



**ACCOUNTANCY
EUROPE.**

MODERNISING VAT

VAT rates measures

FACTS.

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HIGHLIGHTS

This fact sheet provides an overview of current EU initiatives in respect of VAT, for persons with a working knowledge of the European VAT system.

These proposals have different objectives. Some are aimed at improving the competitiveness of the Digital Single Market and others to increase the cross-border trading activity of smaller businesses. Some provisions address weaknesses or inequalities in the current VAT system. Finally, Definitive Regime proposals have been introduced after over a quarter of a century of discussions and negotiations to modernise the European VAT system and make it more effective in the fight against fraud.

Accountancy Europe has created five fact sheets that set out the proposals according to themes and provide a summary of the current situation, the changes agreed or proposed, and an indication of the potential impact of these changes on businesses affected. This publication focusses on VAT rates measures.

It will be clearly marked whether the proposals have been agreed or are still under negotiation. It is intended to update this document as and when new proposals are made, or existing proposals are agreed.

TABLE OF CONTENTS

Introduction	2
Purpose and audience	2
Legislation Summary	2
VAT rates measures.....	4
E-commerce.....	4
VAT rates for e-books	4
Liberalising VAT rates	5

INTRODUCTION

The last two years have seen an unusually large number of EU VAT legislative proposals. Some are proposed solutions to urgent issues, some are designed to improve the competitiveness of the Single Market and others are the culmination of many years' work leading towards fundamental reforms.

Taken together, they could represent a fundamental change to the European VAT system that will affect all EU businesses that trade cross-borders.

These proposals require unanimity from the Member States to become law - this process is often problematic as Member States have their own priorities and concerns. Some changes have already been approved but it is possible that some will never be approved. Here, VAT rates measures are outlined.

PURPOSE AND AUDIENCE

This fact sheet is intended to be a high-level summary of the legislative proposals and will be updated as the files progress through negotiation. Once the legislation has been agreed, reference to the original proposals and changes made during negotiation will be removed.

The topics covered are often quite complex, and this publication is targeted at people who have a working knowledge of the European VAT system. Links to the draft and final legislation will be provided. Where the file is still undergoing negotiations, the implementation dates shown will be target dates, but the actual effective date of implementation may be considerably later, depending on the complexity of the issues.

LEGISLATION SUMMARY

The main legislative proposals recently have been:

Confirmed	In negotiation
December 2016 – Modernising Cross-Border E-Commerce	October 2017 – Proposals for the Definitive Regime
December 2016 – A Generalised Reverse Charge Mechanism	January 2018 – Special Schemes for SMEs
October 2017 – Quick Fixes	January 2018 – Liberalising VAT rates
	May 2018 – Detailed Technical Measures for the Definitive VAT System
	December 2018 - Detailed Technical measures for the transfer of payment data ¹ and supplies facilitated through electronic interfaces ²

One aspect of many of these measures is to extend the scope of the Mini-One Stop Shop (MOSS) to cover goods and services other than electronic services. Should these proposals be adopted in their entirety, the options available to businesses for reporting and paying VAT on supplies to other Member States will be greatly increased. We have prepared a graphic to summarise these options, which is available [here](#).

Broadly, the proposals cover the following themes:

¹ COM(2018) 812 final and COM(2018) 813 final

² COM(2018) 819 final and COM (2018) 821 final

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- simplification measures (agreed)
 - simplification measures (in negotiation)
 - anti-fraud measures
 - fundamental changes to the European VAT system
 - **VAT rates measures**

The document outlines VAT rates measures. To consult additional elements of the VAT proposals, please visit this page.

The document will outline the current position, describe the main proposed changes and indicate the degree of progress that has been made for each.

This paper is based on proposed amendments to Council Directive 2006/112/EC³ ('the VAT Directive') and supporting regulations. All reference to legislation refer to the VAT Directive, unless otherwise stated. Changes to the VAT Directive must be transposed into national legislation and their impact will differ between Member States due to existing national VAT legislation.

A version of Council Directive 2006/112/EC that includes the amendments should the proposed changes be enacted is also available.⁴

³ Consolidated version is available from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:02006L0112-20160601>

⁴ https://ec.europa.eu/taxation_customs/sites/taxation/files/vat_directive_with_details_for_the_definitive_system_en.pdf

VAT RATES MEASURES

Measures outlined	Implementation date
Rates of VAT chargeable on books and newspapers ⁵	4 December 2018
Liberalising VAT rates ⁶	20 days after publication *

* Application date from the draft proposals.

E-COMMERCE

VAT RATES FOR E-BOOKS

Current situation

Electronic books and magazines are treated in line with other electronically supplied services for VAT purposes, rather than in line with their paper equivalents. Consequently, electronic books must be taxed at the standard rate (minimum 15%). Member States have the option to apply a reduced VAT rate (minimum 5%) on physical books and periodicals with some Member States being granted the possibility of even lower rates – including at zero percent with the right to recover input VAT.

Changes from the implementation date If Member States have reduced rates for the equivalent paper publications they can opt to extend the reduced rate of VAT to electronic books, newspapers and periodicals. Furthermore, they also have the option to apply rates below the reduced rate (minimum 5%) to these products, including exemption from VAT with the recovery of input VAT.

Conditions

- this does not apply to publications that consist wholly or predominantly of music or video content, or that are predominantly devoted to advertising

The impact:

This will be beneficial to publishers and authors who see an increasing proportion of their sales being in a digital format and who fear that the difference in VAT rates between the printed and electronic versions will have a negative impact on sales.

⁵ COM(2016) 758 final Proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC, as regards rates of value added tax applied to books, newspapers and periodicals

⁶ COM(2018) 20 final Proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC as regards rates of value added tax

LIBERALISING VAT RATES

As of November 2018, this file has made little progress in Council negotiations.

Current situation

Member States must have a standard VAT rate not less than 15%. They are also able to opt for up to 2 reduced rates for certain goods and services that can be no lower than 5%. By derogation, Member States are permitted to continue to apply any lower rates if such rates were already in place on 1 January 1991.

Changes once agreed. If agreed, Member States must maintain a standard rate of VAT that is not lower than 15%. Additionally, however, they may opt to have all or some of the reduced rates:

- up to two reduced rates not less than 5%
- one exemption with deductibility of VAT paid at the previous stage
- one super-reduced rate of between 0% and 5%

The existing Member State derogations will be withdrawn.

Conditions

- there is a list of proscribed goods and services to which reduced rates of VAT cannot be applied. These are fully detailed in a revised Annex III of the VAT Directive⁷, including goods and services supplied under margin schemes, alcohol and tobacco, supplies of electrical equipment etc
- the reduced rates must only benefit the final consumer and must be to pursue ‘an objective of general interest’ – not defined in the proposed Directive
- in setting their overall VAT rates, Member States must not fall below a weighted average rate of 12%. This weighted average is calculated only taking into account those transactions for which VAT cannot be deducted – fundamentally, supplies to final consumers and those made to non-business and VAT exempt sectors of the economy

The impact:

This could potentially reduce administrative burdens for businesses making intra-EU supplies, reducing the current number of potential VAT rates from over 250 to a maximum of 140.

However, as this measure is linked to changes in the place of supply under the Definitive Regime, the impact of having many different rates will be magnified for businesses, which will be required to know all the VAT rates that could affect them in each Member State in which they make supplies.

These impacts could be reduced by:

- having a standardised description of those goods and services subject to reduced rates, akin to the EU Customs Code
- having the rates in a centralised database with an obligation on Member States to keep their data accurate and up to date.

⁷ COM(2018) 20 final – ANNEX to the Proposal for a Council Directive amending Directive 2006/112/EC as regards rates of value added tax <https://ec.europa.eu/transparency/regdoc/rep/1/2018/EN/COM-2018-20-F1-EN-ANNEX-1-PART-1.PDF>



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