem tends to be one of obtaining adequate proof of export.

#### Conclusions

There are a number of significant differences in the VAT treatment of software between EU states, as our survey has highlighted. However, we focus on two specific points which we consider require urgent attention:

- the significant difference revolves around whether the member state defines the supply as one of services or of goods, creating a potential for non-taxation and exposure to penalties. Without the harmonisation of treatment between states EU enterprises have to be aware of the differences between each state and thus the VAT procedures required,
- the burden of proof where software is exported seems to be significantly different between states. The UK revenue authorities take a pragmatic and practical view of the burden of proof for exports whereas at the other extreme in Sweden the burden seems to be excessive. We do not consider that the burden of proof should be increased but the maximum level should be stipulated otherwise businesses in some states are being unfairly hindered.

## ANNEX I

### *SUMMARY OF THE EUROPEAN COMMISSION PROPOSAL FOR A NEW COMMON VAT SYSTEM*

#### **1. Background**

##### **Elimination of any distinction between domestic and intra-community transactions: a condition for ensuring equality of treatment and neutrality in the Single Market**

The present system does not create the necessary conditions for genuine tax neutrality either between traders or between Member States. It only aims to achieve equality of treatment between transactions carried out within the same Member State.

Nevertheless, the demands of the Single Market are such that this level of neutrality is no longer sufficient.

The new common system of VAT must therefore ensure that domestic and intra-community transactions are treated in the same way and a transaction involving more than one Member State does not result in more obligations than one carried out within a single Member State. All taxable transactions in the EU should be subject to the same rules on taxation and deduction.

According to the Commission, the main obstacle to equality of treatment arises from the present rules on the determination of the place of taxation of the transactions. Difficulties involved in applying foreign rules and extra costs of managing reporting and payment obligations in other Member States have a particularly penalising and deterrent effects for SMEs and prevent the benefits of the Single Market being fully reaped, especially in terms of economies of scale:

- transactions carried out in a Member State other than the one in which a business is established remain more expensive than purely domestic transactions (in particular because businesses are required to use tax representatives),
- the application of the transitional system generates costs.

In order to achieve the objective of equality of treatment, it will be necessary to apply a single place of taxation so that, for the purpose of taxing transactions and for the deduction of the input tax, the VAT system will have to treat the EU as a single territory.

#### **2. The New Common Vat System**

On the 10<sup>th</sup> of July 1996, the Commission adopted a work programme for a step-by-step introduction of a new common VAT system, based on taxation at origin, by the turn of the century (COM 328/96 Final -obtainable from European Commission information offices).

The VAT reform as envisaged in the programme is centred on three pillars:

1. Providing for more uniformity in the practical application of the tax throughout Europe; which is why it is suggested to turn the VAT Committee into a regulatory committee (COM 325/97 Final) to reach a more unified approach in interpreting existing EC-legislation;

2. The modernisation of the present VAT system in order to adapt taxation to recent technical and economic developments (e.g. telecommunications, electronic commerce, transfer of public services into private ownership...);

These two first pillars are seen as improvements of the current VAT system preparing the ground for the third pillar:

3. The changeover to the new system (from taxation at destination to taxation at origin) providing for a single place of taxation.

The Commission approach for a new system is based on the fundamental concept that, in a true Single Market, there should be no distinction between domestic transactions and intra-Community transactions. In other words, selling to customers in other countries should be as easy and should have the same consequences as selling to customers in the seller's home country.

What are the main elements of the envisaged system?

*a. Taxation at origin*

All transactions giving rise to consumption in the EU would be taxed from their point of origin so that the existing remission/taxation mechanism for trade in goods and many services (including accountancy type services) between Community Member States would be abolished.

This means that differences between domestic and intra-Community transactions will be abolished, and all inland and intra-Community supplies will be taxed with the VAT of the supplier's home territory.

The notion of origin is quite different from the 1987 Commission proposals where the point of origin was considered to be:

- the physical location of the goods (for supplies of goods);
- and for supply of services, in principle, the place of the supplier's establishment, but with almost the same range of derogations as we know today.

Under the new system, the point of origin would be the 'tax domicile' of the taxable person (still to be concretely defined).

*b. Single place of taxation, single place of deduction, single place of VAT control*

Today, within a single Member State, an operator only has to register once, but if operating in several Member States may require multiple registrations. In the future, under the new system, he will only need a single VAT identification number for the whole of the EU. At this place, he will fulfil all his VAT obligations with regard to operations within the scope of VAT in the EU. This approach also implies that the right to deduct input VAT must be exercised strictly and exclusively at that place. Also, all transactions of a given operator will be administered by a single tax administration, that of his 'tax domicile'.

The approach will call for more harmonisation than is achieved at present, especially on rates and the right to deduct input VAT, because major differences in rates and the deduction of input VAT would create major distortions of competition and might ultimately lead to dislocations of businesses.

## ANNEX II

### QUESTIONNAIRE

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#### PART 1 - STATISTICAL INFORMATION

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1 Name of Company/Society/Organisation: \_\_\_\_\_

2 If part of a group or conglomerate, state if the group is legally structured through branches or subsidiaries.

Branches []      Subsidiaries []

3 Tick the most appropriate sector to which your organisation belongs:  
If you are a conglomerate tick as many boxes as necessary to describe your sectors. If you are part of a conglomerate, tick one box which most appropriately describes your own activities.

- |                                                                   |                                                                          |
|-------------------------------------------------------------------|--------------------------------------------------------------------------|
| <input type="checkbox"/> <sub>1</sub> Industrial                  | manufacturing, chemicals, textiles, electronics, defence                 |
| <input type="checkbox"/> <sub>2</sub> Construction                | building, civil engineering, mining                                      |
| <input type="checkbox"/> <sub>3</sub> Retail                      | wholesale and retail supply of goods, including distribution             |
| <input type="checkbox"/> <sub>4</sub> Banking & other financial   | insurance, investments, brokerage, banking                               |
| <input type="checkbox"/> <sub>5</sub> Professional services       | accounting, auditing, legal advice, tax advice, etc...                   |
| <input type="checkbox"/> <sub>6</sub> IT Services                 | software, electronic information, etc...                                 |
| <input type="checkbox"/> <sub>7</sub> Media & Publishing          | publishing, printing, audio-visual, multimedia, etc...                   |
| <input type="checkbox"/> <sub>8</sub> Other commercial services   | advertising, public relations, information, consultancy, etc...          |
| <input type="checkbox"/> <sub>9</sub> Utilities                   | energy, water, transport, telecommunications                             |
| <input type="checkbox"/> <sub>10</sub> Agricultural               | farming, fishing, related food & dairy processing                        |
| <input type="checkbox"/> <sub>11</sub> Public & personal services | health, education, cultural, tourism (Central/regional/local government) |

4 Indicate the size of your organisation [your own part if part of a group]

a. Tick to show n° of employees:

- <sub>1</sub> Less than 50  
<sub>2</sub> 50 < 250  
<sub>3</sub> 250 < 1.000  
<sub>4</sub> 1.000 or more

b.

Turnover last year:

Turnover last year generated through  
branches (not subsidiaries) in other  
Member States than the company's  
home country:

[please show in Ecu]

c. Indicate the Member States where your company/group has sales outlets other than in the Member State of the company's main establishment, are these outlets set-up as branches or separate legal entities (subsidiaries)?

		<i>Subsidiaries</i>	<i>Branches</i>
<input type="checkbox"/>	<i>Austria</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Belgium</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Denmark</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>France</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Finland</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Germany</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Greece</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Ireland</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Italy</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Luxembourg</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Netherlands</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Portugal</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Spain</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>Sweden</i>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<i>UK</i>	<input type="checkbox"/>	<input type="checkbox"/>

5a Show what proportion of your customers are based in:

- |   |                               |       |   |
|---|-------------------------------|-------|---|
| 1 | <i>Your own country</i>       | _____ | % |
| 2 | <i>Other EU member states</i> | _____ | % |
| 3 | <i>Other parts of Europe</i>  | _____ | % |
| 4 | <i>Rest of the World</i>      | _____ | % |

*Total* 100%

5b If the answer to 5a.2 is positive:

*Estimate additional costs (excluding transport, insurance, banking costs, costs related to Intrastat returns) of dealing with a customer in another member state other than your own (e.g. costs to satisfy VAT identification, declaration and payment obligations in Member States where your company operates but is not established, appointment of fiscal representatives, costs for consulting tax advisors to obtain information how to cope with the administrative obligations in Member States other than the one of establishment...).*

*Estimate to be given in percentage terms eg. Additional costs 5% greater than costs of selling an identical product/service in your national market.*

*Additional cost:* \_\_\_\_\_ %

6a Show what proportion of your suppliers are based in:

- |   |                               |       |   |
|---|-------------------------------|-------|---|
| 1 | <i>Your own country</i>       | _____ | % |
| 2 | <i>Other EU member states</i> | _____ | % |
| 3 | <i>Other parts of Europe</i>  | _____ | % |
| 4 | <i>Rest of the World</i>      | _____ | % |

*Total* 100%

6b. If the answer to 6a.2 is positive:

*Estimate additional costs of obtaining the refund of VAT paid in Member States in which your company is not established (refund procedure - 8th VAT Directive).*

Additional cost: \_\_\_\_\_ %

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**PART 2 - NEW COMMON VAT SYSTEM**

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7 *Has your organisation received any information about the common VAT system?*

Yes  No

8a *Has your organisation considered the changes which the common VAT system might bring about?*

Yes  No

8b *Which departments do you think will be affected by these changes (tick one or more of the following boxes)?*

- 1 Finance/Accounting
- 2 IT
- 3 Legal department
- 4 Treasury
- 5 Personnel
- 6 Internal control
- 7 Sales/Marketing
- 8 Production

9 *Do you welcome the general aims of the Commission work programme and the broad format of the new origin system?*

Yes  No

10 *Do you agree that pending the changeover to the Common VAT system, the actual system should be modernised and more uniformly applied throughout Europe?*

Yes  No

11 *Do you share the Commission's opinion that the main source of difficulty in the operation of the current system are the 25 place of supply rules and their implications, like the need for multiple VAT identification numbers, and that the move to a single place of taxation concept is the sole guarantee for a substantial and genuine simplification of the tax system?*

Yes  No  Don't know

12 Which aspects of the new VAT system do you find most attractive (tick one or more of the following boxes)?

- [1] Equal tax treatment between domestic and intra-Community transactions
- [2] Taxation at origin of all transactions without having to differentiate according to the VAT status of the purchaser (taxable person, final consumer, legal non-taxable persons ...)
- [3] One single VAT identification number
- [4] One single supervisory tax administration
- [5] Reduction in compliance burdens and administrative costs
- [6] Deduction of VAT suffered in other Member States in the domestic VAT return as part of normal input tax deduction
- [7] None of the above

13a Would it help your business wishing to penetrate the Single Market to be registered in just its home country and more generally if the VAT systems were more aligned?

Yes  No  Don't know

13b If "yes", would your company do more cross-border business (within the EU)? How much more business would you expect in percentage terms?

> 5%  >10%  >20%  >50%

14 Assuming that there is true harmonisation of VAT regimes in Member States, what do you consider to be the most appropriate place to meet the company's VAT obligations and rights i.e. the place where your company would be registered for VAT purposes and where all the transactions for the entire Community would be taxed?

- [1] Place where the company is incorporated or legally established
- [2] Headquarters
- [3] Place where the company is effectively managed
- [4] Genuine centre of activity
- [5] None of the above

15a Do you see major disadvantages of or some practical difficulties associated with the Commission's single place of establishment model?

Yes  No  Don't know

15b If "Yes", please specify (tick one or more of the following boxes):

- [1] Costs associated with the installation of centralised information systems
- [2] Centralisation of accounting systems
- [3] Centralised/consolidated invoicing systems
- [4] Disconnection between the rules applicable in the field of direct taxes and VAT
- [5] Funds to be remitted to the country of registration in order to pay the tax
- [6] None of the above



16 *Should the Commission consider an option for those enterprises who wish to continue to account for VAT in the various Member States where they have a physical trading place (branches), even where such an optional regime would necessarily cancel out many of the simplifications sought (e.g. multiple VAT numbers, additional obligations as to monitor internal operations like the retention of taxable transfers and the difficulties associated with the right to allocate output and input VAT between the different establishments)?*

Yes  No  Don't know

17a *What range of different VAT rates would, in principle, be acceptable in order to avoid significant distortions of competition i.e. a range which would be sufficiently small to avoid making it worthwhile for businesses to relocate to Member States applying lower VAT rates ?*

- 1 None
- 2 2%
- 3 3%
- 4 5%
- 5 Between 5 and 10% difference

17b *What difference in VAT rates would be an incentive for your company registered in a high rate country to organise its operations in lower rate countries as separate legal entities (subsidiaries) or vice versa operating through branches if your company were to be registered in a low rate country (taking into account the legal consequences and the consequences in the direct taxation field of transferring a company's residence)?*

<2%  <3%  5%  >5%

18 *Would it be advantageous to have a common system of VAT throughout the Community whereby all the VAT rules and the way they are interpreted are the same in each country?*

Yes  No  Don't know