

FINAL REPORT

Measurement data and analysis

As specified in the specific contract 5&6 on Modules 3&4

under the Framework contract n° ENTR/06/061

Report on the Tax Law (VAT) Priority Area

EU PROJECT ON BASELINE MEASUREMENT AND
REDUCTION OF ADMINISTRATIVE COSTS

5th March 2009

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Executive Summary

The European Commission has embarked on an ambitious 'Better Regulation' exercise aimed at a reduction of the administrative burden for European businesses by 25% by 2012. A key part of its Action Programme consists of measuring the administrative cost for businesses of meeting obligations to provide information under selected items of the EU legislation and the relevant national implementing legislation. A consortium consisting of Capgemini, Deloitte and Ramboll Management was engaged by the European Commission to carry out the measurement.

The Standard Cost Model (SCM) that has been used for this measurement is a method for determining the administrative costs for businesses imposed by regulation. The SCM method is a way of breaking down regulation into a range of manageable components that can be measured. The SCM neither addresses nor questions the policy objectives of each piece of regulation. As such, the measurement and analysis focus only on the administrative activities that must be undertaken in order to comply with regulation, not on the benefits that accrue from the legislation.

This document is the Final Report on the measurement of the Tax Law (VAT) Priority Area. Its results are based on measurements conducted in six Member States, namely Cyprus, France, Hungary, Latvia, Poland and Spain, together with (comparable) existing data from five Member States – Austria, Denmark, Germany, the Netherlands and the United Kingdom – that have previously conducted baseline measurements. This report presents:

- The results of the measurement.
- Cost data for all 27 Member States as input for the prioritisation and analysis of future simplification work.
- Analysis of the measurement data.
- First suggestions collected during interviews and workshops on how to reduce the administrative burden for businesses arising from the Information Obligations (IOs) identified¹.

¹ During the interviews and workshops with businesses and experts several initial simplification ideas were collected. A structured and detailed collection and analysis of possible reduction measures is being conducted as part of Module 5. Thus, this report only contains a summary of suggestions gathered and does not represent a final list of simplification suggestions.

The Directorate General for Taxation and the Customs Union's mission is to develop and propose EU policy in the tax and customs fields as well as to ensure the correct implementation of EU tax and customs measures that the EU's Council and Parliament have adopted. More specifically, the Directorate General's activity aims at developing a coherent, modern and simple VAT system².

The legislation in scope for this Priority Area is:

Tax Law (VAT)
Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax

² European Commission's Directorate General for Taxation and the Customs Union, Mission statement, 24 September 2008.

Main findings in the Tax Law Priority Area (VAT)

- On the basis of the Council Directive 2006/112/EC of 28 November 2006, a total of 34 EU Information Obligations (IOs) and Possibilities Stated in the EU Legal Act³ were identified.
- The transposition of the 34 IOs resulted in 834⁴ national IOs across the 27 Member States. In addition, 34 Possibilities not Stated in the EU Legal Act⁵ were identified across the 27 Member States.
- In addition to the above and in agreement with the Commission three EU 'Cost' IOs were mapped and measured, to represent general costs that are not specifically attributable to any single EU Information Obligation. These 'cost' IOs are 'VAT training', 'Software costs' and 'VAT audits'⁶.
- The administrative costs of these 834 IOs and the 34 Possibilities not stated in the EU Legal Act are estimated at a total of €72.7 billion EU-wide. The administrative costs of the 'Cost' IOs are estimated at a total of €6.8 billion EU-wide. Together the administrative costs for the Tax Law Priority Area (VAT) are estimated at €79.5 billion EU-wide.
- Of the €79.5 billion of administrative costs, €69.5 billion has been classified as administrative burdens.
- 3 IOs — "VAT bookkeeping in sufficient detail for inspection by tax authorities", "Submission of a periodical VAT return" and "Issuance of an invoice" — alone account for €65.4 billion in administrative costs, representing more than 82% of the total administrative cost arising from EU IOs.

³ 'EU Information Obligations' (IOs) are requirements imposed on Member States by the Directives; 'Some EC Legal Acts also mention the possibility for Member States to ask for additional information (i.e. "...Member States may ... require the inclusion of other statements in the annual accounts in addition to the documents referred to in the first sub-paragraph ..."). Such Possibilities Stated in the EU Legal Act were documented by the Consortium as they often pave the way for additional legislative requirements introduced at national level.

⁴ There is not a one-to-one relationship between number of IOs and the implementation of Possibilities Stated in the EU Act and national IOs. Not all are implemented in all Member States, and for some more than one national requirement applies.

⁵ In many cases the possibility for Member States to ask for additional information also exists even though it is not stated in the EU Legal Act. These requirements going beyond what the EU requires are defined as 'Possibilities not stated in the EU Legal Act'.

⁶ Due to their nature these cost IOs are mapped and measured in every Member State. While these are mapped and measured in a similar way as EU IOs, they should technically not be considered as separate Information Obligations linked to an individual article in the EC Act.

The following Table shows the total administrative costs of the top three most burdensome EU IOs.

Table 1: Total Administrative Cost of the top three EU IOs and National Obligations going beyond EU Requirements⁷

EU IO	Legislation	National Obligations going beyond EU Requirement			Total Admin.Cost Admin. Cost (€ x 1,000)	Total Admin. Burden	
		EU Requirement Admin. Cost (€ x 1,000)	Possibilities stated in the EU Act Admin. Cost (€ x 1,000)	Possibilities not stated in the EU Act Admin. Cost (€ x 1,000)		Admin. Burden (€ x 1,000)	Share of admin. Cost (%)
		1. VAT bookkeeping in sufficient detail for inspection by tax authorities	Art. 242 Council Directive 2006/112/EC of 28 November 2006	35,950,000		0	1,000
2. Submission of a periodical VAT return	Art. 250 - Art. 252 Council Directive 2006/112/EC of 28 November 2006	19,197,000	0	982,000	20,179,000	20,179,000	100.00
3. Issuance of an invoice	Art. 220 Council Directive 2006/112/EC of 28 November 2006	9,121,000	0	123,000	9,244,000	9,244,000	100.00
	TOTAL	64,268,000	0	1,106,000	65,374,000	56,386,000	

This Table is based on data compiled by the Consortium.

Two of the three top IOs relate to the invoicing process: ‘VAT bookkeeping in sufficient detail for inspection by tax authorities’ and ‘Issuance of an invoice’. Given the high cost allocated to these 2 IOs, more specifically because of the time businesses spend on the booking and reviewing of invoices, simplification suggestions could concentrate on uniform, user-friendly and easy accessible e-invoicing, e-storage and electronic bookkeeping rules and more simplified VAT rules in general (e.g. ‘the VAT package’). In addition, reduction ideas will also cover areas of little burden but high-irritation.

⁷ Figures shown in the table were rounded compared to the figures in the database

Furthermore, tax authorities requiring businesses to submit different kinds of VAT statements could be considered as another main cost indicator. This is reflected by the above Table in which the IO "Submission of a periodical VAT return" takes the 2nd place of most burdensome IOs. One could contemplate removing of some other Information Obligations which constitute "double use" of information to be provided (e.g. the summarising annual VAT returns).

In view of the relative importance of the top three IOs and the 'Cost' IOs an in-depth analysis follows in Chapter 3. In addition, insights on the prioritised EU IOs not ranking in the top three most burdensome IOs and National obligations going beyond EU Requirements and suggestions hereto will be respectively provided in Chapter 4 and 5.

With these preliminary suggestions, the (baseline) measurement data, the analysis of the business processes implemented by businesses to comply with the IOs and different ways of handling the IOs across Member States, contribute all to this report as a strong basis for the work the Consortium is currently performing for identifying, analysing and prioritising suggestions for reducing the administrative burdens linked to the IOs in scope of this measurement.

1. Introduction

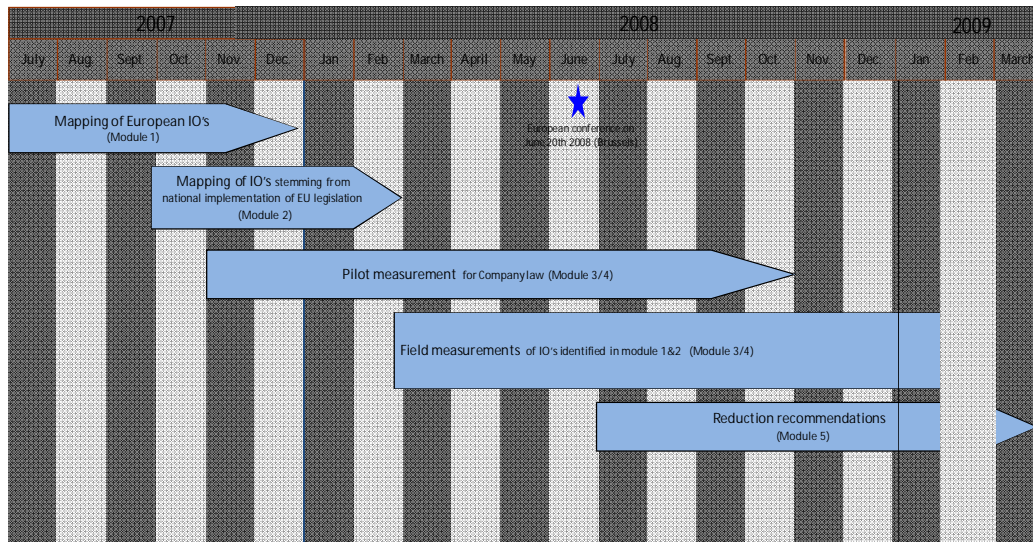
The “EU Project on baseline measurement and reduction of administrative costs” covers Information Obligations (IOs) stemming from 42 Community legislative acts⁸ and from the related national transposition acts, grouped into 13 Priority Areas (PAs):

- Agriculture and Agricultural Subsidies
- Annual Accounts/Company Law
- Cohesion Policy
- Environment
- Financial Services
- Fisheries
- Food Safety
- Pharmaceutical Legislation
- Public Procurement
- Statistics
- Tax Law (VAT)
- Transport
- Working Environment/Employment Relations.

The Project uses the EU Standard Cost Model (SCM) methodology and is structured in five modules, as shown in the following Figure:

⁸ See: http://ec.europa.eu/enterprise/admin-burdens-reduction/docs/42_LegislativeActs.pdf.

Figure 1: Project structure and timeline



By Capgemini/Deloitte/Ramboll Management.

As the Figure above shows, the first step was to map the Information Obligations (IOs) (Modules 1 & 2). The focus was both on the IOs stemming directly from EU legislation and on those stemming from the national implementation of EU legislation. Moreover, the “over-implementation” (or “gold-plating”) of an EU legal act at national level, in terms of additional IOs or procedural requirements, amended frequency, or population (i.e. coverage) – the so-called national obligations going beyond EU Requirements – was also documented, as it could lead to an increase in administrative costs linked to the provisions of the EU legislation.

The next phase was to determine the administrative costs resulting from the EU IOs and national obligations going beyond EU Requirements (Modules 3 & 4 respectively) through interviews and workshops, along with estimates made by experts. Data was collected in a sample of businesses in six Member States (the ‘Measurement Countries’) and supplemented by existing data from Member States having already undertaken SCM measurements (the ‘Baseline Countries’)⁹. This data then formed the basis for the extrapolation to the remaining EU Member States (the ‘Extrapolation Countries’). National obligations going beyond EU Requirements were measured in all countries where they occur as they are specific to each Member State (MS).

⁹ European Commission Communication, 24 January 2007, Action Programme for Reducing Administrative Burdens in the European Union – COM (2007)23 final.

The current work within this project focuses on the development of reduction proposals to reach the European Commission's goal of a 25% reduction in administrative burdens by 2012 (Module 5).

This report covers the results of the work undertaken for Modules 3 and 4 for Tax Law Priority Area (VAT). More specifically, it contains:

- In Section 2: an overview of the Tax Law Priority Area (VAT) framework. This section presents the focus of the Priority Area, the chosen measurement approach, as well as the high-level findings of the mapping and measurement phases;
- In Section 3: an analysis of the most burdensome EU IOs in scope, together with an analysis of the generic 'Cost' IOs;
- In Section 4: an analysis of the prioritised IOs not ranking in the top three most burdensome IOs;
- In Section 5: an analysis of the National obligations going beyond EU Requirements;
- In Section 6: an outlook to the next phase;
- Annexes (including a listing of methodological challenges faced in this Priority Area).

It does not include a detailed description of the Action Programme for Reducing Administrative Burdens in the European Union or of the underlying methodology followed by the Consortium. The Main Report on the Measurement data and analysis as specified in the specific contracts 5&6 on Modules 3&4 under the Framework Contract n° ENTR/06/61 presents both of these together with the overall results of 13 mainstream Priority Areas.

2. Tax Law Priority Area (VAT) Framework

This section sets the scene for the detailed presentation of the results of the data collection that follows in the next sections. This section contains:

- an introduction to the Directive in scope
- a summary of the general methodological concept and the measurement approach chosen in the Priority Area, and
- an overview of the high-level findings of the mapping phase and the measurement results.

2.1 Focus of the Priority Area ¹⁰

Value Added Tax (VAT) is a consumption tax assessed on the value added to goods and services. The VAT due on any sale is a percentage of the sale price. However, VAT differs from a sales tax since it is collected fractionally, via a system of partial payments whereby taxable persons (i.e. VAT registered businesses) deduct from the VAT they have collected the amount of tax they have paid to other taxable persons on purchases for their business activities. Therefore, double taxation is avoided and tax is paid only on the value added at each stage. In the end, VAT is an indirect tax, meaning it is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). In short, VAT is

- a general tax that applies, in principle, to all commercial activities involving the production and distribution of goods and the provision of services;
- a consumption tax because it is borne ultimately by the final consumer. It is not a charge on businesses;
- charged as a percentage of price, which means that the actual tax burden is visible at each stage in the production and distribution chain;
- collected fractionally, via a system of partial payments whereby taxable persons (i.e. VAT-registered businesses) deduct from the VAT they have collected the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved;

¹⁰ http://ec.europa.eu/taxation_customs/taxation/vat/how_vat_works/index_en.htm

- paid to the revenue authorities by the seller of the goods, who is the taxable person, but it is actually paid by the buyer to the seller as part of the price. It is thus an indirect tax.

At the time when the European Community was created, the original six Member States were using different forms of indirect taxation, most of which were cascade taxes. These were multi-stage taxes which were each levied on the actual value of output at each stage of the productive process, making it impossible to determine the real amount of tax actually included in the final price of a particular product. As a consequence, there was always a risk that Member States would deliberately or accidentally subsidise their exports by overestimating the taxes refundable on export. It was evident that if there was ever going to be an efficient, single market in Europe, a neutral and transparent turnover tax system was required which ensured tax neutrality and allowed the exact amount of tax to be rebated at the point of export.

On April 11th 1967 the first two VAT Directives were adopted, establishing a general, multi-stage but non-cumulative turnover tax to replace all other turnover taxes in the Member States. However, the first two VAT Directives laid down only the general structures of the system and left it to the Member States to determine the coverage of VAT and the rate structure.

It was not until May 17th 1977 that the Sixth VAT Directive was adopted which established a uniform VAT coverage. This guaranteed that the VAT contributed by each of the Member States to the Community's own resources can be calculated. It still however, allowed Member States many possible exceptions and derogations from the standard VAT coverage. Moreover, it did not set out the rates of VAT to be applied in Member States with the result that these differ widely even today. There are a number of temporary derogations. The VAT coverage also still differs from one Member State to another.

The realisation of the single market in 1993 resulted in the abolition of controls at fiscal frontiers. To achieve this, the Commission proposed moving from the pre-1993 "destination based" system, where VAT is effectively charged at the rate of VAT applicable where the buyer is established, to an "origin based" system, with VAT being charged at the rate in force where the supplier is established. This would have effectively abolished

fiscal frontiers within the EU. This was, however, not acceptable to Member States as rates of VAT were too different and there was no adequate mechanism to redistribute VAT receipts to mirror actual consumption.

Therefore, until the conditions would be right the Community adopted the Transitional VAT System which maintains different fiscal systems but without frontier controls. The intention is still eventually to have a common system of VAT where VAT is charged by the seller of goods - an origin based VAT system. The transitional system is an origin-based system for sales to private persons who can go and buy tax paid items anywhere they like in the Union and take the goods home without having to pay VAT again. However, there are some exceptions to this general rule (e.g. the purchase of new means of transport and distance selling). For transactions between taxable persons it is still a destination based VAT system.

The Sixth VAT Directive has been recast as Directive 2006/112/EC, which applies as from January 1, 2007.

The following Directive is in scope for this project:

Tax Law (VAT)
Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax

2.2 Measurement approach

The methodology used during this project is based on the adapted EU SCM Manual submitted as part of the Module 1 Final Report in mid-February 2008. A short introduction to the main characteristics of the general measurement approach, as well as the approach chosen within Tax Law Priority Area (VAT), is provided in this paragraph. For more information on the methodology, please see the Main Report and/or the adapted EU SCM Manual.

2.2.1 General methodological concepts

The EU Standard Cost Model (EU SCM) breaks down administrative costs imposed by legal acts into components that can be assessed with reasonable accuracy¹¹. Thanks to this analytical approach, it is possible to:

- a) locate the most costly obligations and the greatest reduction opportunities,
- b) formulate reduction proposals, and
- c) determine at which level reduction measures have to be adopted

The EU SCM methodology neither addresses nor questions on the policy objectives of each piece of legislation. As such, the measurement focuses only on the administrative activities that must be undertaken in order to comply with legislation and not on whether the legislation itself is reasonable or not.

While the methodology may also be applied to civil society and the public and private sectors, this project focuses exclusively on the administrative costs for businesses.

Thus, administrative costs are defined as the costs incurred by enterprises in meeting legal Information Obligations. An Information Obligation (IO) is a legal obligation placed on businesses to provide information on their activity or production, either to public authorities or to private parties¹². Every IO has attributes that describe the:

- content of the data required or “data requirement” (what must be provided),
- target group (who must provide it), and
- frequency (when it must be provided).

IOs stemming from EU legislation are labelled EU IOs, while IOs stemming from national implementation are called national IOs.

Some EU legislative acts also mention the possibility for Member States to ask for additional information (i.e. “...Member States may ... require the inclusion of other

¹¹ The SCM does not aim at producing statistically valid results, but rather estimates (i.e. figures based on relatively small samples or expert judgment). Considering the level of detail and the number of parameters involved, conducting statistic measurements would not be cost-efficient.

¹² These private parties are usually consumers and/or other businesses.

statements in the annual accounts in addition to the documents referred to in the first sub-paragraph ..."). Such Possibilities stated in the EU Legal Act are not to be understood as EU Requirements insofar as Member States are not obliged to ask for that information. Nevertheless such Possibilities stated in the EU Legal Act are documented by the Consortium as they often pave the way for additional legislative requirements introduced at national level.

In many cases the possibility for Member States to ask for additional information also exists even though it is not stated in the EU legal text¹³. Listing such Possibilities not stated in the EU Legal Act as part of the description of EU legal texts would be fastidious and inefficient. Documenting cases of national obligations going beyond what the EU requires has, however, been part of the screening of national IOs.

Together, the Possibilities stated in the EU Legal Act and the Possibilities not stated in the EU Legal Act are called "National obligations going beyond EU Requirements".

When analysing the administrative costs, a distinction should be made between information that would be collected and processed by businesses even in the absence of the legislation and information that is solely collected because of a legal obligation. The former are called "business-as-usual" (BAU) costs¹⁴, the latter administrative burdens. Added together the administrative burdens and business-as-usual costs constitute the administrative costs. Having quantitative figures on the business-as-usual costs is of crucial importance for the Commission in the light of its reduction target, which is expressed in terms of administrative burdens (not administrative costs).

The objective of Modules 1 and 2 was to carry out a preparatory analysis of the EU and national legislation to form the foundation for the field measurements of administrative costs in the 27 European Member States. Within Module 1 and 2 the IOs stemming

¹³ As a general principle, Member States have the right to legislate on any issues as long as "Possibilities not Stated in the EU Legal Act" do not contradict EU law.

¹⁴ A description on how the BAU costs were calculated can be found in Chapter 5.2. of the Main Report.

directly from EU legislation in scope as well as any National Information Obligation going beyond the EU Requirements in scope of this project were identified and registered¹⁵.

In Module 3 and 4 different approaches were used to collect and calculate the information needed to determine the administrative costs at the EU level as well as at the national level. The remainder of this section presents a brief overview of these approaches and the underlying rationales.

Experience from all previous SCM measurements shows that the top 20% most burdensome IOs in any given area will represent 80% of the costs. Following this principle, an initial assessment of population and cost parameters was conducted and an estimation produced of the expected administrative costs for each EU IO.

To prioritise the EU IOs, an expert assessment was carried out of the following:

- Expected number of businesses concerned/number of occurrences
- Complexity of the business process that businesses implement to comply with the IO (time spent).

The results of the assessment of the number of expected entities concerned and complexity of the business process were incorporated in a prioritisation table. The purpose of the prioritisation was to select those IOs which had the highest estimated cost. The position on the priority list, i.e. if the IOs belonged to the top 20% or the remaining 80% of estimated costs, determined the manner in which data was collected. The 20% most burdensome IOs within each Priority Area were designated as Prioritised IOs and earmarked for in-depth measurement. The remaining 80% for each Priority Area were marked as Non-prioritised IOs and were therefore subject to less rigorous measurement. The Prioritised IOs were analysed and measured through workshops and interviews, whereas IOs with lower estimated costs were costed through telephone interviews and expert assessments, or similar less intensive methods. In this way, the resources were

¹⁵ For more information on Module 1 and 2, please see first edition of the adapted EU SCM manual and the Final Report for Module 1 and 2.

predominantly concentrated on collecting data on the most costly IOs¹⁶. The demarcation between Prioritised IOs and Non-prioritised IOs was made at Priority Area level only and not at overall project level, as to have done the latter would have led to some of the less burdensome Priority Areas having only Non-prioritised IOs.

The IOs selected for interviews and workshops were clustered in groups that could logically be covered by interviews at about the same time, most often because they involved the same target group and administrative tasks that the same employee type usually performs. The result was a list of several groups of IOs known as campaigns.

EU IOs were only measured in a sample of six Member States. The data collected in the six Measurement Countries supplemented with data from existing measurements on the EU IOs from the Baseline Countries were extrapolated to similar IOs in the other countries and aggregated to the EU level. However, for the National obligations going beyond EU Requirements, data was collected in each country where they were identified. Obviously, extrapolation cannot apply to these as they are peculiar to the specific country.

The extrapolation exercise consisted of predicting cost and can basically be understood as generating the best estimates of the administrative activities conducted by businesses in a country where data has not been collected, based on data from other countries where data has been collected.

The selection of Member States for measuring the Prioritised IOs was based on the following criteria:

- Population of the countries
- Spread of geographic location
- Duration of EU Membership
- If/when legislation is applicable
- Implementation of Possibilities stated in the EU Legal Acts.

¹⁶ In a few cases the data collection showed that Non-prioritised IOs were more cost-intensive than Prioritised IOs. Due to the iterative process in the project, and the time and resource constraints, this had to be accepted without changing the data collection approach.

The purpose of using the selection criteria was to guarantee that the results represented different population/country sizes within the EU. Furthermore, it ensured that the data collection covered different geographical regions (geographically and in terms of the historical development of the EU). Lastly, the selection criteria were designed to ensure that the Member States chosen for data collection had transposed the legislation. Combined, the selection criteria ensured a sound foundation for the extrapolation.

One of the requirements of the EU project on baseline measurement and reduction of administrative costs was to follow a 'full Member State coverage measurement approach'. Thus Member States which were relatively less important in terms of size were also part of the measurement. As a result, the sample selected is not always representative for each Priority Area. Further studies would be needed to achieve fully representative results.

When data collection was carried out, the results were summarised for each business interviewed. These empirical results were then standardised with the objective of providing a single estimate of what would be required for a normally efficient business to complete each administrative activity in order to comply with a given national IO.

By combining the data collected from the workshops, face-to-face interviews and telephone interviews, a qualitative assessment was made of the resources a business devotes to on each cost parameter related to fulfilling an IO. More specifically, an assessment was conducted on internal time spent and employee type per activity, consultancy costs, and costs of equipment. The goal of the standardisation is not to average the cost data obtained through the workshops and interviews, but to get a plausible result for a normally efficient business for each IO. The normally efficient business is defined as a business within the target group that performs administrative activities required by the IO neither better nor worse than may reasonably be expected.

2.2.2 Measurement approach chosen for Tax Law Priority Area (VAT)

In general, the VAT Information Obligations consist of certain VAT bookkeeping requirements (e.g. keeping of a sales and purchase ledger, keeping of specific VAT ledgers,...), the provision of information to third parties (e.g. issuance of a VAT invoice) and the submission of various statements to the tax authorities (e.g. submission of a periodical VAT return). As the role of the 'taxable person' is key in collecting the VAT, the numerous Information Obligations were devised as a means for the authorities to

guarantee the correct and timely collection of the VAT while in itself employing as little means and personnel as possible.

The section below will present in further detail:

- Prioritisation of IOs
- Data collection method
- Segmentation / Campaigns
- Overview of the Measurement Countries
- Possibilities stated in the EU Legal Act
- Possibilities not stated in the EU Legal Act
- Implicit IOs

2.2.3 Prioritisation of EU IOs

For the Tax Law Priority Area (VAT) 25 EU IOs were identified in the Council Directive on the common system of value added tax 2006/112/EC. Of these IOs, the European Commission¹⁷ selected 10 Prioritised IOs of which the first seven IOs were qualified as 'high'-prioritised and the last three IOs as 'medium'-prioritised. Other IOs were qualified as 'low' prioritised.

High prioritised IOs:

1. "VAT bookkeeping in sufficient detail for inspection by tax authorities" - Article 242, Council Directive 2006/112/EC;
2. "Issuance of an invoice" - Article 220, Council Directive 2006/112/EC;
3. "Submission of an intra-Community sales listing" - Articles 262–267, Council Directive 2006/112/EC;
4. "Storage of invoices for inspection" - Articles 244 – 247, Council Directive 2006/112/EC;
5. "Communication of the start of the activity as a taxable person" - Article 213, 1, Council Directive 2006/112/EC;
6. "Application for a VAT refund" - Article 171,1 Council Directive 2006/112/EC and Article 3 (a), Council Directive 79/1072/EC;

¹⁷ DG ENTR & DG TAXUD

7. "Submission of a periodical VAT return" - Article 250–251, Council Directive 2006/112/EC;

Medium prioritised IOs:

8. "Provision of proofs of exemptions on exportation" - Article 146–147, Council Directive 2006/112/EC;
9. "Obtain certificate of VAT taxable status to qualify for refund" - Article 171, 1 Council Directive 2006/112/EC and Article 3 (b), Council Directive 79/1072/EC;
10. "Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT" - Article 171, 1 Council Directive, 2006/112/EC and Article 3 (c) and 4 (b) Council Directive 79/1072/EC;

Low prioritised IOs:

11. "Formalities relating to the exportation of goods" - Article 278–279, Council Directive 79/1072/EC;
12. "Guaranteeing the authenticity of the origin and integrity of the content of e-invoices" - Article 233, 1 and 2, Council Directive 2006/112/EC;
13. "Submission of VAT returns for the intra-Community acquisitions of goods other than means of transport and excise goods" - Article 257, Council Directive 2006/112/EC;
14. "Obtaining an import certificate for the purposes of import VAT deduction" - Article 178 (e), Council Directive 2006/112/EC;
15. "Communication of the cessation of the activity as a taxable person" - Article 213, 1, Council Directive 2006/112/EC;
16. "Communication of the change of the activity as a taxable person" - Article 213, 1, Council Directive 2006/112/EC;
17. "Notification of cessation of conditions of exemption for intra-Community acquisitions" - Article 213, 2, Council Directive 2006/112/EC;
18. "Issuance to principal of statement as a public auctioneer" - Article 340, Council Directive 2006/112/EC;
19. "Keeping separate accounts for special margin and other transactions" - Article 324, Council Directive 2006/112/EC;

20. "Maintain record of transactions in investment gold" - Article 356, Council Directive 2006/112/EC;
21. "Keeping a register of shipments without transfer of ownership" - Article 243, 1, Council Directive 2006/112/EC;
22. "Keeping accounts of intra-EU transfers of movable tangible property" - Article 243, 3 Council Directive 2006/112/EC;
23. "Submission of a VAT return in case of intra-Community acquisitions of new means of transport" - Article 258, Council Directive 2006/112/EC;
24. "Obligations related to the intra-Community supplies of new means of transport" - Articles 172 and 254, Council Directive 2006/112/EC;
25. "Submission of a VAT return in case of intra-Community acquisitions of excise duty products" - Article 258 Council Directive 2006/112/EC.

2.2.4 Data collection method

Only high- and medium-prioritised IOs were selected for the workshop measurement. The workshop was the preferred approach in the measurement, since it allowed participants to interact with each other and come to a consensus on costs incurred / time spent on IOs which were sometimes not easy to measure. In addition, where necessary, data was collected by telephone interviews, face-to-face interviews or expert assessments. The Non-prioritised IOs were assessed by interviewing experts.

2.2.5 Segmentation / Campaigns

All medium- and high-Prioritised IOs were measured according to the following main segments:

1. Insourcing: i.e. businesses fulfilling their VAT obligations (mainly) in-house
2. Outsourcing: i.e. businesses relying on a third party for the fulfilment of their VAT obligations.

Because businesses have different cost structures, (possibly) influencing the total cost incurred in complying with specific IOs, this segmentation is crucial to provide a thorough analysis.

Furthermore, since the business procedures used by micro, small, medium-sized and large businesses may differ for some of the Prioritised IOs, each IO is also measured across the following sub-segmentation. This is shown in the Table below.

Table 2: Sub-segmentation according to business size

	Micro business ¹⁸	Small business	Medium-sized business	Large business
Net turnover	• €500,000	• €3,800,000	• €5,000,000	> €5,000,000
Balance sheet total	• €500,000	• €1,400,000	• €7,500,000	> €7,500,000
Number of employees	• 10	• 50	• 250	> 250

This Table is based on data compiled by the Consortium.

Some businesses score on criteria for multiple segments. In case this occurs, those businesses were classified in the segment with the larger business size.

Based on the above 8 groups or 'campaigns' in which each of the high and medium-prioritised IOs was measured, were defined:

1. Campaign 1: insourcing large businesses
2. Campaign 2: insourcing medium-sized businesses
3. Campaign 3: insourcing small businesses
4. Campaign 4: insourcing micro businesses
5. Campaign 5: outsourcing large businesses
6. Campaign 6: outsourcing medium-sized businesses
7. Campaign 7: outsourcing small businesses
8. Campaign 8: outsourcing micro businesses.

2.2.6 Measurement Countries

The following Member States were selected by the Commission for the measurement exercise: Cyprus, France, Hungary, Latvia, Poland and Spain.

Care was taken to respect a certain geographical spread in the measurement. At the same time a balance of smaller versus larger Member States and long-time members versus relatively new members was ensured. The countries measured are southern and eastern

¹⁸ In light of possible future reduction measures, a specific definition of micro businesses was used for the Tax Law Priority Area (VAT).

Member States, while the Baseline Countries are mostly western Member States. This combination provides a balanced coverage of varying VAT regimes applicable throughout Europe.

2.2.7 Possibilities stated in the EU Legal Act

For the Tax Law Priority Area (VAT) 9 Possibilities stated in the EU Legal Act were identified in the Council Directive on the common system of value added tax 2006/112/EC:

1. "Notifications relating to storage" - Article 245, 2, Council Directive 2006/112/EC;
2. "Storage of data guaranteeing authenticity, integrity and legibility of the invoices" - Article 247, 2, Council Directive 2006/112/EC;
3. E-invoicing obligations in case of goods or services supplied from a third country - Article 235, Council Directive 2006/112/EC;
4. "Obligations for self-billing or third party-billing by non-EU entities" - Article 225, Council Directive 2006/112/EC;
5. "Obligations related to the intra-Community acquisitions of new means of transport" - Article 259, Council Directive 2006/112/EC;
6. "Submission of an additional summary paper document when e-invoicing via EDI" - Article 233, 3, Council Directive 2006/112/EC;
7. "Translation of the invoices in the language of the Member State in which the supply takes place" - Article 231, Council Directive 2006/112/EC;
8. "Submission of an intra-Community acquisitions listing" - Article 268, Council Directive 2006/112/EC;
9. "Submission of a summarising annual VAT return" - Article 261, Council Directive 2006/112/EC.

These EU Possibilities stated in the EU Legal Act were measured in all Member States where they occur. The first Possibilities in the list were costed by expert assessment, and do not follow any segmentation. Since the business procedures for the last 2 (burdensome) Possibilities stated in the EU Legal Act may differ significantly for micro, small, medium and large businesses, it was decided to measure these using the same sub-segmentation as applied to the Prioritised IOs.

2.2.8 Possibilities not stated in the EU Legal Act

Besides the Possibilities stated in the EU Legal Act the Possibilities not stated in the EU Legal Act were costed. These are per definition Member State specific and therefore were measured only in those Member States where the possibility occurs.

These National obligations were costed by expert assessment or by telephone interviews. Segmentation for these National obligations is the same as the EU IOs which they were linked to.

2.2.9 Generic 'Cost' IOs

During interviews and workshops, businesses indicated that some costs that were incurred could in their opinion not be attributed to a single Information Obligation, but were more likely a consequence of the fulfilment of several of these obligations. Businesses found it hard or even impossible to try to allocate these costs between the various obligations involved.

One solution was to allocate (the large majority of) these costs to a single EU IO¹⁹, and exclude these costs from the measurement of other IOs. In this way at least the danger of 'double-counting' of costs was in principle eliminated or at least mitigated to a large extent.

Instead, another approach was chosen. In agreement with the Commission three EU 'Cost' IOs were mapped and measured, to represent general costs that are not specifically attributable to a single EU Information Obligation.

These 'cost' IOs are "VAT training", "Software costs" and "VAT audits". Due to their nature these cost IOs were mapped and measured in every Member State. While they were mapped and measured in a similar way as EU IOs, they should technically not be considered as separate Information Obligations linked to an individual article in EU law.

2.2.10 Implicit IOs

More VAT Information Obligations than those described above are applicable to businesses in the various Member States. These National IOs are merely "related" to

¹⁹ The initial approach was to allocate these costs to the EU IO "VAT bookkeeping in sufficient detail for inspection by tax authorities".

provisions included in the VAT Directive. This involves EU provisions that do not contain the elements of an Information Obligation, but (for example) simply impose the obligation to achieve a substantive result in a Member State which, in turn, leads to the creation of National IOs. These “implicit IOs” were not within the scope of the main workstream of the EC Administrative Burden Project.

2.3 High-level findings of the EU and national mapping in the Tax Law Priority Area (VAT)

The following section summarises the main findings of the EU and national mapping in the Tax Law Priority Area (VAT) which resulted from the work done during Module 1 on the identification and classification of EU IOs and the Possibilities stated in the EU Legal Act, followed by the identification of National IOs transposing EU legislation as well as the linking of EU IOs and National IOs in Module 2. The full results of this were presented in the final reports on Modules 1 and 2 of the EU project on baseline measurement and reduction of administrative costs²⁰.

2.3.1 Main results of the EU mapping

The Table below provides an overview of the EU IOs and Possibilities stated in the EU Legal Act identified in the Council Directive on the common system of value added tax 2006/112/EC.

Table 3: Total number of EU IOs and Possibilities stated in the EU Legal Act within the Tax Law Priority Area (VAT)²¹

EU Legislation	Number of EU Requirements	Number of National Obligations going beyond EU Requirement	Total
Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax	25	9	34

This Table is based on data compiled by the Consortium.

2.3.2 Main results of the national mapping

For the Tax Law Priority Area (VAT), based on mapped EU IOs and Possibilities stemming from the Directive 2006/112/EC, a total number of 868 national IOs were identified, of which 34 Possibilities not stated in the EU Legal Act.

²⁰ For the details of the mapping please refer to the reports on Modules 1 and 2.

²¹ The Table above does not include the three EU generic ‘Cost’ IOs.

The following Table provides an overview of the National Information Obligations, National obligations going beyond EU Requirements and missing IOs – including non-implemented EU Possibilities – per Member State.

However, there are a number of cases where the transposition of the EU Requirements was not found at national level. An IO may be ‘missing’ because it is:

- not found in the pieces of legislation validated by the European Commission and the national SPOCs;
- not transposed in a Member State;
- not applicable in a Member State;
- transposed, but within a national piece of legislation issued after the baseline date for this project.

Table 4: Overview of National IOs and National obligations going beyond EU Requirements

Tax Law (VAT)	EU Requirement				National Obligations going beyond EU Requirement		Total No of national IOs
	No of EU Requirements Identified	No of EU Requirements not transposed	No of EU Requirements transposed in MS	No of National IOs transposing EU Requirements	Possibilities stated in the EU Act	Possibilities not stated in the EU Act	
					No of Possibilities stated in EU Legal Act	No of Possibilities Not stated in EU Legal Act	
AT	25		25	25	5	0	30
BE	25		25	33	5	11	49
BG	25	3	22	22	1	2	25
CY	25		25	25	4	0	29
C Z	25	1	24	28	4	1	33
DK	25		25	37	4	1	42
EE	25	3	22	22	1	0	23
FI	25		25	25	0	0	25
FR	25		25	26	7	0	33
DE	25		25	34	8	0	42
EL	25		25	26	7	0	33
HU	25		25	27	5	1	33
IE	25	1	24	30	4	3	37

Tax Law (VAT)	EU Requirement				National Obligations going beyond EU Requirement		Total No of national IOs
	No of EU Requirements Identified	No of EU Requirements not transposed	No of EU Requirements transposed in MS	No of National IOs transposing EU Requirements	Possibilities stated in the EU Act	Possibilities not stated in the EU Act	
					No of Possibilities stated in EU Legal Act	No of Possibilities Not stated in EU Legal Act	
IT	25	1	24	26	6	1	33
LV	25		25	25	3	0	28
LT	25		25	27	4	3	34
LU	25		25	27	5	1	33
MT	25		25	27	0	0	27
PL	25	1	24	27	4	2	33
PT	25	1	24	28	4	0	32
RO	25		25	26	4	2	32
SK	25	3	22	26	3	3	32
SL	25		25	26	3	1	30
ES	25		25	26	4	2	32
SE	25	3	22	23	3	0	26
NL	25		25	29	2	0	31
UK	25		25	29	2	0	31

This Table is based on data compiled by the Consortium.

In general, transposition of the 25 EU IOs at national level was essentially done at an approximate, but not exact, ratio of 1:1. The difference in transposition in the Member States for the 25 IOs is mainly caused by the differences in frequencies on national level, such as for some IOs as the "Submission of a periodical VAT return" or the "Submission of the intra-Community sales listing" (e.g. in Spain periodic VAT returns can be filed at an interval of 1 or 3 months).

The transposition rate of the nine Possibilities stated in the EU Legal Act is estimated at an average slightly below 40%. Although there are some exceptions for a few Member States, relatively few Possibilities not stated in the EU Legal Act were detected. The number of EU Requirements not transposed in Member States is relatively low, as only 17 EU IOs have not been transposed in national legislation. Non-implementation of mandatory IOs occurs because some Member States refer directly to Community provisions in their administrative guidelines. In other cases the compliance with some

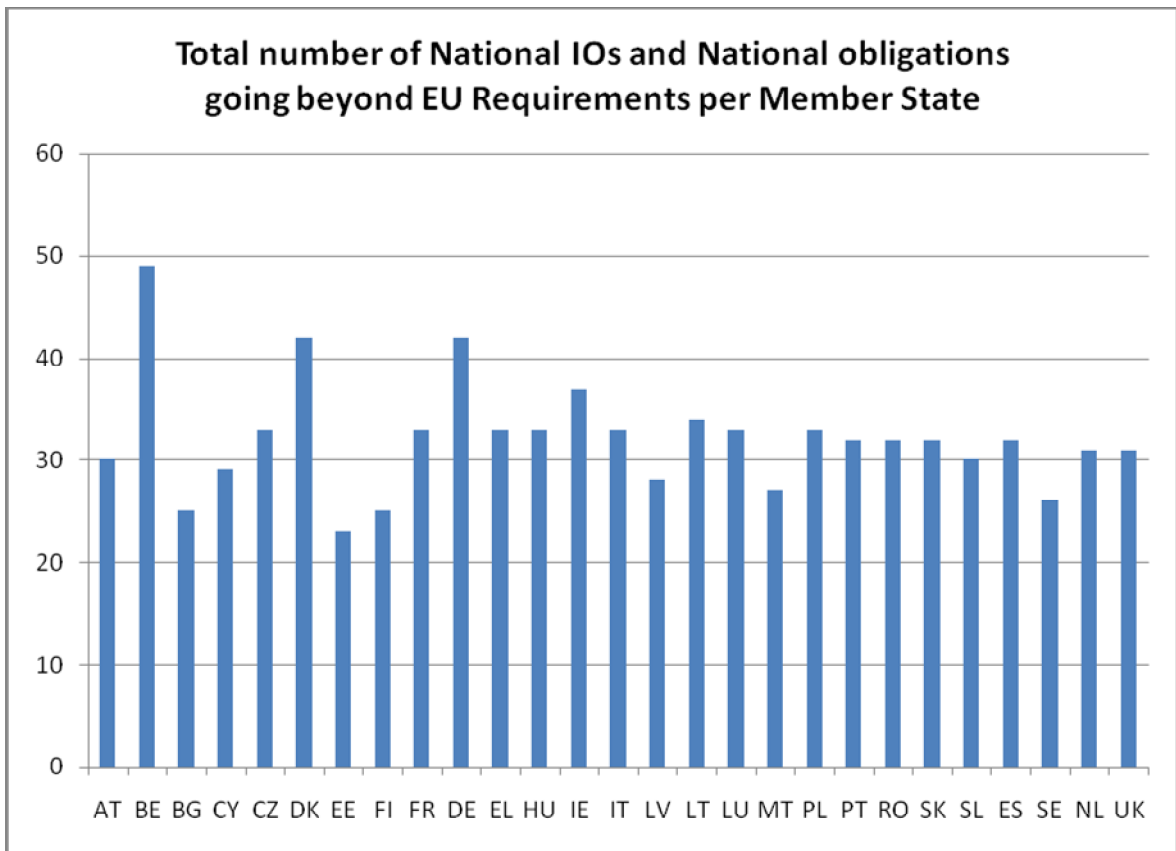
obligations seems to be common practice although an exact transposition of the mandatory EU article is not available (e.g. the payment of VAT in Portugal without the exact transposition of the IO "Submission of a VAT return in case of intra-Community acquisitions of new means of transport"). Hereafter an overview is given of the not transposed mandatory EU IOs:

- Bulgaria: three missing IOs (i.e. "Submission of a VAT return in case of intra-Community acquisitions of goods other than means of transport and excise goods", "Communication of the change of the activity as a taxable person" and "Submission of a VAT return in case of intra-Community acquisitions of excise duty products");
- Czech Republic: one missing IO (i.e. "Submission of a VAT return in case of intra-Community acquisitions of excise duty products");
- Estonia: Three missing IOs (i.e. "Guaranteeing the authenticity of the origin and integrity of the content of e-invoices", "Communication of the change of the activity as a taxable person" and "Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT");
- Ireland: one missing IO (i.e. "Obligations related to the intra-Community supplies of new means of transport");
- Italy: one missing IO (i.e. "Maintain record of transactions in investment gold");
- Poland: one missing IO (i.e. "Submission of a VAT return in case of intra-Community acquisitions of excise duty products");
- Portugal: one missing IO (i.e. "Submission of a VAT return in case of intra-Community acquisitions of new means of transport");
- Slovakia: three missing IOs (i.e. "Issuance to principal of statements as a public auctioneer", "Keeping separate accounts for special margin and other transactions" and "Maintain record of transactions in investment gold");
- Sweden: three missing IOs (i.e. "Obtaining an import certificate for the purposes of import VAT deduction", "Keeping a register of shipments without transfer of ownership" and "Keeping accounts of intra EU transfers of movable tangible property").

Across the 27 Member states, 34 Possibilities not stated in the EU Legal Act due to content, frequency or target group were identified. For the Tax Law Priority Area (VAT), all but one of the Possibilities not stated in the EU Legal Act are content related.

The following Figure provides an overview of the total number of National IOs and National obligations beyond EU Requirements per Member State.

Figure 2: Number of National IOs and National obligations going beyond EU Requirements per Member State



By Capgemini/Deloitte/Ramboll Management.

2.4 High-level findings of the measurement in the Tax Law Priority Area (VAT)

The following section presents the total administrative costs and administrative burdens in the Tax Law Priority Area (VAT). This is followed by a differentiated analysis by Member State as well as an overview of the most burdensome IOs. This will form the basis for the detailed analysis in the next Chapter.

The total administrative cost for the Tax Law (VAT) Priority Area is

€ 79.5 billion

13 % of these costs are considered as 'business-as-usual'.

Therefore, the administrative burden amounts to 87 % for the Tax Law Priority Area (VAT).

It has to be taken into consideration that for three IOs, the so-called bookkeeping IOs "VAT bookkeeping in sufficient detail for inspection by tax authorities", "Issuance of an invoice" and "Storage of invoices for inspection", a specific approach was agreed that has an impact on the percentage of business-as-usual costs (see Chapter 3).

At first glance, the percentage of total administrative costs for the Tax Law (VAT) Priority Area seems to have an overwhelming impact compared to other Priority Areas. It should be kept in mind in that respect that this Priority Area causes administrative costs for each and every taxable person (approximately 25.7 million). As such, the population for the larger IOs in this Priority Area is much larger than for the other Priority Areas causing high administrative costs.

2.4.1 Administrative costs and administrative burdens

The 42 pieces of legislation in the 13 Priority Areas chosen for the measurement exercise within the Action Programme are believed to account for over 80% of the administrative burdens of EU origin²². Yet, as expected, within this group large differences were found in the costs per legal act. An analysis of the administrative costs and burdens stemming from the legal act in scope of the Tax Law Priority Area (VAT) follows.

²² Commission Working Document, 30 January 2008, COM(2008) 35 final, Reducing administrative burdens in the European Union 2007 progress report and 2008 outlook, p. 3.

Table 5: Administrative Cost and Administrative Burden by EU IO and National obligations going beyond EU Requirements²³

	EU Requirement	National Obligations going beyond EU Requirement ²⁴		Total Admin. Cost	Total Admin. Burden		
		Possibilities stated in the EU Act	Possibilities not stated in the EU Act		Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of Admin. Cost (%)
		Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)				
Council Directive 2006/112/EC of 28 November 2006	76,306,817.1	2,063,544.9	1,141,743.8	79,512,105.7	69,513,506.1	87	

This Table is based on data compiled by the Consortium.

The total administrative costs for the Tax Law Priority Area (VAT) constitute a total of €79.51 billion. Of these, 95.97% (€76.31 billion) of all administrative costs are allocated to the EU Requirements while 2.59% (€2.06 billion) and 1.44% (€1.14 billion) respectively are allocated to the Possibilities stated in the EU Legal Act and Possibilities not stated in the EU Legal Act. National obligations going beyond EU Requirements in total thus represent a total of 4.03% (€3.20 billion) of all administrative costs.

By comparing the total administrative costs with the total administrative burdens it is clear that the difference is relatively small. This is due to the fact that most EU IOs - with the exception of the EU IOs "VAT bookkeeping in sufficient detail for inspection by tax authorities", "Issuance of an invoice" and "Storage of invoices for inspection" and the Cost IOs 'VAT training', 'Software costs' and 'VAT audits' - are solely or mainly VAT-specific. It is a fact that Information Obligations on 'Bookkeeping in sufficient detail', "Issuance of an invoice" and "Storage of invoices for inspection" not only stem from the VAT Directive, but also from various international, EU and national pieces of legislation. Likewise, businesses incur costs on 'training', 'software' and 'audits' for reasons other than the impact of the VAT legislation. As such, all these IOs should in principle have a major influence on the difference between administrative costs and administrative burdens. For this measurement this is not the case, since the European Commission²⁵ provided instructions

²⁴ National obligations going beyond EU Requirements were measured in all Member States.

²⁵ DG ENTR and DG TAXUD

on limiting the measurement (as closely as possible) to the VAT-specific part of these IOs. As a consequence, business-as-usual costs are either nil or relatively limited for these IOs (as further described in Chapter 3).

2.4.2 Administrative costs stemming from EU IOs of international origin

A number of the IOs identified in the EU legislation stem ultimately from international regulation, which has been transposed in EU legislation by the Directives and Regulations in scope of the project. Each EU IO was analysed in relation to any relevant international regulation. In cases where legally binding international regulations had a similar or analogous content to the EU IO, the EU IO was categorised as an EU IO of International Origin.

This analysis yielded no results for the Tax Law Priority Area (VAT). None of the IOs are of international origin. The following Table provides an overview of all the IOs in scope of this Priority Area.

Table 6: Total Administrative Cost and Administrative Burden for the IOs of EU origin

EU Requirements	Origin is of EU legislation only	
	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)
Application for VAT refund	704,867.3	704,867.3
Communication of the cessation of the activity as a taxable person	185,940.3	185,766.2
Communication of the change of the activity as a taxable person	48,878.7	48,861.1
Communication of the start of the activity as a taxable person	331,927.5	327,329.2
Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT	253,291.9	253,291.9
E-invoicing obligations in case of goods or services supplied from a third country	6,221.9	6,221.9
Formalities relating to the exportation of goods	726.9	726.9
Guaranteeing the authenticity of the origin and integrity of the content of e-invoices	158,389.0	158,389.0
Issuance of an invoice	9,243,954.5	9,243,954.5
Issuance to principal of statements as a public auctioneer	0.6	0.6
Keeping a register of shipments without transfer of ownership	149,221.1	149,221.1
Keeping accounts of intra EU transfers of movable tangible property	165,981.5	165,981.5
Keeping separate accounts for special margin and other transactions	23,310.2	23,310.2
Maintain record of transactions in investment gold	140.7	140.7
Notification of cessation of conditions of exemption for EC acquisitions	62.3	62.3
Notifications relating to storage	804.7	804.7
Obligations for self-billing or third party-billing by non-EU entities	41.8	41.8
Obligations related to the intra-Community acquisitions of new means of transport	1,421.1	1,421.1

EU Requirements	Origin is of EU legislation only	
	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)
Obligations related to the intra-Community supplies of new means of transport	5.6	3.6
Obtain certificate of VAT taxable status to qualify for refund	94,674.0	94,674.0
Obtaining an import certificate for the purposes of import VAT deduction	470,820.8	470,820.8
Provisions of proofs of exemptions on exportation	204,884.0	204,884.0
Software Cost	4,023,036.2	3,017,277.1
Storage of data guaranteeing authenticity, integrity and legibility of the invoices	121,312.0	121,312.0
Storage of invoices for inspection	1,743,546.1	1,743,546.1
Submission of a VAT return in case of intra-Community acquisitions of goods other than means of transport and excise goods	17,967.7	17,967.7
Submission of a VAT return in case of intra-Community acquisitions of excise duty products	1,159.4	1,159.4
Submission of a VAT return in case of intra-Community acquisitions of new means of transport	692.3	692.3
Submission of a periodical VAT return	20,178,706.6	20,178,706.6
Submission of a summarising annual VAT return	1,741,095.9	1,741,095.9
Submission of an additional summary paper document when e-invoicing via EDI	65,314.7	65,314.7
Submission of an intra-Community Sales listing	706,294.5	705,794.8
Submission of an intra-Community acquisitions listing	90,913.4	90,913.4
Translation of invoices in the language of Member State in which supply takes place	38,373.4	38,373.4
VAT Training	2,197,020.7	2,197,020.7
VAT audits	590,337.0	590,337.0
VAT bookkeeping in sufficient detail for inspection by tax authorities	35,950,769.2	26,963,220.6
Total	79,512,105.7	69,513,506.1

This Table is based on data compiled by the Consortium.

2.4.3 Administrative costs and administrative burdens per Member State

The project offers the opportunity to identify differences in transposing and administering IOs at national level and thus obtaining an insight into factors determining the level of administrative costs. This is important in identifying good practice and in learning how the costs for businesses can be reduced.

2.4.3.1 Different methodological approaches

When comparing costs at national level it is essential to recall that the data were collected in three different ways within this project:

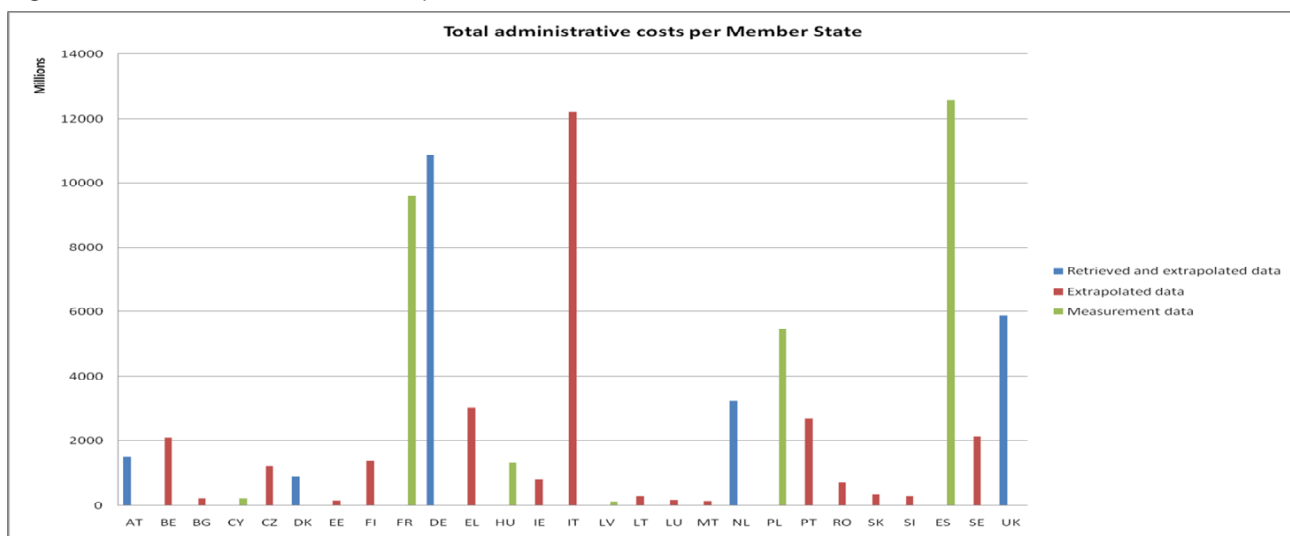
- Measurement in six Measurement Countries
- Reuse of existing data in the so-called Baseline Countries
- Extrapolation to other Member States of the cost data collected (Extrapolation Countries)

The combination of these three different approaches within the Project creates special challenges when comparing data, i.e. Baseline Countries which have conducted measurements in the past have chosen different methodological approaches which reduce the comparability of their results. This has to be kept in mind when reading the following data comparisons.

The extrapolated costs are naturally less precise and less detailed than the measured costs. Analyses of specific legislative requirements should therefore only be based on data from countries that were measured. However, the indicative total impact of EU legislation can be assessed using the extrapolated costs.

The Figure below shows a comparison for Member States. The comparison is based on data from the six Measurement Countries, the data from the Baseline Countries, and the extrapolated data for the other countries. The three sub-sections below present individual analyses of the data from each of the three data collection approaches.

Figure 3: Total Administrative Cost per Member State



By Capgemini/Deloitte/Ramboll Management.

The diagram shows that France, Germany, Italy, Spain and the United Kingdom seem to be the 5 most cost-intensive countries since they bundle approximately 64.40% (€51.2 billion) of all costs for all Member States. This is not very surprising, since these Member States have the most VAT taxable persons within the EU (France and Spain approximately 3.4 million, Italy approximately 4 million, Germany approximately 3.1 million and the UK

approximately 2 million), representing more than 61% of VAT taxable persons within the EU. The diagram shows that Cyprus, Estonia, Luxembourg, Latvia and Malta seem to be the 5 least cost-intensive countries since they bundle approximately 1% (less than €800 million) of all costs for all Member States. Again, the very low number of taxable persons (less than 75,000) in each Member State is the main explanation.

The Baseline Countries (extrapolated and retrieved data) account for 28.15% of the total administrative cost, the Measurement Countries for 36.88% and the Extrapolated countries for 34.97%. The Measurement Countries contain approximately 35% of the taxable persons within the EU and two Member States (Germany and the United Kingdom) which are ranked as the most cost-intensive within the EU. Wage rates and costs incurred are also relatively higher in these Member States, compared to the majority of other Member States.

The Table below compares the national yearly income on value added taxes for Member States with the total administrative costs for that Member State.

Table 7: Comparison of National VAT Income²⁶ and GDP²⁷ with Administrative costs

	National VAT Income (€)	Admin Cost (€)	% of income	GDP (€ x million)	% of GDP
Austria	19,735,000,000	1,514,806,370	8%	264,472	0.57%

²⁶ It is also interesting to compare the costs to the actual VAT taxable base. EU resources are of three kinds (http://ec.europa.eu/budget/budget_glance/where_from_en.htm). Specifically it is mentioned that: "The resource based on value added tax (VAT) is a uniform percentage rate that is applied to each Member State's harmonised VAT revenue. The VAT-based resource accounts for 15% of total revenue, or some EUR 17.8 billion" (forecasts for 2007).

Another source (<http://europa.eu/scadplus/leg/en/lvb/l34007.htm>) indicates that: "The maximum rate of call of the VAT resource is 0.30%. The maximum VAT base to be taken into account in calculating the rate of call is set at 50% of each Member State's GNI ("capping of the VAT resource"). For the period 2007-2013 the rate of call of the VAT resource is set at 0.225% for Austria, 0.15% for Germany and 0.10% for the Netherlands and Sweden". Simply to compare 0.30% with €17.8 billion results in a total VAT base of EUR 5,900 billion EUR.

Figures for VAT income are for 2006 (http://www.edsstatis.de/de/downloads/sif/sf_08_047.pdf).

²⁷ GDP (PPP) 2008 (indicative) figures based on Eurostat.

(<http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&init=1&pcode=tec00001&language=en>).

	National VAT Income (€)	Admin Cost (€)	% of income	GDP (€ x million)	% of GDP
Belgium	22,569,000,000	2,095,072,123	9%	319,867	0.65%
Bulgaria	3,131,000,000	221,789,878	7%	76,400	0.29%
Cyprus	1,523,000,000	211,759,034	14%	18,109	1.17%
Czech Rep.	7,541,000,000	1,204,427,535	16%	209,733	0.57%
Denmark	22,562,000,000	885,941,837	4%	171,298	0.52%
Estonia	1,215,000,000	144,485,972	12%	24,005	0.60%
Finland	14,476,000,000	1,392,773,149	10%	155,640	0.89%
France	130,985,000,000	9,628,825,898	7%	1,744,444	0.55%
Germany	147,140,000,000	10,886,625,929	7%	2,309,810	0.47%
Greece	15,181,000,000	3,025,297,572	20%	271,206	1.12%
Hungary	6,813,000,000	1,302,298,062	19%	158,304	0.82%
Ireland	13,754,000,000	792,655,943	6%	157,070	0.50%
Italy	92,866,000,000	12,225,434,405	13%	1,500,475	0.81%
Latvia	1,374,000,000	122,912,442	9%	32,802	0.37%
Lithuania	1,826,000,000	283,808,248	16%	50,515	0.56%
Luxembourg	1,846,000,000	173,106,915	9%	31,376	0.55%
Malta	409,000,000	134,948,083	33%	7,824	1.72%
Netherlands	39,911,000,000	3,210,197,906	8%	530,564	0.61%
Poland	22,127,000,000	5,480,515,872	25%	515,608	1.06%
Portugal	13,775,000,000	2,708,223,781	20%	194,502	1.39%
Romania	7,741,000,000	685,967,333	9%	244,289	0.28%
Slovakia	3,320,000,000	324,528,799	10%	98,655	0.33%
Slovenia	2,643,000,000	275,791,083	10%	44,429	0.62%
Spain	62,677,000,000	12,574,491,048	20%	1,189,174	1.06%
Sweden	28,411,000,000	2,117,034,527	7%	274,499	0.77%
UK	128,721,000,000	5,888,385,939	5%	1,847,105	0.32%
	814,272,000,000	79,512,105,684	10%	12,442,175	0.64%

This Table is based on data compiled by the Consortium.

This Table demonstrates that the VAT system is overall a fairly efficient way for authorities to collect income. Nevertheless, the percentages are significant, providing clear proof of the central role of the VAT taxable person in collecting and submitting the VAT to the authorities. Percentages would be lower in all countries when comparing income with administrative burdens instead of administrative costs (the burdens are on average only 87% of costs). The above is only the comparison of the income of the government versus the cost of businesses. It presents no information on the balance sheet of national authorities (i.e. their costs of collecting the tax versus the income).

Not surprisingly, the comparison between GDP per country and the administrative costs results in very low percentages.

The Table below shows a breakdown in EU Requirements, Possibilities stated in the EU Legal Act and Possibilities not stated in the EU Legal Act of total administrative costs and burdens per Member State.

Table 8: Administrative costs and burdens for the Member States for the Tax Law Priority Area (VAT)

Country	EU Requirement		National obligation going beyond EU Requirement				Total Admin. Cost	Total Admin. Burden	
			Possibility stated in the EU Act		Possibility not stated in the EU Act				
	No of IOs	Admin. Cost (€ x 1,000)	No of IOs	Admin. Cost (€ x 1,000)	No of IOs	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of Admin. Cost (%)
AT Retrieved and extrapolated data	25	1,479,322.0	5	35,484.3	0	0	1,514,806.4	1,386,969.38	91.56%
BE Extrapolated data	33	2,063,397.4	5	16,892.8	11	14,781.9	2,095,072.1	1,842,026.72	87.92%
BG Extrapolated data	22	204,268.6	1	10.2	2	17,511.1	221,789.9	202,779.39	91.43%
CY Measurement data	25	211,231.4	4	527.7	0	0	211,759.0	181,670.07	85.79%
CZ Extrapolated data	28	1,199,295.7	4	3,836.2	1	1,295.6	1,204,427.5	1,011,865.79	84.01%
DE Retrieved and extrapolated data	34	10,349,660.9	8	536,965.0	0	0	10,886,625.9	9,734,808.06	89.42%
DK Retrieved and extrapolated data	37	885,642.7	4	299.1	1	0.0	885,941.8	754,024.69	85.11%
EE Extrapolated data	22	144,485.7	1	0.3	0	0	144,486.0	128,372.41	88.85%
EL Extrapolated data	26	2,912,493.9	7	112,803.7	0	0	3,025,297.6	2,644,573.08	87.42%
ES Measurement data	26	11,703,873.5	4	856,570.8	2	14,046.7	12,574,491.0	11,055,868.16	87.92%
FI Extrapolated data	25	1,392,773.1	0	0	0	0	1,392,773.1	1,209,800.59	86.86%
FR Measurement data	26	9,497,008.9	7	131,817.0	0	0	9,628,825.9	8,518,438.54	88.47%
HU Measurement data	27	1,296,234.6	5	5,763.5	1	300.0	1,302,298.1	1,140,706.07	87.59%
IE Extrapolated data	30	772,879.8	4	1,405.7	3	18,370.5	792,655.9	702,550.00	88.63%
IT Extrapolated data	26	11,337,462.7	6	60,992.0	1	826,979.7	12,225,434.4	10,311,829.37	84.35%
LT Extrapolated data	27	121,189.8	4	27,553.1	3	135,065.4	283,808.2	270,025.45	95.14%
LU Extrapolated data	27	157,312.3	5	14,140.5	1	1,654.1	173,106.9	157,243.01	90.84%
LV Measurement data	25	103,343.9	3	19,568.6	0	0	122,912.4	109,514.84	89.10%
MT Extrapolated data	27	134,948.1	0	0	0	0	134,948.1	117,533.71	87.10%
NL Retrieved and extrapolated data	29	3,203,569.4	2	6,628.5	0	0	3,210,197.9	2,824,520.82	87.99%
PL Measurement data	27	5,374,253.4	4	3,684.5	2	102,578.0	5,480,515.9	4,680,856.81	85.41%
PT Extrapolated data	28	2,490,879.0	4	217,344.8	0	0	2,708,223.8	2,384,120.90	88.03%
RO Extrapolated data	26	682,010.0	4	1,764.7	2	2,192.6	685,967.3	594,137.33	86.61%

Country	EU Requirement		National obligation going beyond EU Requirement				Total Admin. Cost	Total Admin. Burden	
			Possibility stated in the EU Act		Possibility not stated in the EU Act				
	No of IOs	Admin. Cost (€ x 1,000)	No of IOs	Admin. Cost (€ x 1,000)	No of IOs	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of Admin. Cost (%)
SE Extrapolated data	23	2,116,504.0	3	530.5	0	0	2,117,034.5	1,875,446.54	88.59%
SI Extrapolated data	26	275,361.0	3	392.0	1	38.0	275,791.1	235,481.16	85.38%
SK Extrapolated data	26	317,469.1	3	129.4	3	6,930.2	324,528.8	286,667.91	88.33%
UK Retrieved and extrapolated data	29	5,879,946.1	2	8,439.9	0	0	5,888,385.9	5,151,675.27	87.49%
Grand Total	732	76,306,817.1	102	2,063,544.9	34	1,141,743.8	79,512,105.7	69,513,506.07	87.43%

This Table is based on data compiled by the Consortium.

This Table shows that in every Member State the vast majority of costs are due to the EU Requirements. Costs incurred at the level of National obligations going beyond EU Requirements are influenced by the nature of Possibilities stated in the EU Legal Act and main cost indicators such as population and labour costs rather than by the total amount of Possibilities per Member State. A detailed description and possible reduction proposals on the National obligations going beyond EU Requirements is discussed in Chapter 5.

2.4.3.2 Measurement Countries

The measurement of the IOs took place in six preselected Member States. As stated in section 2.2, the Member States chosen for measuring the Prioritised IOs in the Tax Law Priority Area (VAT) are:

- Cyprus
- Hungary
- France
- Latvia
- Poland
- Spain

The Table below details the administrative costs for the Measurement Countries.

Table 9: Administrative Cost for the six Measurement Countries

Country	EU Requirement		National obligation going beyond EU Requirements		Total Administrative Cost	Total Administrative Burden	
			Possibility stated in the EU Legal Act	Possibility not stated in the EU Legal Act			
	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of administrative Cost (%)	
Cyprus	211,231.4	527.7	0	211,759.0	181,670.07	85.79%	

Country	EU Requirement	National obligation going beyond EU Requirements		Total Administrative Cost	Total Administrative Burden		
		Possibility stated in the EU Legal Act	Possibility not stated in the EU Legal Act		Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of administrative Cost (%)
		Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)				
France	9,497,008.9	131,817.0	0	9,628,825.9	8,518,438.54	88.47%	
Hungary	1,296,234.6	5,763.5	300.0	1,302,298.1	1,140,706.07	87.59%	
Latvia	103,343.9	19,568.6	0	122,912.4	109,514.84	89.10%	
Poland	5,374,253.4	3,684.5	102,578.0	5,480,515.9	4,680,856.81	85.41%	
Spain	11,703,873.5	856,570.8	14,046.7	12,574,491.0	11,055,868.16	87.92%	
Total	28,185,945.7	1,017,932.0	116,924.7	29,320,802.4	25,687,054.48	87.61	

This Table is based on data compiled by the Consortium.

Total administrative costs for these six Member States equal €29,320.80 million, which is 36.88% of the total administrative costs in the 27 European Member States.

Administrative costs related to the EU IOs

Within these six Member States, more than 96% (€28,185.95 million) of all administrative costs are allocated to the EU IOs.

Further comparative analyses are found in Chapter 3, where the three most burdensome IOs are discussed in detail and Chapter 4 where more information is provided on the other seven high and medium prioritised IOs for these six Measurement Countries.

Administrative costs related to National IOs going beyond EU Requirements

Within these six Member States, 3.47% (€1,017.93 million) and 0.40% (€116.92 million) of administrative costs respectively are allocated to the Possibilities stated in the EU Legal Act and the Possibilities not stated in the EU Legal Act.

Costs incurred at the level of National obligations going beyond EU Requirements are influenced by the type of Possibility and main cost indicators such as population and labour costs rather than by the total amount of implemented National obligations going beyond EU Requirements per Member State. A detailed description and possible optimisations will be provided in Chapter 5.

2.4.3.3 Baseline Countries

A central aspiration of the project was to learn from measurements, which had already been undertaken in Member States. These measurements were an important input as they constitute the current “state of play” in those countries which have already carried out work in the SCM field²⁸. Existing measurements were reused whenever possible and efficient. This was mainly the case when complete baseline measurements were available for a Priority Area and where the methodology used in the Baseline Countries was comparable enough to the EU SCM not to distort the extrapolation approach.

The following Table provides an overview of the administrative costs in the Baseline Countries.

Table 10: Administrative Cost for the Baseline Countries

Country	EU Requirements	National obligations going beyond EU Requirements		Total Administrative Cost	Total Administrative Burden	
		Possibility stated in the EU Legal Act	Possibility not stated in the EU Legal Act		Admin. Burden (€ x 1,000)	Share of administrative Cost (%)
	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of administrative Cost (%)
Austria	1,479,322.0	35,484.3	0	1,514,806.4	1,386,969.38	91.56%
Denmark	885,642.7	299.1	0	885,941.8	754,024.69	85.11%
Germany	10,349,660.9	536,965.0	0	10,886,625.9	9,734,808.06	89.42%
Netherlands	3,203,569.4	6,628.5	0	3,210,197.9	2,824,520.82	87.99%
United Kingdom	5,879,946.1	8,439.9	0	5,888,385.9	5,151,675.27	87.49%
Total	21,798,141.2	587,816.8	0.0	22,385,958.0	19,851,998.21	88.68

This Table is based on data compiled by the Consortium.

Total administrative costs for these 5 Member States equal €22,385.96 million, which is 28.15% of the total administrative costs in the 27 European Member States. It is considered that the Baseline Countries (in particular the United Kingdom) are generally more efficient than the other EU Member States. These countries are long-standing Member States which have invested into efficient legislation. Their respective administrative burden programmes are a testament to their desire to reduce costs for businesses.

²⁸ Wherever possible, data from the national baseline measurements was reused. However, where no comparable data was available the administrative costs were extrapolated. More specific information on the reuse of data from national baseline measurements is provided in the Annex to the Main Report on ‘Challenges and constraints of reusing existing data from previous baseline measurements’.

Administrative costs related to the EU IOs

Within these 5 Member States, more than 97% (€21,798.14 million) of all administrative costs are allocated to the EU IOs. In Chapter 3 for each of the aforementioned top three IOs, a separate section on the treatment of these IOs for the Baseline Countries is included.

In general, few to very few of the existing data could be re-used for the purpose of this measurement, mostly due to different assumptions made or the existence of non-comparable scope delineations. This is especially true for the IOs ‘VAT bookkeeping in sufficient detail for inspection by tax authorities’, ‘Issuance of an invoice’ and ‘Storage of invoices for inspection’. Where comparable data was lacking, the cost data were extrapolated by the Consortium, based on the results of the six Measurement Countries.

Different segmentation of IOs complicated matters and where it occurred data were excluded from extrapolation. However, if the figures as such were comparable with the measurement, they were taken into account in the research.

Administrative costs related to National IOs going beyond EU Requirements

Within these 5 Member States 2.63% (€587.82 million) of administrative costs are allocated to the Possibilities stated in the EU Legal Act.

Costs incurred at the level of National obligations going beyond EU Requirements are influenced by the type of Possibility and main cost indicators such as population and labour costs rather than by the total amount of implemented National obligations going beyond EU Requirements per Member State.

2.4.3.4 Extrapolation countries

As indicated above, the measurement was only conducted in a sample of six Member States. Consequently, there were data gaps in the model in the remaining Member States. The results from the Measurement Countries and the Baseline Countries were used to estimate the costs in countries where no measurement was undertaken²⁹. This

²⁹ The Consortium did, however, collect population data for all IOs for all 27 Member States.

extrapolation process provides the indicative total costs for European businesses of complying with EU legislation.

The Table below shows the administrative costs for the Extrapolation Countries.

Whenever the extrapolation model gave rise to results that were not consistent with what might have been anticipated based on economic analysis, this was further discussed with DG Enterprise, with whom a basis for manual extrapolation was agreed.

Table 11: Administrative Cost for the 16 Extrapolation Countries

Country	EU Requirement	National obligation going beyond EU Requirement		Total Admin. Cost	Total Admin. Burden	
		Possibility stated in the EU Act	Possibility not stated in the EU Act		Admin. Burden (€ x 1,000)	Share of Admin. Cost (%)
	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of Admin. Cost (%)
Belgium	2,063,397.4	16,892.8	14,781.9	2,095,072.1	1,842,026.72	87.92%
Bulgaria	204,268.6	10.2	17,511.1	221,789.9	202,779.39	91.43%
Czech Republic	1,199,295.7	3,836.2	1,295.6	1,204,427.5	1,011,865.79	84.01%
Estonia	144,485.7	0.3	0	144,486.0	128,372.41	88.85%
Finland	1,392,773.1	0	0	1,392,773.1	1,209,800.59	86.86%
Greece	2,912,493.9	112,803.7	0	3,025,297.6	128,372.41	88.85%
Ireland	772,879.8	1,405.7	18,370.5	792,655.9	702,550.00	88.63%
Italy	11,337,462.7	60,992.0	826,979.7	12,225,434.4	10,311,829.37	84.35%
Lithuania	121,189.8	27,553.1	135,065.4	283,808.2	270,025.45	95.14%
Luxembourg	157,312.3	14,140.5	1,654.1	173,106.9	157,243.01	90.84%
Malta	134,948.1	0	0	134,948.1	117,533.71	87.10%
Portugal	2,490,879.0	217,344.8	0	2,708,223.8	2,384,120.90	88.03%
Romania	682,010.0	1,764.7	2,192.6	685,967.3	594,137.33	86.61%
Slovakia	317,469.1	129.4	6,930.2	324,528.8	286,667.91	88.33%
Slovenia	275,361.0	392.0	38.0	275,791.1	235,481.16	85.38%
Sweden	2,116,504.0	530.5	0	2,117,034.5	286,667.91	88.33%
Total	26,322,730.3	457,796.0	1,024,819.1	27,805,345.3	23,974,453.37	86.22

This Table is based on data compiled by the Consortium.

The exercise of predicting cost through statistical modelling results in cost data with a different level of accuracy compared to the data collected through interviews. The extrapolated costs are for these reasons less precise and less detailed than the measured costs. Analyses of specific requirements should therefore only be based on data from countries that were measured, whereas the total impact of EU legislation and of changes in legislation can be assessed using the extrapolated costs.

Total administrative costs for these 16 Member States equal €27,805.35 million, which is 34.97% of the total administrative costs for the VAT area in the 27 EU Member States.

Administrative costs related to the EU IOs

Within these 16 Member States, more than 94% (€26,232.73 million) of all administrative costs are allocated to the EU IOs.

A comparison on the total administrative costs related to the EU IOs shows that Italy has the highest cost level out of these 16 Member States, while Malta has the lowest cost level. There is a direct correlation between:

- (i) the number of taxable persons;
- (ii) the complexity of the manner in which Possibilities stated in the EU Legal Act have been implemented;
- (iii) the administrative labour cost and the administrative cost.

This means that if either or all of the three factors increases, the administrative cost increases.

Administrative costs related to National obligations going beyond EU Requirements

Within these 16 Member States 1.65% (€457.80 million) and 3.69% (€1,024.82 million) respectively are allocated to the Possibilities stated in the EU Legal Act and the Possibilities not stated in the EU Legal Act.

Costs incurred at the level of National obligations going beyond EU Requirements are influenced by the nature of the Possibility and the main cost indicators such as population and labour costs rather than by the total number of National obligations going beyond EU Requirements per Member State. A detailed description and possible optimisations will be provided in Chapter 5.

2.4.4 Administrative Costs related to Irritation Potential of Most Burdensome EU IOs

The overall objective of the Action Programme is to achieve a reduction in administrative burdens of 25% by 2012. Previous SCM projects at national level have proved that reduction efforts will be seen as especially successful if the public authorities manage to lower the perceived burdens for businesses. Thus, two dimensions should be taken into account when analysing how burdensome an IO is:

1. Level of administrative burden
2. Level of irritation for businesses.

The extent to which business experience IOs as “irritating” was assessed based on the businesses’ responses to the following six statements:

- The information/data that the authorities require from me is linked to the information/data that are available from my own business process;
- I understand why the authorities want this information/data from me;
- I understand why the authorities ask me for this information/data with this frequency;
- The authorities make sure that I have to deliver this information/data only once and not to different authorities;
- The amount of information/data that the authorities ask for is in line with the objectives;
- The request for information/data is so clear that every entrepreneur/employee is able to comply with the request.

The responses given to the six statements were subsequently transposed to a numerical value. The data collected on the irritation level is however not conclusive. Thus any statements on the irritation are indicative and no conclusions should be drawn on this basis at Priority Area or IO level. Please refer to the Main Report on the measurement data and analysis as specified in the specific contracts 5&6 on Modules 3&4 under the Framework Contract n° ENTR/06/61 for a high level overview of the irritation levels of all Priority Areas, where a thorough analysis on the total dataset is incorporated.

The main results of the survey for this Priority Area are:

- Obligations that only a limited number of businesses are confronted with, and in any case not very frequent even if applicable, are not a source for ‘irritation’. This includes IOs such as the Possibility ‘Obligations for self-billing or third party-billing by non-EU entities and the Possibility “Notifications relating to storage’. They are the least of all sources for ‘irritation’.
- An interesting observation is that none of the three most cost-intensive burdensome IOs – i.e. “VAT bookkeeping in sufficient detail for inspection by tax authorities’, “Issuance of an invoice” and “Submission of a periodical VAT return” – were qualified as ‘highly irritating’, but rather as ‘medium irritating’. The irritation factor is mitigated by the fact businesses experience these obligations as being

more part of their day-to-day business, which is increasingly managed with the help of sophisticated software applications.

- From a qualitative perspective, the following IOs are considered as most burdensome: "Communication of the cessation of the activity", "Guaranteeing the authenticity of the origin and integrity of the content of e-invoices", "Keeping a register of shipments without transfer of ownership", "Keeping accounts of intra EU transfers of movable tangible property" and "Obtaining an import certificate for the purposes of import VAT deduction". Most important reason hereto is that businesses fail to see why they are obliged to provide certain information to the VAT authorities. This applies foremost to the IOs "Communication of the cessation of the activity" and "Obtaining an import certificate for the purposes of import VAT deduction", while the very same information can be obtained via other authorities. The other three IOs are marked as irritating because businesses fail to understand the added value for the authorities.

3. Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax : A description of the nature and impact of the most burdensome IOs

As a general rule, a relatively small number of IOs represent the major part of cost in any Priority Area and it is therefore worthwhile focusing on these. This section does that, relating each IO to the legal act from which it stems.

The top three most burdensome IOs represent the major part of the cost in the Tax Law Priority Area (VAT) and represent €65.37 billion or more than 82% of administrative costs. As such, this Chapter provides significant in-depth analysis on these three IOs. By focusing on these important IOs, readability of this report is enhanced. In addition, three generic 'Cost' IOs "VAT training", "Software costs" and "VAT audits" are by their nature and size (€6.81 billion or 8.57% of administrative costs) of significant importance. For this reason they also will be included in this Chapter.

A description of the remaining high and medium Prioritised IOs is available in Chapter 4.

The Table below shows the total administrative costs and burdens for the three most burdensome EU IOs and the costs of the corresponding National IOs and National obligations beyond EU Requirements.

Table 12: Total Administrative Costs and Administrative Burden of top three EU IOs by EU IO and National obligations going beyond EU Requirements³⁰.

EU IO	Legislation	National Obligations going beyond EU Requirement			Total Admin. Cost	Total Admin. Burden		
		EU Requirement	Possibilities stated in the EU Act	Possibilities not stated in the EU Act		Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of admin. Cost (%)
		Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)	Admin. Cost (€ x 1,000)				
1. VAT bookkeeping in sufficient detail for inspection by tax authorities	Art. 242 Council Directive 2006/112/EC of 28 November 2006	35,950,000	0	1,000	35,951,000	26,963,000	75.00	
2. Submission of a periodical VAT return	Art. 250 - Art. 252 Council Directive 2006/112/EC of 28 November 2006	19,197,000	0	982,000	20,179,000	20,179,000	100.00	
3. Issuance of an invoice	Art. 220 Council Directive 2006/112/EC of 28 November 2006	9,121,000	0	123,000	9,244,000	9,244,000	100.00	
	TOTAL	64,268,000	0	1,106,000	65,374,000	56,386,000		

This Table is based on data compiled by the Consortium.

As the total administrative costs and burdens are indicative because they include extrapolated data, the most burdensome IOs are analysed on the basis of the detailed data collected in the six Measurement Countries only. In the section below, each of these IOs is described in detail in relation to the following topics:

- Explanation of the legal aspects of the IO
- Underlying steps in the business process
- Overview of the cost parameters
- Reasons why the IO is burdensome/irritating
- Segmentation
- Data requirements

³⁰ Figures shown in the table were rounded compared to the numbers recorded in the database

- Demarcation between the burdensome IO and closely related IOs
- Business-as-usual costs
- Potential reduction measures

The Table below shows the total administrative costs and burdens for the three Cost IOs ('VAT training', 'Software costs' and 'VAT audits').

Table 13: Total Administrative Cost and Administrative Burden of top three EU IOs by EU IO and National obligations going beyond EU Requirements

Cost IO	Total Admin.Cost	Total Admin. Burden	
	Admin. Cost (€ x 1,000)	Admin. Burden (€ x 1,000)	Share of Admin.Cost (%)
1. VAT training	2,197,020.7	2,197,020.7	100.00
2. Software Cost	4,023,036.2	3,017,277.1	75.00
3. VAT audits	590,337.0	590,337.0	100.00
Total	6,810,393.90	5,804,634.80	

This Table is based on data compiled by the Consortium.

As the three 'Cost' IOs are linked to several IOs that will be discussed further, the next section will deal with these Cost IOs first.

3.1 Generic 'Cost' IOs based on costs incurred by 'insourcing' businesses in the Tax Law Priority Area (VAT).

The following sections describe the nature of various costs (relating to training, software and audits) that those businesses incur who take care of their VAT compliance (largely) themselves. These businesses are called 'insourcing' businesses and they make very limited use of external service providers (accountants, VAT consultants, etc...) in this respect.

Businesses that outsource their VAT compliance simply get 'consultancy fees' invoiced. These businesses have no insight on the breakdown of costs on training, software, personnel, etc... incurred by their service providers. Outsourcing businesses are therefore excluded from the measurement of the three generic 'Cost' IOs.

3.1.1 Characteristics of the 'Cost' IOs

In the next sections the characteristics of the various Cost IOs are described.

3.1.1.1 'Cost' IO 'VAT training'³¹

In order to comply with the various requirements contained in national VAT laws, insight on the functioning of the VAT system is required. Basic training is therefore an inevitable necessity for compliance. Basic VAT training for the purpose of the measurement of this IO includes (but is not limited to):

- Knowledge on the VAT point of taxation (i.e. the fulfilment of the legal conditions for VAT becoming due and/or deductible);
- The rules governing the exercise of the right of deduction (e.g. restrictions on the right of deduction);
- VAT invoicing rules (and credit notes);
- The definition of transactions from a VAT point of view, to check whether VAT exemptions or rates were applied correctly (e.g. the application of EU and/or local reverse charge mechanisms).

In cases in which bookkeeping/ERP software generates the sales and purchase ledgers in the VAT prescribed format, training on this system may also be required. The costs measured in this IO are exclusively VAT related and care was taken to ensure that costs on training are not double-counted with other IOs. When it was impossible to distinguish between general VAT training and more specific VAT training, the training was allocated exclusively to the IO 'VAT training'. General VAT training can have an indirect influence on other IOs (e.g. where sales and purchase invoices are booked correctly into the electronic sales and purchase ledger, bookkeeping/ERP software may allow taxable persons to generate an overview of the figures to be filled out in the periodic VAT return).

This IO includes both training that could be considered training on occasion and continuous expenditure due to legal changes (or changes in interpretations of existing law), changing economic activities and staff fluctuations. Businesses indicated that,

³¹ As a high-level assessment, the total amount of this 'cost IO' could be (mainly) allocated to the following IOs :

- IO 'VAT Bookkeeping' : 50%
- IO 'Submission of a periodical VAT return' : 30%
- IO 'Issuance of an Invoice' : 15%
- IO 'Submission of an intra-Community Sales Listing' : 5%

although a more or less accurate figure could be provided on VAT training as a whole, they were unable to provide exact data on training specifics such as training due to legal changes, refresher courses or staff transitions.

3.1.1.2 'Cost' IO 'Software costs'³²

Businesses are able to make use of software technology to assist them in their general compliance with VAT requirements. For example, in order to register sale and purchase transactions, businesses can either choose for an electronic accounting system or manual booking into paper ledgers. Most businesses in the small, medium-sized and large segment, and to a lesser extent in the micro segment, apply bookkeeping/ERP software to register sale and purchase transactions. For VAT purposes, specific data need to be registered into the ledgers, such as:

- The VAT due;
- The deductible VAT;
- The split-out according the VAT treatment of the underlying transaction (e.g. an intra-Community supply of goods has to be entered in another column of the sales ledger than a local supply of goods against the normal rate).

Once the bookkeeping/ERP software is VAT customised, its functionality usually is not limited to the generation of a VAT compliant sales and purchase ledger. Electronic ledgers can also contain the necessary parameters to prepare VAT statements such as the periodical VAT returns, the intra-Community acquisitions listings, the intra-Community sales listing and the summarising (recapitulative) annual VAT return. Since most businesses make use of VAT customised (or even VAT-specific) accounting software, part of the overall bookkeeping/ERP software cost is allocated to the Priority Area VAT. The part which was considered in scope for this measurement is the percentage of software costs businesses indicated as being VAT related (see Chapter 3.1.2).

³² As a high-level assessment, the total amount of this 'cost IO' could be (mainly) allocated to the following IOs :

- IO 'VAT Bookkeeping' : 60%
- IO 'Submission of a periodical VAT return' : 20%
- IO 'Issuance of an Invoice' : 18%
- IO 'Submission of an intra-Community Sales Listing' : 2%

3.1.1.3 'Cost' IO 'VAT audits'³³

Costs are incurred by businesses when the competent authorities decide to verify whether taxable persons are complying with existing VAT obligations. For example, taxable persons are obliged to present the tax authorities the opportunity to check whether the amount of VAT due and VAT deducted is determined correctly. The definition of audits in this respect includes limited audits (e.g. audits of limited VAT refund requests) as well as full audits of several calendar years. Member States mostly do not audit VAT taxable persons annually, so an average yearly time of less than one was taken into account. In principle, internal audits initiated by the businesses on VAT compliance are also included.

The amount and detail of data available on government audits differs from Member State to Member State. Nevertheless time spent and costs incurred relating to audits should be considered as significant. As an example and to illustrate the impact of VAT audits, some figures provided by the Belgian VAT authorities are commented upon below³⁴:

- The national "Inspection Centres" performed 17,873 full VAT audits (i.e. 44.39% of total audits, VAT and Direct taxes, performed). A total of 263,666 man days were spent on auditing by these Centres alone (VAT and Direct taxes). So, presumably, 117,041 man days were spent on VAT audits alone, amounting to approximately 6.55 man days per VAT audit. It is safe to assume that taxable persons audited spend many more man days in this respect, because these audits are almost uniformly accompanied or preceded by lengthy questionnaires which take considerable time to answer;
- The local VAT offices performed no less than 176,592 audits (refunds, closures, special accounts, specific attention points, upon request of a VAT number, etc...). Unfortunately no information on the number of man days spent was available. The number of man days per VAT audit should be less than the average mentioned for the Inspection Centres, but will still be significant;

³³ As a high-level assessment, the total amount of this 'cost IO' could be (mainly) allocated to the following IOs :

- IO 'VAT Bookkeeping' : 60%
- IO 'Submission of a periodical VAT return' : 10%
- IO 'Issuance of an Invoice' : 20%
- IO 'Taxable persons performing IC supplies' : 10%

³⁴ Figures are according to the yearly report of 2006 published by the Belgian Ministry of Finance

- The above is by no means the limit of VAT audits performed. Various special branches are not taken into account (for example, audits performed by the Central Office for Foreign Entrepreneurs). The report also mentions 332 VAT-files audited by the Special Tax Division. Again, no information on the number of man days spent is available, but it should be much higher than the 6.55 man days per audit applicable for the Inspection Centres (as the Special Tax Division is dealing with fraud investigations);
- All the above entails that approximately 33% of the Belgian VAT taxable persons were faced with a VAT audit in some way in 2006;
- In addition, the above does not even take into account the time spent and costs incurred by taxable persons on requests submitted to the VAT authorities at various levels, or on requests for (preceding) binding rulings submitted to the Belgian "Ruling Commission".

3.1.2 Costs and explanatory variables

The total amount of administrative costs (all 27 Member States) estimated for the three 'Cost' IOs are:

- 'Cost' IO 'VAT training': €2.20 billion. Administrative burdens equal administrative costs in this case;
- 'Cost IO' 'Software costs': €4.02 billion. Administrative burdens are equal to 75% of administrative costs in this case (€3.02 billion);
- 'Cost' IO 'VAT audits': €0.59 billion. Administrative burdens equal administrative costs in this case.

3.1.2.1 VAT training

The training cost was calculated as follows: cost per occurrence = (minutes of training per employee X number of employees trained) X hourly rate. Minutes of training equals the total (annual) time spent on VAT training.

Large businesses employ more people and have greater need on training than micro businesses.

3.1.2.2 Software costs

The measurement of these costs includes costs incurred in purchasing the software, its implementation, and license fees. Hardware costs have not been included.

The costs for this measurement were initially calculated by estimating the VAT-specific costs³⁵ of implementing and adjusting the software system, increased with the annual license fees. For example, if the implementation of a software system would cost €10,000.00 and 5% of the costs can be assigned to VAT, then €500.00 was taken into account. If a system is in use for 5 years, then €500.00 was divided by 5. Software costs taken into account for the measurement would equal €100.00.

As indicated, the part which was considered in scope for this measurement is the percentage of software costs businesses indicated as being VAT related. Except in those cases of very specific software-modules for VAT compliance, allocating a part of multi-purpose software to VAT obligations only was very difficult for businesses. The need for precautionary measures, to avoid any and all dangers of 'over-estimation' of software costs related to the Priority Area VAT only, necessitated the implementation of conservative assumptions. In this respect it was decided to:

- exclude software costs from the micro-insourcing segment of this IO. Only a limited number of micro businesses indicated during interviews and workshops that they had incurred software costs (especially when compared with small, medium-sized or large businesses);
- downsize software costs measured in the small-insourcing segment of this IO by 50% ;
- allocate a BAU-% of 25% to all remaining software costs measured in the small, medium-sized and large-insourcing segments.

³⁵ During workshops and interviews businesses were presented with questions such as:

- Kind of software system in use? Total purchase price?
- Timeframe for buying a new software system (e.g. every 5 years? every 10 years?)?
- Time needed in order to buy a new software programme (i.e. to be limited to the VAT part)?
- Time needed in order to adjust the software system to specific VAT needs?
- Yearly costs spent on the software system?
- License rights to be paid on a yearly basis (To be limited to the VAT-part)?
- etc...

Considering that there are approximately 4,240,000 taxable persons (businesses) in the insourcing small, medium-sized and large segment in Europe, the measurement teaches that the average software costs a business incurs in order to deal with VAT compliance is €948.83. This global average cost becomes more nuanced if looking at the average costs per segment. Accounting systems used by small businesses are generally less sophisticated than those used by large and medium-sized businesses. For the latter, due to the considerable amount of invoices, when it comes to the registration of invoices, investing in more sophisticated software tools leads to savings and the creation of fully VAT compliant ledgers. Software investments thus are higher in the 'large' segment and decrease progressively to the 'small' segment. For example, this means in the measurement that the European average of software costs per business in the 'small' segment amounts to €264.44 only, but for the 'large' segment increases to €3,751.69 (more than a ten times that of a typical business in the 'small' segment).

These costs above typically represent only a fraction of the total IT costs businesses incur³⁶.

3.1.2.3 VAT audits

The costs on audits are calculated as follows: if a business on average gets audited every 5 years and this takes 400 minutes per audit, the total time spent on the audit was divided by 5 and thus 80 minutes per year were taken into account at the appropriate fee rate level.

As a general observation on VAT audits, large and medium-sized businesses are targeted more often by tax authorities than micro and small businesses, and thus spend more time on VAT audits.

³⁶ An average small Western European business spends approximately 1.55% of its revenue as its IT operating budget (excluding costs related to hardware). This implies that e.g. a small business with a turnover of €3 million has an IT operating budget of €46,500.00. The measurement shows that an average small French business allocated €275.00 to VAT software costs. Large Spanish businesses spend on average 1.4% of its revenue as its IT operating budget. For a business with a turnover of €55 million, this implies an IT operating budget of €770,000.00. The measurement shows that an average Spanish large business spends €6,000.00 on VAT related software costs. (Source: Gartner IT and staffing spending Report/Survey 2007 and 2008).

3.1.2.4 Analysis on country level

An in-depth analysis for these cost IOs is presented by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

The Tables below present comparisons on the three generic 'Cost' IOs in the 6 Measurement Countries.

Table 14: Total Administrative Cost and Administrative Burden of "VAT training"

Large	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	670	1,298.56	432.85	432.85	290,011.73	290,011.73
FR	34,308	540.23	423.18	423.18	14,518,459.44	14,518,459.44
HU	5,204	4,549.20	454.92	454.92	2,367,403.68	2,367,403.68
LV	751	5,771.27	577.13	577.13	433,422.13	433,422.13
PL	15,000	11,155.40	1,115.54	1,115.54	16,733,100.00	16,733,100.00
ES	33,807	1,537.01	486.72	486.72	16,454,543.04	16,454,543.04
Medium-sized	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	2,010	1,095.66	365.22	365.22	734,092.20	734,092.20
FR	102,923	413.18	323.65	323.65	33,311,474.95	33,311,474.95
HU	15,611	3,198.72	319.87	319.87	4,993,521.79	4,993,521.79
LV	2,253	1,065.17	106.52	106.52	239,982.05	239,982.05
PL	45,000	4,450.60	445.06	445.06	20,027,700.00	20,027,700.00
ES	101,421	1,477.89	468.00	468.00	47,465,028.00	47,465,028.00
Small	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	8,375	730.44	243.48	243.48	2,039,145.00	2,039,145.00
FR	428,845	180.08	141.06	141.06	60,492,875.70	60,492,875.70
HU	65,046	680.75	90.77	90.77	5,904,008.60	5,904,008.60
LV	9,389	581.00	58.10	58.10	545,500.90	545,500.90
PL	187,500	1,928.82	321.47	321.47	60,275,625.00	60,275,625.00
ES	422,586	1,418.78	449.28	449.28	189,859,438.08	189,859,438.08

Large	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
Micro	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	22,780	280.81	149.76	149.76	3,411,593.55	3,411,593.55
FR	1,166,458	30.01	23.51	23.51	27,423,427.58	27,423,427.58
HU	176,926	225.43	45.09	45.09	7,976,767.69	7,976,767.69
LV	25,539	154.93	15.49	15.49	395,684.24	395,684.24
PL	510,000	300.46	65.10	65.10	33,201,000.00	33,201,000.00
ES	1,149,434	169.58	67.83	67.83	77,966,108.22	77,966,108.22

This Table is based on data compiled by the Consortium.

Table 15: Total Administrative Cost and Administrative Burdens of "Software costs"³⁷

Large	Number of occurrences	Equipment Cost (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	670	6,000.00	6,000.00	4,020,000.00	3,015,000.00
FR	34,308	3,000.00	3,000.00	102,924,000.00	77,193,000.00
HU	5,204	3,606.00	3,606.00	18,765,624.00	14,074,218.00
LV	751	1,760.00	1,760.00	1,321,760.00	991,320.00
PL	15,000	1,000.00	1,000.00	15,000,000.00	11,250,000.00
ES	33,807	6,000.00	6,000.00	202,842,000.00	152,131,500.00
Medium-sized	Number of occurrences	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	2,010	5,000.00	5,000.00	10,050,000.00	7,537,500.00
FR	102,923	1,500.00	1,500.00	154,384,500.00	115,788,375.00
HU	15,611	1,950.00	1,950.00	30,441,450.00	22,831,087.50
LV	2,253	415.00	415.00	934,995.00	701,246.25
PL	45,000	1,052.00	1,052.00	47,340,000.00	35,505,000.00
ES	101,421	5,500.00	5,500.00	557,815,500.00	418,361,625.00
Small	Number of occurrences	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
CY	8,375	525.00	525.00	4,396,875.00	3,297,656.25
FR	428,845	275.00	275.00	117,932,375.00	88,449,281.25
HU	65,046	450.00	450.00	29,270,700.00	21,953,025.00
LV	9,389	107.50	107.50	1,009,317.50	1,009,317.50

³⁷ For the micro segment no software costs are taken into consideration since only a limited number of micro businesses indicated during interviews and workshops that they had incurred (VAT-related) software costs of significance.

Large	Number of occurrences	Equipment Cost (€)	Cost per occurrence (€)	Total Admin. Cost (€)	Total Admin. Burden (€)
PL	187,500	143.50	143.50	26,906,250.00	26,906,250.00
ES	422,586	240.00	240.00	101,420,640.00	76,065,480.00

This Table is based on data compiled by the Consortium.

Table 16: Total Administrative Cost and Administrative Burden of "VAT audits"

Large	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin, Cost (€)	Total Admin, Burden (€)
CY	670	795.37	265.12	265.12	177,632.19	177,632.19
FR	34,308	456.19	357.35	357.35	12,260,032.42	12,260,032.42
HU	5,204	2,732.46	273.25	273.25	1,421,970.94	1,421,970.94
LV	751	4,728.76	472.88	472.88	355,129.80	355,129.80
PL	15,000	2,866.88	286.69	286.69	4,300,320.00	4,300,320.00
ES	33,807	1,315.92	416.71	416.71	14,087,620.31	14,087,620.31
Medium-sized	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin, Cost (€)	Total Admin, Burden (€)
CY	2,010	470.73	156.91	156.91	315,387.76	315,387.76
FR	102,923	187.40	146.80	146.80	15,108,729.99	15,108,729.99
HU	15,611	1,647.01	164.70	164.70	2,571,154.18	2,571,154.18
LV	2,253	743.14	74.31	74.31	167,428.93	167,428.93
PL	45,000	1,879.66	187.97	187.97	8,458,452.00	8,458,452.00
ES	101,421	992.95	314.43	314.43	31,890,170.15	31,890,170.15
Small	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin, Cost (€)	Total Admin, Burden (€)
CY	8,375	131.07	43.69	43.69	365,913.24	365,913.24
FR	428,845	49.34	38.65	38.65	16,575,047.94	16,575,047.94
HU	65,046	483.10	64.41	64.41	4,189,821.87	4,189,821.87
LV	9,389	257.23	25.72	25.72	241,511.43	241,511.43
PL	187,500	1,356.40	226.07	226.07	42,387,375.00	42,387,375.00
ES	422,586	132.62	42.00	42.00	17,746,583.59	17,746,583.59
Micro	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Admin, Cost (€)	Total Admin, Burden (€)
CY	22,780	92.98	49.59	49.59	1,129,669.92	1,129,669.92
FR	1,166,458	9.12	7.15	7.15	8,336,721.98	8,336,721.98
HU	176,926	157.18	31.44	31.44	5,561,732.50	5,561,732.50
LV	25,539	37.18	3.72	3.72	94,964.22	94,964.22

PL	510,000	220.34	47.74	47.74	24,347,400.00	24,347,400.00
ES	1,149,434	25.18	10.07	10.07	11,575,673.95	11,575,673.95

This Table is based on data compiled by the Consortium.

The comments below are provided to explain the major variations:

Poland

- (i) As a relatively new Member State and due to the complexity of the national VAT rules, businesses tend to invest more time in the training of personnel in Poland than e.g. in France (a long-time Member State).
- (ii) The first audit of a VAT taxable person performed by the Polish VAT authorities can be extensive and formalistic. Audits lasting several weeks are not uncommon. Subsequent audits are generally shorter and less frequent, provided the first audit did not reveal any infractions on the application of the formalities and technicalities imposed by the VAT law. When the VAT taxpayer is in a credit position, an audit is almost always performed at the moment of a refund request.

Hungary

- (i) The complex VAT Code and the relatively recent entry into the European Union lead to higher investments in training.
- (ii) During an audit by the Hungarian VAT authorities, the original first version of the local purchase invoices is required (a certified copy is not allowed). If this requirement is not met, the purchase invoices are rejected. This leads to an intense screening of purchase invoices.
- (iii) In case of a VAT refund position, businesses are mostly subject to a VAT audit. In addition, during refund (and other audits), the competent inspector is not allowed to limit the audit to a mere random check of invoices. The Hungarian VAT authorities require that every invoice is dutifully reviewed, which means that audits can be very time-consuming.

Latvia

- (i) As in Poland, time spent on training in Latvia is relatively higher than in long-time EU Member States.
- (ii) Normal procedure in Latvia states that requests for VAT refunds are nearly always audited by the VAT authorities before allowing the refund.

Spain

Businesses indicate a lack of efficient and easygoing communication with the Spanish VAT authorities. It is difficult or even impossible to set up verbal communication not relating to audits (e.g. to discuss technical matters, such as interpretations of specific national VAT law such as the scope of the 'local reverse charge' or regularisations), either in person or by phone. Raising issues with the VAT authorities must be done by fax or in writing. According to businesses, even relying on agreed upon practices with the authorities is not always possible. These issues have an impact on the time spent on bookkeeping in general and on subsequent audits by the same authorities in particular.

Cyprus

It might be expected that the time spent on VAT training would be higher than average due to the relatively recent admission of Cyprus to the European Union. Businesses indicate that indeed the general awareness of the specifics of the national VAT Law and the in-house knowledge is less than what is considered as 'desirable'. Cypriot VAT Law is not perceived as easy, but the general feeling is that the Cypriot VAT authorities are less severe in their dealings with taxpayers and audits by the authorities are perceived as not that frequent. In general, businesses did express the need for the publication of more interpretations, decisions, circular letters, etc. on VAT technical matters which, if applicable, may lead to an increase of training. However eventually this will cause a decrease on time spent on other IOs such as VAT bookkeeping.

France

France is one of the pioneers in the application of the value-added-tax system. Over time France came to VAT legislation that is perceived as transparent by businesses and a clear and flexible communication between the VAT authorities and taxable persons. This has an impact on the yearly time spent on training, which is considerably lower than in other measuring Member States. Furthermore, past investments in bookkeeping/ERP software have a positive impact on the total time spent in terms of minutes for taxable persons on the creation of VAT compliant ledgers.

3.2 IO1 "VAT bookkeeping in sufficient detail for inspection by tax authorities" - Article 242 Council Directive 2006/112/EC

3.2.1 Characteristics of the IO

Article 242 Council Directive 2006/112/EC states: 'Every taxable person shall keep accounts in sufficient detail for VAT to be applied and its application checked by the tax authorities'.

Each business in Europe, in one way or another, is confronted with bookkeeping. In principle this is a commercial activity performed for the management of a business and for its stakeholders. The short and generic Article 242 states that accounts on VAT need to be generated. It does not prescribe the manner or format for such accounts or what is considered as 'sufficient' detail. In order to allow authorities to verify whether the VAT position (VAT due compared to VAT deductible) was calculated correctly, businesses are obliged to keep track of all their sales and purchase transactions for VAT purposes. One has to take into account that recorded businesses' sales and purchase transactions are not for VAT purposes alone. There is interference between the VAT Law and various other legislations (not to mention that businesses would record purchase and sales transactions in some way even in the complete absence of legislation). Nevertheless, a specific part of the bookkeeping activity is allocated solely to the impact of the VAT legislation. Actions taken at the level of VAT bookkeeping are essential to comply with other VAT requirements, such as the "Submission of a periodical VAT return" or the "Submission of an intra-Community sales listing". Consequently, VAT bookkeeping is an essential and significant part of the administrative burdens associated with VAT.

As such, and contrary to other Priority Areas where bookkeeping activities were strictly separated from the measurement (in particular Company Law), the VAT part of accounting was identified and measured for the Tax Law Priority Area (VAT).

The requirements stemming from this Article are applicable to all VAT taxable persons, which imply all persons who, independently, carry out any economic activity in any Member State³⁸.

3.2.2 Process for complying with IO

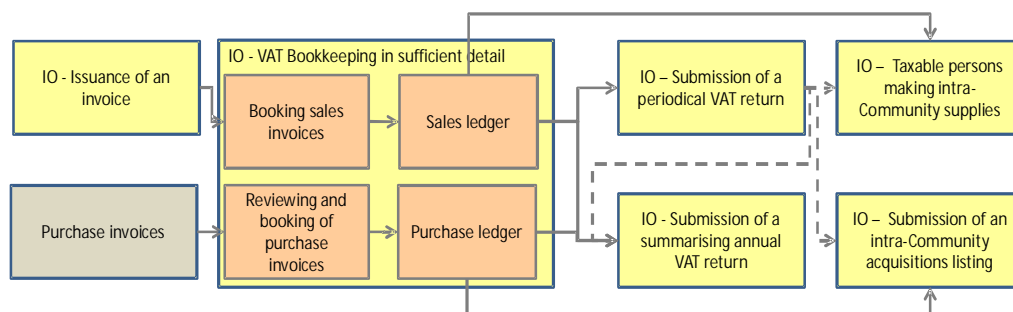
According to Article 242 Council Directive 2006/112/EC, each Member State is in principle free to create its own legal framework on VAT 'accounting' requirements. The

³⁸ Article 9 Council Directive 2006/112/EC

Article does not provide any specifications. As a result no single European business process stemming from this Article can be identified. The simplest approach to comply with the objectives of this IO is the obligation imposed by tax authorities to keep a sales ledger and a purchase ledger containing specific VAT information. The steps required to create these ledgers generate the business process as described in this paragraph. What should be kept in mind is that this is the minimum requirement for compliance. Member States have taken different approaches ranging from the minimum requirement as mentioned, to more burdensome, complex systems implying the obligation to keep additional ledgers containing specific detailed information such as a table of fixed assets or ledgers on intra-Community transactions (e.g. in Spain)³⁹. Such extra obligations are regarded as additional requirements.

The high level business process for this IO is shown in the following Figure. A discussion on each of the process steps follows and shows the demarcation of the specific bookkeeping requirements of VAT legislation.

Figure 4: Business process and demarcation of the IO “VAT bookkeeping in sufficient detail for inspection by tax authorities”



By Capgemini/Deloitte/Ramboll Management.

³⁹ Explained further in paragraph 3.2.3.2.

The sales and purchase invoices provide the input for the VAT bookkeeping obligation. The data mentioned on these invoices are reviewed and booked into ledgers. In order to review and book invoices, personnel needs to be trained. Investments in bookkeeping/ERP software are (often) required for at least small, medium and large businesses. The result of this obligation feeds directly in other IOs such as the "Submission of a periodical VAT return".

In order to guarantee a measurement from a purely European context, two mandatory business process steps (i.e. "Booking of sales invoices and booking and reviewing of purchase invoices" and "Review and adjustments of ledgers") common throughout all Member States were defined. Because of the significance and sheer size of this obligation, a thorough description of these steps is provided. The booking and reviewing of invoices is the most time-consuming part of this obligation.

As described before, for insourcing businesses the time spent and cost incurred on VAT training, software and VAT audits were recorded in three separate cost IOs. For outsourcing businesses (micro, small and medium-sized businesses) the main cost driver is the consultancy costs incurred. These costs can end contain time spent and costs incurred on training of the personnel of the service provider, investments in software and assistance by the service provider during audits. According to the methodology used the latter costs are all part of the 'consultancy costs' and are not included in the three generic 'Cost' IOs. This means that for the three outsourcing segments in scope they are included in the measurement of the IO 'VAT bookkeeping'.

Step 1: Booking of sales invoices and booking and reviewing of purchase invoices

The first step consists of the booking of sales invoices and the booking and reviewing of purchase invoices. The 'reviewing' of invoices refers to the time spent on checking whether the received invoices comply with the VAT invoicing requirements. Furthermore, additional time was taken into consideration to deal with incorrect invoices (e.g. causing discussions on the application of VAT tariffs). The time allocated to 'reviewing' is limited to purchase invoices. Reviewing sales invoices is out of scope as it is part of the IO "Issuance of an invoice". The 'booking' of invoices refers to the time spent on putting VAT data correctly in the paper or electronic ledgers. There are cases in which the business'

software provides an interface between sales invoices and the sales ledger. In such cases the time allocated was reduced to zero. Invoices are checked from a VAT point of view but also from a commercial point of view (e.g. checking whether the conditions of a contract are respected). Furthermore, Accounting Law also imposes the obligation on businesses to register all transactions, including sales and purchases. In order to determine the VAT part to be allocated to this process step, the measurement was limited to the specific VAT data reviewed and booked into the respective ledgers.

Costs related to this part of the IO were calculated as follows:

For the insourcing segments: (total time in minutes spent reviewing VAT data mentioned on purchase invoices + total time in minutes spent on booking the VAT data mentioned on sales/purchase invoices) X hourly rate.

For the outsourcing segments: Total Consultancy costs + (total time in minutes spent in providing information to and processing information from the external service provider) X hourly rate.

Step 2: Review and adjustments of ledgers

Once VAT ledgers are generated, businesses perform a review in order to check whether all invoices are booked in accordance with the prescribed VAT rules (generally before storage of these ledgers). This is relevant for both businesses keeping their ledgers manually as well as for businesses using VAT integrated systems. Subsequently, where inconsistencies are encountered, time is needed to conduct adjustments.

Costs related to this part of the IO were calculated as follows:

For the insourcing segments: (total time in minutes spent on reviewing and adjusting VAT ledgers) X hourly rate.

For the outsourcing segments: Total Consultancy costs + (total time in minutes spent in providing information to and processing information from the external service provider) X hourly rate.

3.2.3 Costs and explanatory variables

The total amount of administrative costs for the IO “VAT bookkeeping in sufficient detail for inspection by tax authorities” were estimated at €35,950.77 million for the 27 Member States.

An in-depth analysis for this obligation starts on the high-level differences between the sub-segments, followed by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

What should be kept in mind is that both the VAT Law and various other legislations (foremost Accounting Law) impose the obligation on businesses to register sales and purchase transactions. This leads to interference at the level of data that have to be recorded for both purposes. In accordance with the agreed upon approach, the business-as-usual costs were identified and excluded upfront. In principle, only the proportion of costs associated with VAT bookkeeping were included. These costs are incurred only because of the existence of the VAT legislation. Again, the need for precautionary measures, to avoid any and all dangers of ‘over-estimation’ of bookkeeping costs related to the Priority Area VAT only, necessitated the implementation of conservative assumptions. In this respect it was decided to apply a BAU-percentage of 25% for this reason only. Hence the total administrative burdens equal the total administrative costs multiplied by 75%.

The statistical approach of extrapolation was used to identify the administrative costs in the Member States that were not sampled for data collection or in situations where baseline data did not exist in the baseline Member States. The extrapolation exercise can basically be understood as making the best estimates of the standard administrative activities in a Member State where data has not been collected based on data from other Member States where data has been collected.

Extrapolation of cost data for the IO “VAT bookkeeping for inspection by tax authorities” proved a particular challenge, seen the size of the IO in the measuring Member States and thus the expected size of the cost data in the extrapolation Member States. This challenge was increased by:

- The lack of comparable data in all Baseline Countries, increasing the gap between the number of existing data points (6 measuring Member States) and the number of data points to be extrapolated (21 Extrapolation Countries);
- The fact that each Member State is in principle free to create its own legal framework on VAT 'accounting' requirements. As a result, no single European business process stemming from this Article 242 Council Directive 2006/112/EC could be identified. The variation between Member States in the implementation of this IO is significant.

As a main indicator in the extrapolation, the number of (registered) VAT taxable persons per Member State was used and gradations in efficiency and comparability between Member States were used as influencing factors (next to more general determining factors such as wage rates and the general price level).

It should be emphasised that the data that were gathered as well as the extrapolation are in line with the agreements made with the Commission. Nevertheless it is recommended that additional activities be undertaken to measure and study implementation of this IO in more Member States.

3.2.3.1 Analysis on segment level

The Table below gives an overview of the time spent and costs incurred per Member State.

Per segment, insight is given on:

- Number of occurrences ('Q') = total amount of VAT taxable person⁴⁰. The following should be considered:
 - Experts estimated the division between the main 'insourcing' and 'outsourcing' segment to be approximately 50%;
 - Based on Eurostat data the population data was divided among segments in conformity with the following percentages;

⁴⁰ Sources on the number of taxable persons in Member States are derived from national government reports/websites, baseline measurement reports or even direct contacts with the national authorities. Sources on the total number of taxable persons registered for VAT purposes were available for nearly all 27 Member States. Sometimes several conflicting sources were available. In these case sources were prioritised according to credibility, the publishing source and date of publishing. A variance of up to 5% of sources used in this measurement, compared to other sources, is quite plausible.

Table 17: Division of population ('Q') among segments for the IO "VAT Bookkeeping in sufficient detail for inspection by tax authorities"

Segment	Insourcing %	Outsourcing %	Total %
Large	1	0	1
Medium	3	3	6
Small	12.5	12.5	25
Micro	34	34	68
Total	50.5	49.5	100

This Table is based on data compiled by the Consortium.

- o The large outsourcing segment is out of scope (see hereafter).

Therefore, the total percentage to be allocated to large insourcing businesses equals 1%

- Consultancy costs = (annual) fees paid to external service providers
- Internal time = total time spent on fulfilling the requirements of this IO
- Internal cost = total time X hourly rate
- Cost per occurrence = (total time X hourly rate) + external costs
- Total cost = the total administrative cost at country level or the total cost per occurrence X population
- Total burden = Total cost X 75% (25% BAU-costs).

Table 18: Total time spent and costs incurred on the IO “VAT bookkeeping in sufficient detail for inspection by tax authorities” – Overview across Measurement Countries⁴¹

		Number of occurrences	Consultancy costs per occurrence (€)	Internal time per occurrence (minutes)	Internal cost per occurrence (€)	Cost per occurrence	Total Cost	Total Burden
Cyprus	INSOURCING - Large companies	670		17,536.00	5,845.33	5,845.33	3,916,373.33	2,937,280.00
	INSOURCING - Medium sized companies	2,010		10,056.00	3,352.00	3,352.00	6,737,520.00	5,053,140.00
	INSOURCING - Small companies	8,375		2,381.00	793.67	793.67	6,646,958.33	4,985,218.75
	INSOURCING - Micro companies	22,780		1,973.00	1,052.27	1,052.27	23,970,634.67	17,977,976.00
	OUTSOURCING - Medium sized companies	2,010	4,300.00	2,592.00	1,064.00	5,364.00	10,781,640.00	8,086,230.00
	OUTSOURCING - Small companies	8,375	1,800.00	950.00	396.67	2,196.67	18,397,083.33	13,797,812.50
	OUTSOURCING - Micro companies	22,780	1,300.00	150.00	80.00	1,380.00	31,436,400.00	23,577,300.00
Cyprus Total		67,000					101,886,609.67	76,414,957.25
France	INSOURCING - Large companies	34,308		10,404.00	4,681.80	4,681.80	160,623,194.40	120,467,395.80
	INSOURCING - Medium sized companies	102,923		4,083.00	3,198.35	3,198.35	329,183,777.05	246,887,832.79
	INSOURCING - Small companies	428,845		1,003.58	786.14	786.14	337,131,207.66	252,848,405.75
	INSOURCING - Micro companies	1,166,458		189.00	160.65	160.65	187,391,477.70	140,543,608.28
	OUTSOURCING - Medium sized companies	102,923	2,580.00	3,980.00	1,791.00	4,371.00	449,876,433.00	337,407,324.75
	OUTSOURCING - Small companies	428,845	2,150.00	726.00	568.70	2,718.70	1,165,900,901.50	874,425,676.13
	OUTSOURCING - Micro companies	1,166,458	1,125.00	125.00	106.25	1,231.25	1,436,201,412.50	1,077,151,059.38
France Total		3,430,760					4,066,308,403.81	3,049,731,302.86
Hungary	INSOURCING - Large companies	5,204		59,833.00	6,526.07	6,526.07	33,961,650.93	25,471,238.20
	INSOURCING - Medium sized companies	15,611		35,617.00	3,601.00	3,601.00	56,215,211.00	42,161,408.25
	INSOURCING - Small companies	65,046		11,221.00	1,556.13	1,556.13	101,220,248.80	75,915,186.60

⁴¹ The large outsourcing segment is not applicable in the measurement of this IO since large businesses typically have their own accounting department handling this obligation (reference is made to page 78).

		Number of occurrences	Consultancy costs per occurrence (€)	Internal time per occurrence (minutes)	Internal cost per occurrence (€)	Cost per occurrence	Total Cost	Total Burden
	INSOURCING - Microl companies	176,926		3,650.00	524.67	524.67	92,827,174.67	69,620,381.00
	OUTSOURCING - Medium sized companies	15,611	1,400.00	3,720.00	600.00	2,000.00	31,222,000.00	23,416,500.00
	OUTSOURCING - Small companies	65,046	900.00	2,370.00	358.00	1,258.00	81,827,868.00	61,370,901.00
	OUTSOURCING - Micro companies	176,926	536.00	2,120.00	424.00	960.00	169,848,960.00	127,386,720.00
Hungary Total		520,370					567,123,113.40	425,342,335.05
Latvia	INSOURCING - Large companies	751		111,242.0	11,124.20	11,124.20	8,354,274.20	6,265,705.65
	INSOURCING - Medium sized companies	2,253		17,319.00	1,731.90	1,731.90	3,901,970.70	2,926,478.03
	INSOURCING - Small companies	9,389		5,775.00	577.50	577.50	5,422,147.50	4,066,610.63
	INSOURCING - Micro companies	25,539		762.00	76.20	76.20	1,946,071.80	1,459,553.85
	OUTSOURCING - Medium sized companies	2,253	2,357.00	676.80	67.68	2,424.68	5,462,804.04	4,097,103.03
	OUTSOURCING - Small companies	9,389	1,122.00	84.00	8.40	1,130.40	10,613,325.60	7,959,994.20
	OUTSOURCING - Micro companies	25,539	551.00	216.00	21.60	572.60	14,623,631.40	10,967,723.55
Latvia Total		75,113					50,324,225.24	37,743,168.93
Poland	INSOURCING - Large companies	15,000		59,844.00	6,746.00	6,746.00	101,190,000.00	75,892,500.00
	INSOURCING - Medium sized companies	45,000		42,209.00	4,850.83	4,850.83	218,287,500.00	163,715,625.00
	INSOURCING - Small companies	187,500		29,532.00	4,530.00	4,530.00	849,375,000.00	637,031,250.00
	INSOURCING - Micro companies	510,000		4,980.00	1,079.00	1,079.00	550,290,000.00	412,717,500.00
	OUTSOURCING - Medium sized companies	45,000	1,900.00	4,200.00	910.00	2,810.00	126,450,000.00	94,837,500.00
	OUTSOURCING - Small companies	187,500	1,600.00	3,500.00	758.33	2,358.33	442,187,500.00	331,640,625.00
	OUTSOURCING - Micro companies	510,000	1,000.00	2,820.00	611.00	1,611.00	821,610,000.00	616,207,500.00
Poland Total		1,500,000					3,109,390,000.00	2,332,042,500.00
Spain	INSOURCING - Large companies	33,807		30,494.00	9,656.43	9,656.43	326,455,041.70	244,841,281.28
	INSOURCING - Medium sized companies	101,421		22,687.00	8,317.99	8,317.99	843,619,286.38	632,714,464.78
	INSOURCING - Small companies	422,586		1,790.00	566.83	566.83	239,535,831.00	179,651,873.25
	INSOURCING - Micro companies	1,149,434		436.00	268.87	268.87	309,044,488.13	231,783,366.10

		Number of occurrences	Consultancy costs per occurrence (€)	Internal time per occurrence (minutes)	Internal cost per occurrence (€)	Cost per occurrence	Total Cost	Total Burden
	OUTSOURCING - Medium sized companies	101,421	6,000.00	1,464.00	585.60	6,585.60	667,918,137.60	500,938,603.20
	OUTSOURCING - Small companies	422,586	2,500.00	1,016.00	406.40	2,906.40	1,228,203,950.40	921,152,962.80
	OUTSOURCING - Micro companies	1,149,434	1,200.00	308.00	189.93	1,389.93	1,597,636,631.07	1,198,227,473.30
Spain Total		3,380,689					5,212,413,366.28	3,909,310,024.71

This Table is based on data compiled by the Consortium.

The measurement shows that time spent and costs incurred differ considerably between the various sub-segments. The highest annual costs are incurred by the large segments, while the micro segments (generally) display the least costs. A similar trend applies to both the 'insourcing' as well as the 'outsourcing' main segments.

In all but one measuring Member States the weighted average of the total cost for the 'outsourcing' sub-segments is more than the cost for the corresponding 'insourcing' sub-segments.

The segmentation applied is not entirely symmetric. Large businesses typically have their own accounting department handling all accounting activities including VAT bookkeeping. Larger scale and business organisation allow them to handle VAT bookkeeping obligations themselves. Therefore, the outsourcing large segment is not applicable in the measurement of this IO.

Differences between the sub-segments are mainly influenced by the time needed to review and book invoices. In general, an increase in turnover leads to an increase in the number of transactions, thus an increase in time spent.

3.2.3.2 Analysis on country level

The high-level business process is similar in all 27 Member States. Nonetheless each Member State has specific variations and attention points. Differences in the impact of various cost indicators across Member States can be discerned. On a general level, the results of the measurement indicate that the total administrative cost per VAT-taxable entity and per Member State differ because VAT bookkeeping is influenced by indicators such as, the complexity of national VAT legislation, the (lack of the) availability of clear guidelines on the interpretation of VAT legislation, the interaction with the tax administration, the (lack of the) availability of adjusted software packages, etc...

The following Table shows the total time spent and costs incurred in each of the 6 measuring Member States, grouped per segment. The Tables are restricted to the 'insourcing' segments, since these lead to more valuable insights than the 'outsourcing' segments.

Table 19: Total time spent and costs incurred on the IO “VAT bookkeeping in sufficient detail for inspection by tax authorities” – Overview across segments⁴²

Segment		Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Cost (€)	Total Burden (€)
Large	Cyprus	670	17,536.00	5,845.33	5,845.33	3,916,373.33	2,937,280.00
	France	34,308	10,404.00	4,681.80	4,681.80	160,623,194.40	120,467,395.80
	Hungary	5,204	59,833.00	6,526.07	6,526.07	33,961,650.93	25,471,238.20
	Latvia	751	111,242.00	11,124.20	11,124.20	8,354,274.20	6,265,705.65
	Poland	15,000	59,844.00	6,746.00	6,746.00	101,190,000.00	75,892,500.00
	Spain	33,807	30,494.00	9,656.43	9,656.43	326,455,041.70	244,841,281.28
	Total	89,740				634,500,534.57	475,875,400.93
Medium	Cyprus	2,010	10,056.00	3,352.00	3,352.00	6,737,520.00	5,053,140.00
	France	102,923	4,083.00	3,198.35	3,198.35	329,183,777.05	246,887,832.79
	Hungary	15,611	35,617.00	3,601.00	3,601.00	56,215,211.00	42,161,408.25
	Latvia	2,253	17,319.00	1,731.90	1,731.90	3,901,970.70	2,926,478.03
	Poland	45,000	42,209.00	4,850.83	4,850.83	218,287,500.00	163,715,625.00
	Spain	101,421	22,687.00	8,317.99	8,317.99	843,619,286.38	632,714,464.78
	Total	269,218				1,457,945,265.13	1,093,458,948.85
Small	Cyprus	8,375	2,381.00	793.67	793.67	6,646,958.33	4,985,218.75
	France	428,845	1,003.58	786.14	786.14	337,131,207.66	252,848,405.75
	Hungary	65,046	11,221.00	1,556.13	1,556.13	101,220,248.80	75,915,186.60
	Latvia	9,389	5,775.00	577.50	577.50	5,422,147.50	4,066,610.63
	Poland	187,500	29,532.00	4,530.00	4,530.00	849,375,000.00	637,031,250.00
	Spain	422,586	1,790.00	566.83	566.83	239,535,831.00	179,651,873.25
	Total	1,121,741				1,539,331,393.30	1,154,498,544.97
Micro	Cyprus	22,780	1,973.00	1,052.27	1,052.27	23,970,634.67	17,977,976.00
	France	1,166,458	189.00	160.65	160.65	187,391,477.70	140,543,608.28
	Hungary	176,926	3,650.00	524.67	524.67	92,827,174.67	69,620,381.00
	Latvia	25,539	762.00	76.20	76.20	1,946,071.80	1,459,553.85
	Poland	510,000	4,980.00	1,079.00	1,079.00	550,290,000.00	412,717,500.00
	Spain	1,149,434	436.00	268.87	268.87	309,044,488.13	231,783,366.10
	Total	3,051,137				1,165,469,846.97	874,102,385.23

This Table is based on data compiled by the Consortium.

This Table shows a significant variation in administrative costs per Member State on various levels. Article 242 that forms the basis for this obligation is short and generic and provides Member States with considerable freedom in defining their own legal frameworks on VAT ‘accounting’ requirements.

⁴² Since this table is restricted to the insourcing segments which in principle do not incur external consultancy costs, there is no need to provide a column on the consultancy costs.

The following section of this Chapter will explain the main causes of differences in administrative costs for VAT bookkeeping per Member State.

On the total administrative cost level, results are influenced by the total number of VAT taxable persons, the employee hourly rate and external costs (consultancy services).

Analysis on the total administrative costs, or even the total internal cost per activity, does not necessarily explain the differences between the six Measurement Member States (e.g. due to differences in wages). Therefore, analysis is based on the differences between the total time spent and external costs incurred.

Poland

The impact of the Polish VAT legislation was measured as considerably burdensome compared to the other Measurement Member States. This is reflected in the high number of minutes and external costs incurred by Polish businesses. There are a number of reasons for this. Interview results show that VAT taxable persons view Polish VAT legislation as non-transparent (e.g. interpretations of VAT Law are not available) and complicated. This has an impact on the total time spent on booking and reviewing of invoices. Key aspects are:

- (i) Poland has strict tax rules which require the reporting of transactions based on specific taxable events at specified dates. In principle, businesses record purchase invoices in the purchase ledger upon receipt of the purchase invoice. The Polish tax authorities question the VAT recovery on purchase invoices dated relatively late in the month, when those are recorded in that same month. This implies that Polish VAT taxpayers have to prove that e.g. an invoice dated on the 27th of a month and recorded in the same month, was also received in that month. The recording in the purchase ledger forms the basis of the recording of recoverable VAT in a periodic VAT return. The fact that the Polish VAT authorities impose proportional fines up to 30% on untimely VAT recovery implies that Polish businesses invest considerable time on the correct processing of purchase invoices.
- (ii) Similar complex issues arise when different currencies are mentioned on one single invoice. Recipients of purchase invoices can only deduct, and thus report in the purchase ledger as deductible VAT, the VAT amount mentioned in Polish

currency even if it is wrongly calculated or mentioned by the supplier. This causes Polish businesses to pay special attention to each invoice mentioning another additional currency other than the local currency and check whether the exchange rate was applied correctly. Each error obliges businesses to obtain a corrective invoice.

Hungary

Similarly to Poland, Hungary is also considered as more burdensome than other Measurement Member States. When analysing the total amount of minutes spent by Hungarian businesses on booking and reviewing invoices, it is clear that the figures are relatively high compared to several other Measurement Member States. Complexity of the national VAT law and a severe application of the VAT Code (as perceived by Hungarian VAT taxpayers) by the competent authorities, leads to heightened investment on time spent on VAT bookkeeping. For example:

- (i) In case a purchase invoice is not paid until a due date of a given VAT return, the VAT mentioned on the invoice cannot be reclaimed. In such a case refund listed in the VAT accounts is carried forward to the next period for which a refund can be claimed.
- (ii) Similar problems as in Poland are encountered in Hungary for exchange rates applied on the VAT amounts of purchase invoices. This situation is exacerbated by the fact there are exceptions to the general rule that the daily exchange rate related to the date of supply should be applied. In case purchase invoices do not meet requirements, the VAT refund can be rejected.
- (iii) Even when clear mistakes are discerned in the reporting by the VAT taxable persons themselves and these mistakes are spontaneously rectified, the competent authorities still impose penalties as a more or less general rule. These practices lead to a greater than usual internal control system, which has an impact on the time spent on the VAT bookkeeping process.

Latvia

In Latvia businesses spend considerable time reviewing invoices from a VAT point of view in order to create correct ledgers. This is the case because businesses indicate that the slightest difference with legal requirements can considerably slow or even block a

requested VAT refund upon inspection. Normal procedure in Latvia states that requests for VAT refunds are nearly always reviewed by the VAT authorities before allowing the refund. Requests for the provision of information and explanations before allowing a refund or for other purposes are always presented with a short deadline (usually 10 days). It is in the interest of businesses to be able to address these requests quickly and to present flawless VAT books upon request. In case of non-compliance within the deadline the Latvian VAT authorities may strike the business from its records. This can imply that a Latvian VAT taxpayer has to restart the VAT registration process with the Latvian authorities, leading to additional costs and efforts.

In addition, time spent on VAT bookkeeping is influenced by the obligation to keep a local purchase list containing detailed VAT information and the obligation to keep separate ledgers of the deducted input VAT on real estate and other fixed assets.

Spain

In Spain businesses indicated that standard accounting programmes are not adjusted to VAT requirements. This leads to additional time incurred to create VAT compliant ledgers such as the sales and purchase ledger, the ledger on intra-Community transactions, the register on capital goods, the separate ledger for incoming reverse charge self-invoices or the ledger on corrective invoices. In the latter case, new invoices are issued without cancelling the old one, resulting in the double registration of sales and purchases in the accounting system. Often these need to be filtered out manually. This conflicts with the relatively low number of minutes spent on VAT bookkeeping compared to the other Measurement Member States. An explanation for this could be the relatively high investments Spanish businesses make in order to make their accounting programmes VAT compliant. In general, creating fully VAT compliant ledgers is essential since the slightest difference with legal requirements may be applied by the Spanish VAT authorities to slow down or even block the refund process. As in Hungary, a practice of imposing penalties even when VAT taxpayers make spontaneous regularisations exists, which means that businesses invest time on internal checks (or invest in increasing automation to reduce human errors).

As from the beginning of 2009, businesses will be obliged to submit their VAT books electronically towards the VAT authorities and on a monthly basis. Businesses indicate that this obligation will imply extra staffing and/or (extra) investments in software.

Businesses indicate a lack of efficient and easygoing communication with the Spanish VAT authorities. It is difficult or even impossible to set up verbal communication not relating to audits (e.g. to discuss technical matters, such as interpretations of specific national VAT law such as the scope of the 'local reverse charge' or regularisations), either in person or by phone. Raising issues with the VAT authorities must be done by fax or in writing. Even relying on agreed upon practices with the authorities is not always possible, according to businesses. These issues have an impact on the time spent on bookkeeping in general (and on subsequent audits by the same authorities in particular).

Cyprus

In Cyprus businesses expressed the need for improved guidelines providing clarity on the interpretation of the national VAT legislation. Overall, the specific requirements of VAT bookkeeping in Cyprus do not impose a heavy burden on the time spent by Cypriot VAT taxpayers on complying with this IO. However, it should be noted that the level of investments on software and automation are comparatively higher than in other Measurement Member States. This largely explains the low number of minutes spent.

France

France is one of the pioneers in the application of the value-added-tax system. Over time France came to VAT legislation that is perceived as transparent by businesses and a clear and flexible communication between the VAT authorities and taxable persons. Past investments in bookkeeping/ERP software have a positive impact on the total time spent in terms of minutes for taxable persons on the creation of VAT compliant ledgers.

3.2.4 Specific areas of irritation

The Information Obligation 'VAT bookkeeping in sufficient detail for inspection by tax authorities' deals with the bookkeeping process that is applied by most taxable persons. Although this leads to considerable administrative costs, the principle obligation itself does not cause irritation. It is possible that at the time the obligation to register sales and purchase transactions in ledgers in order to comply with VAT legislation came into existence, it was an irritating factor. However, this process has evolved into a generally accepted part of any bookkeeping.

The principle obligation may not lead to irritation for businesses, but its implementation in Member States does. Interview results provide the following examples of irritation:

- (i) In several Member States businesses indicated that the manner tax authorities approach local businesses increases administrative costs significantly. The severe application of local VAT legislation obliges businesses to pay attention to every single detail. This has an impact on the total time spent. This seems to be in particular the case for Poland, Latvia, and Hungary and is the primary and most mentioned cause of irritation.
- (ii) Clear guidelines are crucial for effective VAT legislation. The perceived lack of clear guidelines in Poland causes further irritation. This is in particular the case due to the detailed requirements of the Polish legislator.
- (iii) Due to the (complex) nature of VAT legislation, it is prone to questions by VAT taxable persons to the VAT authorities. Effective and clear communication with authorities is crucial. In some Member States, such as Spain, businesses indicated that communication with authorities is perceived as very difficult. Poor options for communication with authorities are reported as a cause for irritation

3.2.5 First simplification suggestions

During the interviews and workshops with businesses and experts simplification ideas were collected. A structured and detailed collection and analysis of possible reduction measures is being conducted as part of Module 5. Thus this section only contains a summary of the suggestions gathered and does not represent a final or complete list of simplification suggestions. Nor do they represent the views of the Consortium.

The VAT bookkeeping obligation is an integrated part of the regular bookkeeping process. The principle obligation serves as the linking pin between the IO "Issuance of an invoice" and various other reporting IOs such as "Submission of a periodical VAT return". As such, there are a great number of interdependencies between this and other obligations. Reduction of administrative costs for this obligation can be achieved by improving the efficiency of other IOs that serve as input for VAT bookkeeping such as "Issuance of an invoice" or should be considered output of VAT bookkeeping such as "Submission of a periodical VAT return".

The implementation of the new rules on the supply of services (Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services) will have a (positive) influence on the total administrative cost. Limitation of exceptions on the general rule of the place of supply for services will lead to less research on the application of the right VAT system and therefore has a direct impact on the time spent on reviewing purchase invoices.

An interesting reduction idea that would reduce administrative costs for this IO is related to the promotion of the use of e-invoicing. The total time spent on the IO "VAT bookkeeping in sufficient detail for inspection by tax authorities" is highly influenced by the time needed to book sales invoices and to book and review purchase invoices. Analysis reveals that the use of e-invoicing could diminish the total time spent in this respect. The combination of e-invoices with an automated booking process – i.e. software programmes allowing businesses to extract the relevant data from the invoice and have them booked directly into the VAT ledgers – brings the time spent on booking invoices to zero and might reduce the time needed to review purchase invoices. Since it is to be expected that it will take a while before a substantial proportion of businesses move to e-invoicing and some micro and smaller businesses probably never will, businesses in the meantime could largely benefit from a uniform invoice, or a uniform part of the invoice where all required VAT data are mentioned in predetermined fields. This way, invoices processed will be achieved in less time. Also with the view of optical character recognition, this could significantly increase the hit rate and reduce the cost for processing an invoice considerably. However, it should be noted that this is clearly a second best solution to e-invoicing using structured data.

3.2.6 Baseline Countries

Extrapolated data is based on the six Measurement Countries only. Baseline Countries do not have similar or comparable measurement data available. In all Baseline Countries none of the above process steps for VAT bookkeeping were measured for various reasons (for example, because authorities expected not to be able to achieve a significant administrative burden reduction for this IO). As a result of this lack of baseline data, 6 datasets were extrapolated to the remaining 21 Member States.

3.3 IO 2 “Submission of a periodical VAT return” – Article 250 – 251 Council Directive 2006/112/EC

3.3.1 Characteristics of the IO

Article 250, 1 Council Directive 2006/112/EC states: ‘Every taxable person shall submit a VAT return setting out all the information needed to calculate the VAT amount taxable, the VAT amount deductible, as well as, in so far as necessary for the calculation of the taxable base, the total amount of the transactions on which VAT is chargeable and deductible, as well as the value of any VAT exempt transactions’.

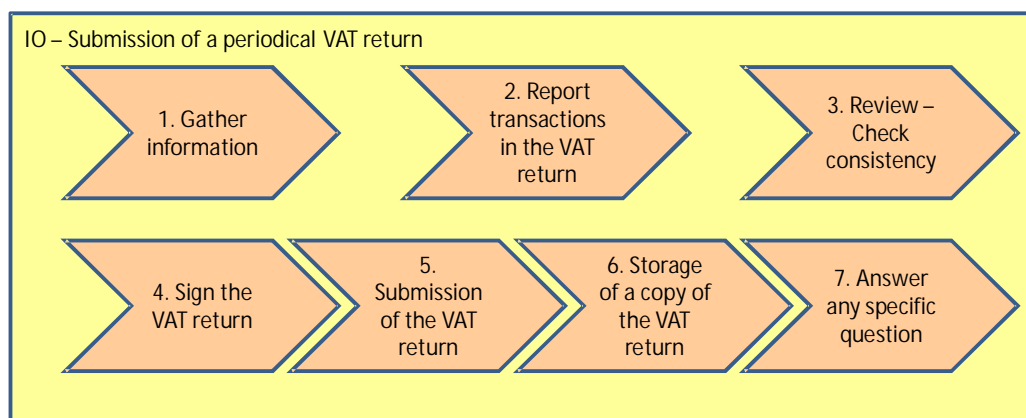
This is a generic article which does not describe the lay-out of the VAT return. However, the Directive provides some minimum information which has to be shown on the VAT return⁴³. This IO applies to all VAT taxable persons. However, most Member States provide simplified VAT schemes for ‘small businesses’ (e.g. no submission of a periodic VAT return required below (very) low turnover thresholds).

3.3.2 Process for complying with IO

The Directive states that VAT returns shall be submitted. It does not prescribe the manner of submission nor the underlying business process for Member States to follow. As such, no single European business process stemming from the Directive can be identified and each Member State has its own unique process in place. The business process shown in the following Figure reflects those steps in the business process that are common throughout all Member States. These steps will be discussed further in this paragraph.

⁴³ Article 251 Directive 2006/112/EC

Figure 5: Business process of the IO "Submission of a periodical VAT return"



By Capgemini/Deloitte/Ramboll Management.

The Figure above indicates the seven process steps measured for this obligation. Minutes spent and costs allocated to steps 1 - 3 can be influenced by available bookkeeping/ERP software. Steps 4-6 can be influenced by e-government.

Step 1 – Gather all relevant information

Before a periodic VAT return can be drafted, data required to be presented in the return has to be collected. This entails the data from sales and purchases as can be found in either ledgers or alternatively direct from the underlying invoices.

Time incurred in gathering this information is highly influenced by the degree data can be retrieved directly from the ledgers.

Step 2 – Report the transactions into the VAT return

Once the relevant data is collected, the transactions need to be reported into the VAT return. Businesses have to distinguish in which part(s)/box(es) of the VAT return a specific transaction needs to be reported. The method that businesses choose to create their return has an influence on the time and costs incurred. E.g. there is software available which automatically extracts the required data from electronic ledgers into the format of the VAT return. This is less time-consuming than manual creation of the VAT return, but it takes more time to programme these systems and keep them updated.

Step 3 – Review – Consistency check

Before signing of the return and its submission to the authorities, the draft VAT return is generally double checked. Where inconsistencies occur, corrections are made. Data declared via the periodic VAT returns could also be compared with the submitted intra-Community sales listings or the Intrastat returns.

Step 4 – Signing of the VAT return

The final step before the VAT return can be submitted is its signing by a legal representative of the taxable person (or the taxable person itself). Time spent on signing is rather limited. However, it is influenced by the fact whether the method of signing is manual or electronic. In the latter case, in some Member States businesses pay a yearly fee in order to retain an electronic signature⁴⁴.

Step 5 – Submission of the VAT return

After signing the VAT return it is submitted to the authorities. This can either be: in person, by post or electronically. Costs related to the submission of the VAT return are highly influenced by the manner of submission. Electronic submission of the return is in principle the most effective manner of submission, while submission in person is the least efficient. It should be taken into account that submitting VAT returns electronically can only be efficient on condition that the authorities have implemented adequate eGovernment solutions. In some cases there are costs incurred due to the registration process to file returns electronically. This is considered as a one-off cost and has therefore not been included.

Step 6 – Storage of a copy of the VAT return

After submission VAT returns are stored. The total time incurred depends somewhat on the manner of submission (e-submission or paper storage). Time/costs incurred in this respect are very limited in any case.

⁴⁴ Existence and height of such a fee varies per Member State and should be judged upon the cut-off date for the measurement (July 9th 2007).

Step 7 – Answer any specific questions

Time measured represents the time businesses spent on answering any specific question from tax authorities related to the periodic VAT return (e.g. questions raised because of logical anomalies when comparing figures in the VAT return, like the comparison between the VAT due and the reported taxable turnover or when comparing figures in the VAT return with other sources of information the tax authorities possess).

In each of the Measurement Countries the total administrative burden allocated to this IO was measured as follows:

For the insourcing segments: (Total time spent X hourly rate) X total amount of periodic VAT returns submitted on a yearly basis ('Q').

For the outsourcing segments: (Total Consultancy costs + (total time in minutes spent in providing information to and processing information from the external service provider) X hourly rate) X total amount of periodic VAT returns submitted on a yearly basis ('Q').

3.3.3 Costs and explanatory variables

The total administrative cost for the IO "Submission of a periodical VAT return" has been estimated at €20,178.71 million for the 27 EU Member States.

Costs related to the submission of a periodic VAT return are exclusively VAT related. No business-as-usual cost applies and the total administrative burden thus equals the total administrative cost.

An in-depth analysis for this obligation starts on the high-level differences between the sub-segments, followed by an analysis focusing on differences between Member States and thus explaining the greater part of variation.

3.3.3.1 Analysis on segment level

The Table below provides an overview of the time spent and costs incurred per Member State. Per segment, insight is provided on:

- Number of occurrences ('Q')⁴⁵ = total number of periodic VAT returns submitted.

The following should be considered

- Experts estimated the division between the main 'insourcing' and 'outsourcing' segments at approximately 50%
- Based on Eurostat and the various frequencies/thresholds for submission of these VAT returns in the Member States, the population data was divided conform the following percentages:

Table 20: Division of population among segments for IO the "Submission of a periodical VAT return"

Segment	Insourcing %	Outsourcing %	Total %
Large	1-3	0	1-3
Medium	3-5	3-5	6-10
Small	12.5-16	12.5-16	25-32
Micro	27.5-34	27.5-34	55-68

This Table is based on data compiled by the Consortium.

Percentages are presented in ranges because divisions differ from Member State to Member State.

- The 'outsourcing' segment for large businesses is out of scope as interview results show that large businesses mainly outsource this task when they have to file multiple VAT returns in a variety of Member States
- Consultancy costs = fees paid to external service providers
- Internal time = total time spent on fulfilling the IO
- Internal costs = total time X hourly rate
- Cost per occurrence = (total time X hourly rate) + external costs
- Total cost = total administrative costs at Member State level or total cost per incident X population

⁴⁵ Sources on the total number of periodical VAT returns submitted in Member States are derived from national government reports/websites, baseline measurement reports or even direct contacts with the national authorities. Sources on the total number of periodical VAT returns submitted were available for 16 Member States. Where no sources were available for Member States, the number of periodical VAT returns submitted was extrapolated, taken into account the specific frequencies of submission in Member States. Sometimes several conflicting sources were available. In these case sources were prioritised according to credibility, the publishing source and date of publishing.

Table 21: Total time spent and costs incurred on the IO "Submission of a periodical VAT return" – Overview across Measurement Countries⁴⁶

	Segment	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
Cyprus	INSOURCING - Large companies	2,680			369.00	123.00	123.00	329,640.00
	INSOURCING - Medium sized companies	8,040			225.00	75.00	75.00	603,000.00
	INSOURCING - Small companies	33,500			215.00	71.67	71.67	2,400,833.33
	INSOURCING - micro companies	91,120			175.00	65.00	65.00	5,922,800.00
	OUTSOURCING - Medium sized companies	8,040		600.00	75.00	40.00	640.00	5,145,600.00
	OUTSOURCING - Small companies	33,500		500.00	60.00	32.00	532.00	17,822,000.00
	OUTSOURCING - Micro companies	91,120		250.00	25.00	13.33	263.33	23,994,933.33
	Total		268,000					
France	INSOURCING - Large companies	411,691	80.00		125.00	56.25	136.25	56,092,898.75
	INSOURCING - Medium sized companies	1,235,074	80.00		125.00	97.92	177.92	219,740,249.17
	INSOURCING - Small companies	2,590,000		20.00	75.00	58.75	78.75	203,962,500.00
	INSOURCING - micro companies	5,219,081		20.00	50.00	42.50	62.50	326,192,562.50
	OUTSOURCING - Medium sized companies	1,235,074		240.00	30.00	13.50	253.50	313,091,259.00
	OUTSOURCING - Small companies	2,590,000		200.00	35.00	27.42	227.42	589,009,166.67
	OUTSOURCING - Micro companies	5,219,081		160.00	25.00	21.25	181.25	945,958,431.25
	Total		18,500,001					
Hungary	INSOURCING - Large companies	62,446			2044.00	282.00	282.00	17,609,772.00
	INSOURCING - Medium sized companies	115,150			1418.00	182.07	182.07	20,964,976.67
	INSOURCING - Small companies	368,479			530.00	69.87	69.87	25,744,399.47
	INSOURCING - micro companies	636,646			299.00	59.80	59.80	38,071,430.80
	OUTSOURCING - Medium sized companies	115,150		392.95	100.00	13.33	406.28	46,783,040.42

46 The large outsourcing segment is not applicable in the measurement of this IO since large businesses typically have their own accounting departments handling this obligation (reference is made to page 94).

	Segment	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
	OUTSOURCING - Small companies	368,479		359.69	80.00	10.67	370.36	136,469,135.17
	OUTSOURCING - Micro companies	636,646		230.75	75.00	10.00	240.75	153,269,574.09
	Total	2,302,996						438,912,328.62
Latvia	INSOURCING - Large companies	9,014		0.00	393.90	39.39	39.39	355,061.46
	INSOURCING - Medium sized companies	27,041		0.00	351.00	35.10	35.10	949,139.10
	INSOURCING - Small companies	81,244		0.00	247.00	24.70	24.70	2,006,726.80
	INSOURCING - micro companies	177,366		0.00	193.00	19.30	19.30	3,423,163.80
	OUTSOURCING - Medium sized companies	27,041		167.69	114.10	11.41	179.10	4,843,147.24
	OUTSOURCING - Small companies	81,244		124.70	140.50	14.05	138.75	11,272,233.54
	OUTSOURCING - Micro companies	177,366		53.03	20.00	2.00	55.03	9,760,697.31
	Total	580,316						32,610,169.25
Poland	INSOURCING - Large companies	180,000	1.00		213.15	28.13	29.13	5,243,400.00
	INSOURCING - Medium sized companies	540,000	1.00		143.55	18.63	19.63	10,601,550.00
	INSOURCING - Small companies	2,250,000	1.00		87.00	13.99	14.99	33,733,125.00
	INSOURCING - micro companies	4,956,000	1.00		60.90	13.20	14.20	70,350,420.00
	OUTSOURCING - Medium sized companies	540,000		392.00	52.20	11.31	403.31	217,787,400.00
	OUTSOURCING - Small companies	2,250,000		261.00	47.85	10.37	271.37	610,576,875.00
	OUTSOURCING - Micro companies	4,956,000		116.00	50.46	10.93	126.93	629,079,948.00
	Total	15,672,000						1,577,372,718.00
Spain	INSOURCING - Large companies	405,683			804.33	287.81	287.81	116,761,111.73
	INSOURCING - Medium sized companies	1,217,048			435.50	161.36	161.36	196,380,836.87
	INSOURCING - Small companies	4,225,860			350.41	130.50	130.50	551,495,154.99
	INSOURCING - micro companies	6,666,717			201.01	123.96	123.96	826,380,683.57
	OUTSOURCING - Medium sized companies	1,217,048		402.00	134.00	53.60	455.60	554,487,068.80

	Segment	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
	OUTSOURCING - Small companies	4,225,860		201.00	17.42	6.97	207.97	878,843,652.48
	OUTSOURCING - Micro companies	6,666,717		134.00	14.07	8.68	142.68	951,183,848.05
	Total	24,624,933						4,075,532,356.49

This Table is based on data compiled by the Consortium.

Large businesses in the outsourcing segment, having their own accounting department mostly handle the submission of the VAT return of their Member State of establishment themselves and therefore were disregarded in the measurement.

Differences between the sub-segments are mainly influenced by the type and the total amount of transactions reported:

- More transactions to be reported increases time needed to gather the relevant information.
- More different types of transactions increase time needed to complete and review the VAT return.

The measurement shows that businesses investing in efficient VAT software can reduce time spent on gathering, reporting and verification of data. Large and medium-sized businesses usually make use of sophisticated bookkeeping/ERP software allowing for extraction of relevant data. In some cases the system is able to generate reports in the format of the VAT return. Small and micro businesses do not possess such elaborate software and thus rely on e.g. print-outs of the VAT ledgers. This takes more time in defining the required transactions and reporting these correctly into the VAT return.

3.3.3.2 Analysis on country level

The Table below shows the total time spent and costs incurred in each of the 6 Measurement Countries, per segment. The Table is restricted to the ‘insourcing’ segments since these lead to more valuable insights than the ‘outsourcing’ segments.

Table 22: Total time spent and costs incurred on the IO “Submission of a periodical VAT return” – Overview across segments

Segment		Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
Large	Cyprus	2,680			369.00	123.00	123.00	329,640.00
	France	411,691	80.00		125.00	56.25	136.25	56,092,898.75
	Hungary	62,446			2044.00	282.00	282.00	17,609,772.00
	Latvia	9,014			393.90	39.39	39.39	355,061.46
	Poland	180,000	1.00		213.15	28.13	29.13	5,243,400.00
	Spain	405,683			804.33	287.81	287.81	116,761,111.73
	Total	1,071,514						196,391,883.94
Medium	Cyprus	8,040			225.00	75.00	75.00	603,000.00

Segment		Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
	France	1,235,074	80.00		125.00	97.92	177.92	219,740,249.17
	Hungary	115,150			1418.00	182.07	182.07	20,964,976.67
	Latvia	27,041			351.00	35.10	35.10	949,139.10
	Poland	540,000	1.00		143.55	18.63	19.63	10,601,550.00
	Spain	1,217,048			435.50	161.36	161.36	196,380,836.87
	Total	3,142,353						449,239,751.80
Small	Cyprus	33,500			215.00	71.67	71.67	2,400,833.33
	France	2,590,000		20.00	75.00	58.75	78.75	203,962,500.00
	Hungary	368,479			530.00	69.87	69.87	25,744,399.47
	Latvia	81,244			247.00	24.70	24.70	2,006,726.80
	Poland	2,250,000	1.00		87.00	13.99	14.99	33,733,125.00
	Spain	4,225,860			350.41	130.50	130.50	551,495,154.99
	Total	9,549,083						819,342,739.59
Micro	Cyprus	91,120			175.00	65.00	65.00	5,922,800.00
	France	5,219,081		20.00	50.00	42.50	62.50	326,192,562.50
	Hungary	636,646			299.00	59.80	59.80	38,071,430.80
	Latvia	177,366			193.00	19.30	19.30	3,423,163.80
	Poland	4,956,000	1.00		60.90	13.20	14.20	70,350,420.00
	Spain	6,666,717			201.01	123.96	123.96	826,380,683.57
	Total	17,746,930						1,270,341,060.67

This Table is based on data compiled by the Consortium.

On the total administrative cost level, results are influenced by the total amount of VAT returns submitted. For example: even though Hungarian large businesses spend 2.044 minutes per VAT return while French large businesses only spend 125 minutes per VAT return and the same frequency applies, the total administrative cost respectively amounts to €17,609,772.00 versus €56,092,898.75. Costs thus are clearly influenced by the total amount of VAT returns submitted (411.691 in France versus 62.446 in Hungary (for the large segment)). This example shows that analysis on the total administrative cost level does not necessarily explain the differences between the 6 Measuring Member States. The same applies to analysis on the total cost per incident level. E.g. although a Cypriote large business spends an equal amount of time to create a VAT return as a Latvian large business (i.e. 369 minutes versus 394 minutes), the internal cost respectively amounts to €123.00 versus €39.39. Costs are clearly influenced by the hourly rate, i.e. €21/hour versus €6/hour for a 'professional'. In order to provide a clear analysis on differences, the focus will be on differences at the level of total time spent.

Hungary

Compared to the other Measurement Member States, the total number of minutes spent by Hungarian businesses is the highest. There are several main reasons that explain the considerable amount of time required to draft the VAT return. Although the following overview provides key reasons, it is not collectively exhaustive:

- The Hungarian VAT return is much more detailed than that of other Measurement Member States (e.g. with respect to import transactions the payment number, the date of the customs decision and the date of the import has to be listed). This complexity caused by the level of detail affects the first three steps in the business process (i.e. gathering information, reporting transaction in the return and review on correctness).
- The complexity of the VAT return makes it difficult for adequate bookkeeping/ERP software to efficiently provide correct information. Due to the lack of adequate automation, above-average investments would be required in order to gain the same benefits automation offers in other Member States.
- Businesses indicate reviewing of VAT returns is a time-consuming task. Total time spent on this process step is influenced by the fact that Hungarian VAT authorities actively challenge mathematical and administrative errors and impose severe penalties for mistakes, even if these mistakes have no impact on the VAT position. As such, businesses put effort on filing correct VAT returns. Where inaccuracies do show up, businesses spend considerable time on answering specific questions and are obliged to file corrective VAT returns.

Positive in Hungarian legislation is that businesses spend less time on step 4 and 5 of the business process (i.e. signing and submission of the VAT return). All Hungarian businesses are obliged to file their VAT returns electronically via the Internet.

In Hungary VAT returns are to be filed monthly, quarterly or annually. The thresholds to shift from the annual return to quarterly returns and from quarterly returns to monthly returns are however very low:

- (i) Taxable persons are obliged to file monthly VAT returns whenever the total amount of the tax calculated for the preceding year reaches at least HUF 1 million (i.e. €3,730.00).

- (ii) Taxable persons are required to make their VAT returns quarterly where the total amount of the tax calculated for the preceding year reaches at least HUF 250,000 (i.e. €933.00) without exceeding HUF 1 million (i.e. €3,730.00).
- (iii) Taxable persons are obliged to file annual VAT returns where the total amount of the tax calculated for the preceding year does not reach an amount of HUF 250,000.00 (i.e. €933.00).

Spain

Spanish businesses file VAT returns and apply different types of VAT declarations depending on whether they find themselves in a payment position, credit position, refund position or alternatively if a 'nil' return has to be filed. Measurement results show that Spanish businesses spent relatively more time fulfilling this obligation due to the following reasons:

- Complexity of Spanish legislation hinders business from having adequate software in place. Even though investments in software are above average, Spanish businesses spent quite some time on gathering relevant information and reporting the different transactions into the VAT return
- Spanish businesses performing taxable activities throughout Spain may be confronted with the obligation to file several VAT returns per taxable period. Region-specific VAT returns need to be submitted for businesses performing economic activities in each of the Basque territories, Navarre and/or the Canary islands.

Spanish businesses file periodic VAT returns either monthly or quarterly. The standard filing period is quarterly. However, those taxable persons whose turnover in the previous calendar year exceeded €6,010,121.04 are required to file monthly VAT returns. Most businesses are obliged to submit their VAT returns electronically.

Latvia

Compared to the previously discussed Member States the Latvian VAT return is more or less straightforward. It is less complex than other Member States, which has a positive effect on total costs per occurrence. When comparing Latvian implementation with the implementation in the previously discussed Member States, the following is noticed:

- The software required to create the VAT return is more efficient because of less complex legislation in place. As such, fewer manual actions are required to finalise the return reducing the amount of manual labour for businesses investing in software.
- Despite the availability of the required software and its clear benefits, adoption of VAT software by businesses is considerably less common than in other Member States. Most businesses still consult the sales and purchase ledgers and fill out the VAT return manually even though this is less efficient than electronic VAT returns.
- The third step in the business process, the consistency check on the return, needs to be very thorough for Latvian businesses. Mistakes in compliance with formal requirements lead to VAT authorities raising additional questions and/or imposing penalties.
- Businesses have the option of paper filing (i.e. in person or by post) and electronically filing via the internet (i.e. EDS). It is estimated that 30% of businesses file their VAT returns electronically. The freedom in manner of submission and the low implementation of electronic submission increases costs for those businesses submitting returns manually.

Latvian businesses can submit the VAT return annually, quarterly or monthly. However, in practice the majority of taxable persons are obliged to file monthly VAT returns. Only on the condition that the total amount of VAT taxable transactions per year does not exceed LVL 10,000 (i.e. €15,396) businesses might be allowed to file VAT returns quarterly or annually.

Poland

The Polish VAT return is in terms of implementation comparable to Latvia. The VAT return is more or less straightforward and not considered by businesses as overly complex. Results from this research show that Polish businesses spend relatively little time on the creation of the VAT return compared to other Measurement Member States, which implies less time for businesses creating the VAT return manually and for businesses making use of databases to populate the VAT return. However in the event of errors, the submission of a corrective VAT return containing all previous reported transactions is required, accompanied by an explanatory letter detailing the correction.

As of 1 January, 2008 businesses have the option of filing VAT returns electronically. So far only a selected group of taxable persons has been entitled to file VAT returns electronically and all businesses involved in the measurement thus indicated they file their VAT returns on paper.

VAT returns must be submitted monthly. Businesses may be exempted from the monthly submission and allowed to file quarterly VAT returns when the annual turnover is less than €800,000.00.

Cyprus

The VAT return in Cyprus is considered efficient and straightforward. Businesses spend less time on this return compared with businesses in most of the other measured Member States. Businesses have the option of filing VAT returns on paper or electronically. In the latter case returns are submitted through the TAXISnet Service, i.e. an Internet-based technology. The measurement shows that most businesses file paper VAT returns.

VAT returns are required to be submitted quarterly. However, under the Commissioners permission VAT returns might be filed monthly or annually.

France

Comparing the results from the six Measurement Member States shows that French businesses are most efficient in minutes required to draft the VAT return. The following distinction is made comparing France to the other Measurement Member States:

- VAT legislation is efficient with not many VAT boxes to complete in the VAT return, improving efficiency.
- There is a high level of VAT-customised software available, allowing businesses to reduce the total time spent on gathering data, drafting the return and reviewing the content of the return.
- Businesses with a yearly net turnover exceeding €760,000 are obliged to file VAT returns electronically. Micro and small businesses that are allowed to submit manually, in most cases do so. The measurement reveals that businesses filing their declarations electronically save 20% on the total minutes spent to comply with this IO.

- VAT returns can be filed via the Internet (EFI) or EDI. Businesses using EFI will have to pay a yearly fee of around €80 (in existence at the time of measurement).
- Businesses filing VAT returns on paper are not required to use an original form.

The frequency to file the VAT return varies depending on the business and annual turnover. Taxable persons with an annual turnover between €76,300 and €763,000 - in the case of businesses engaged primarily in selling goods, articles, supplies and products to be taken away or consumed on the premises or in supplying accommodation - or between €27,000 and €230,000 - in the case of other businesses -, are allowed to file yearly VAT returns. The standard frequency of submission for other businesses is monthly. However, businesses whose annual tax liability is less than €4,000 are allowed to file quarterly VAT returns.

3.3.4 Specific areas of irritation

Drafting and submission of a VAT return is the final step in the VAT process. It is a necessary step to indicate the VAT payable or receivable. Although the VAT return as prescribed by the Directive does not in itself cause irritation with businesses, its implementation in Member States in some cases does cause irritation. The following occurrences were indicated by businesses during the measurement of this research as causes for irritation with the VAT return:

- (i) As of 1 January, 2009 the Spanish authorities may implement a new law obliging businesses to submit the VAT ledgers together with the VAT returns, and to do so on a monthly basis. To be able to fulfil this requirement, businesses expect that additional employees are required or alternatively considerable investments in software are required.
- (ii) Businesses often do not switch from paper to electronically filing of the VAT return because of the complex registration procedure. E.g. in Hungary the taxable person or his representative has to visit the registration office in person. This representative needs a personal Hungarian general tax number, which is to be obtained via a specific form. After registration, a username and password are provided. Once received, the registered person will have to send another form to the tax authorities and only then will the authorities link the VAT number of the taxable person to its personal 'e-box'

- (iii) Latvian businesses evaluated the e-filing of VAT returns as positive. However, it is not known to them whether the submitted VAT return has been received. It would increase trust in e-filing in Latvia if a notification was provided confirming the receipt of the VAT return
- (iv) In all Measurement Member States taxable persons that did not perform any VAT taxable activity in a specific period are required to file a “nil” return. This is experienced as highly irritating

3.3.5 First simplification suggestions

The VAT return is an integrated part of the VAT process and is interdependent with other obligations such as “VAT bookkeeping in sufficient detail for inspection by tax authorities”. Member States have many degrees of freedom in the implementation of their own VAT measures. These differences greatly affect the different costs associated with the VAT return.

Reduction of administrative costs for this obligation can be achieved by:

- Removal of additional Possibilities not stated in EU legislation that is implemented in the Member States results in a potential maximum reduction of €981,669.01.
- Harmonising the frequency and thresholds of submission for the VAT return. Instead of providing Member States with the option of setting the tax periods themselves, the Directive could provide for a standard interval conform business turnover: e.g. the higher the yearly turnover the shorter tax period for submitting the VAT return. For fraud sensitive sectors this interval could differ.
- Discarding the requirement imposed by all Measurement Member States to file nil returns when no transactions are reported.
- VAT returns that are extremely complicated and require the recording of very extensive information (e.g. Hungary) hamper the customisation of software systems and thus have an impact on the total time spent on gathering relevant data, reporting transactions into the VAT return and reviewing the draft return. Consideration could be given to implementing a uniform VAT return throughout all 27 Member States.
- The use of eGovernment solutions by implementing user-friendly, uniform and easy accessible applications

3.3.6 Baseline Countries

Extrapolation for this obligation is largely based on data from the six Measurement Countries (data from the Dutch measurement was used for some but not all of the segments in scope). Each Baseline Country took a different approach in measuring this obligation and none applied the same segmentation as was applied in this European study. This results in a large variation in measurement data which do not seem comparable. Differences in results between Member States do not imply incorrect application of the SCM methodology or poorly conducted interviews. In principle, the differences in principle occur due to varying approaches on the activities which are to be included in the business processes measured and due to scope differences in the Baseline Countries. The following Table shows the results for the Baseline Countries.

Table 23: Measurement results from Baseline Countries for the IO “Submission of a periodical VAT return”

Member State	Time spent per Occurrence	Segmentation	Data in BOA
Austria	15 minutes for e-filing 21 minutes for paper filing	e-filing and regular filing	No
Denmark	Not measured	None	No
Germany	36 minutes	None	No
Netherlands	55 minutes	None	Yes, for some segments
United Kingdom	Between 66 and 183 minutes	According to business sizes, distinction in e-filing and paper filing per segment	No

This Table is based on data compiled by the Consortium.

Baseline Countries used different segmentation than was applied for this European study. Some measurement data from Baseline Countries was uploaded in the database. However, due to the significant differences in results, baseline data has not been used for extrapolation.

3.4 IO 3 “Issuance of an invoice” – Article 220 Council Directive 2006/112/EC

3.4.1 Characteristics of the IO

Article 220 Council Directive 2006/112/EC states: ‘Every taxable person shall ensure that, in respect of the following, an invoice is issued, either by himself or by his customer or, in his name and on his behalf, by a third party:

- (1) supplies of goods or services which he has made to another taxable person or to a non-taxable legal person
- (2) supplies of goods as referred to in Article 33 (distance sales)
- (3) supplies of goods carried out in accordance with the conditions specified in Article 138 (exempted intra-Community supplies of goods)
- (4) any payments of accounts made to him before one of the supplies of goods referred above was carried out
- (5) any payments of accounts made to him by another taxable person or non-taxable legal person before the provision of services was completed’.

The Directive provides a number of data requirements that each invoice must contain. These requirements include the VAT identification number, the date of the supply of goods, the date of issue of the invoice, the VAT rate applied etc⁴⁷. Furthermore, the Directive provides conditions to the applied currency⁴⁸. The amounts stated on the invoice may be expressed in any currency, provided that the amount of VAT payable is expressed in the national currency of the Member State in which the supply of goods or services takes place, using the conversion mechanism laid down in the Directive⁴⁹.

In principle all taxable persons are obliged to create invoices. Member States however may allow taxable persons not to issue invoices for particular transactions e.g. in the event of supplies of goods which are exempt, with or without deductibility of the VAT paid at the preceding stage⁵⁰. Furthermore, Member States may allow taxable persons to draw up summary invoices for several separate supplies⁵¹.

3.4.2 Process for complying with IO

An invoice serves a wide range of goals and is primarily regarded as a commercial document describing goods or services sold by a seller to a buyer against a specified price. It has a number of legal requirements, imposed by the VAT Directive but also by other legislation such as accounting. These invoicing requirements stemming from different legislations can overlap each other to a certain extent.

⁴⁷ Full listing of the requirements is provided in article 226 Council Directive 2006/112/EC

⁴⁸ Article 230 Council Directive 2006/112/EC

⁴⁹ Article 91 Council Directive 2006/112/EC

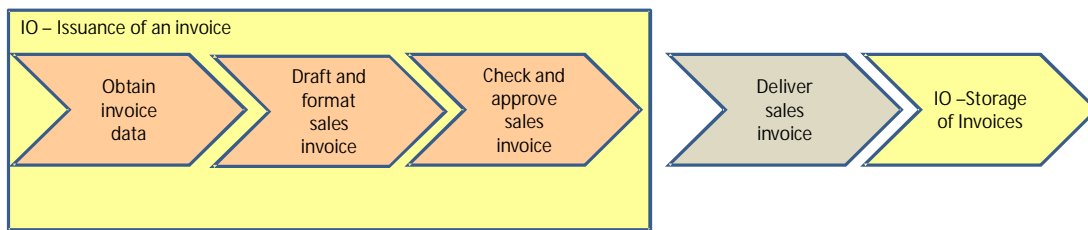
⁵⁰ Article 221, 2 Council Directive 2006/112/EC

⁵¹ Article 223 Council Directive 2006/112/EC

The measurement of this IO was limited to the VAT-specific costs and excludes the business-as-usual costs upfront. This implies that the cost measured is equal to the administrative burden.

The following business process indicates how an invoice is generated and which part of this process is measured by this IO.

Figure 6: Business process of the IO "Issuance of an invoice"



By Capgemini/Deloitte/Ramboll Management.

The Figure above indicates that only the first three steps of the business process are measured as part of the IO "Issuance of an invoice". Time allocated to these process steps was limited to the VAT-specific part by isolating the data requirements exclusively relating to VAT and estimating the time needed in order to gather these data, quote them on the invoice and review the correctness of the invoice.

The costs to be allocated to the 1st and the 2nd step (and in some cases even the 3rd step) could be influenced by software systems, namely invoicing tools. The delivering of the sales invoices was considered as a business-as-usual cost and thus not taken into consideration. Archiving of sales invoices is part of the IO "Storage of invoices for inspection" and therefore excluded from the measurement of this obligation.

1 - Obtain invoice data

Before an invoice can be drafted data required to be presented in the invoice have to be collected. These data include amongst others the supplier and buyer VAT number, the VAT rates applied and the total amount of VAT due and references to specific VAT rules. Data requirements such as the description of the products or services (quantity and nature) are also required by various other legislations, such as Accounting Law. In those instances where it is clear that there may be an overlap in requirements this was to a

certain extent taken into account. For the purpose of this obligation, only those requirements were measured that are exhaustively listed in the Directive.

Gathering the required data can be achieved using varying methods. In principle there are two main methods for gathering these data, namely electronically through an electronic client database or through paper client records. Legislation does not dictate how these data should be collected. However, software applications applied by businesses are in many cases significantly more efficient than traditional paper client records. Bookkeeping\ERP software can allow businesses to extract client data, but also applicable VAT rates, descriptions of delivered goods, prices and even references to specific VAT rules from their databases. Depending on the internal business processes, time spent in complying with this process step is mainly focussed either on gathering data manually or on recording the necessary data into businesses' electronic databases.

2 – Draft and format the sales invoice

Once data are gathered, invoices are drafted by recording the data in the desired format. The VAT Directive does not impose a format for sales invoices. As such, businesses can determine their own formats for invoices as long as the content requirements stated in the VAT Directive are taken into account. Depending on the size of the business different tools are used to draft the sales invoice ranging from standard office tools (e.g. templates in a word processor or spreadsheet) to advanced bookkeeping\ERP software.

3 – Reviewing sales invoices

Before the invoice is provided to the customer, it is reviewed either by the person drafting the invoice or in some cases a higher ranking individual in the business. The formal check needs to be made in relation to all VAT data requirements. Time spent on reviewing invoices is impacted by the level of automation. More automation leads to less manual reviewing. Where inconsistencies are observed, corrections are made.

For each of the Measurement Member States the total administrative cost allocated to this IO was measured as follows: (Total time per invoice X hourly rate) X total amount of invoices per year ('Q').

3.4.3 Costs and explanatory variables

The total amount of administrative cost for the IO "Issuance of an invoice" has been estimated at €9,243.95 million for the 27 EU Member States.

This figure is calculated by costing this IO in six Member States on the different aspects as stated in the business process and included some retrieved data from Baseline Countries as described in section 3.4.6.

An in-depth analysis for this obligation starts on the high-level differences between the sub-segments, followed by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

3.4.3.1 Analysis on segment level

The Table below gives an overview of the time spent- and thus costs- incurred - per country. Per segment, insight is given on:

- Number of occurrences ('Q') = total amount of invoices issued during one calendar year⁵².
- For this IO the following should be considered:
 - The 'outsourcing' segment is out of scope (see hereafter);
 - Experts estimated the division of the Qs conform the following percentages:

⁵² Sources on the number of invoiced issued in Member States are extremely scarce. Figures for Member States were primarily derived from the following report: LICHTER G. (EBA) and LYCKLAMA D. (Innopay), E-invoicing 2008 – European market description and analysis, February 2008 (the European Electronic Invoicing (EEI) Final Report dated July 2007 produced by the European Commission Informal Task Force on e-invoicing apparently makes use of similar sources). Where no sources were available for Member States, the number of invoices issued was extrapolated, taken into account the total number of invoices issued in the EU as included in the aforementioned report. The total figure of 30 billion Invoices issued was further reduced by 3% to take into account the EFTA-countries mentioned in the report. A further reduction of 42% was applied to take into account those circumstances where businesses issue (VAT-compliant) invoices even in cases where they are not legally required to do so. The Consortium acknowledges that the latter percentage may vary from Member State to Member State, but there are no exact sources available in this respect (certainly not for every Member State). The Consortium nevertheless does believe that the application of the latter percentage complies with the 'conservative approach' applied throughout the measurement. Sometimes several conflicting sources were available. In these cases sources were prioritised according to credibility, the publishing source and date of publishing.

Table 24: Division of population among segments for IO "Issuance of an Invoice"

Segment	Insourcing %
Large	35
Medium	35
Small	21
Micro	9
Total	100

This Table is based on data compiled by the Consortium.

- Total minutes = time spent to draft a single VAT compliant invoice
- Internal cost = total time X hourly rate
- Total cost per occurrence = total time X hourly rate (no external costs)
- Total cost = total administrative cost at country level or total cost per occurrence X Q.

Table 25: Total time spent and costs incurred on the IO "Issuance of an invoice" – Overview across Measurement Countries

Country	Segment	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
Cyprus	INSOURCING - Large companies	11,747,409	1.00	0.27	0.27	3,132,642.40
	INSOURCING - Medium sized companies	11,747,409	2.00	0.53	0.53	6,265,284.80
	INSOURCING - Small companies	7,048,445	2.50	0.67	0.67	4,698,963.33
	INSOURCING - micro companies	3,020,762	4.00	2.13	2.13	6,444,292.27
	Total	33,564,025				20,541,182.80
France	INSOURCING - Large companies	770,000,000	0.67	0.23	0.23	180,565,000.00
	INSOURCING - Medium sized companies	770,000,000	1.00	0.35	0.35	269,500,000.00
	INSOURCING - Small companies	462,000,000	2.00	0.70	0.70	323,400,000.00
	INSOURCING - micro companies	198,000,000	3.38	2.87	2.87	568,854,000.00
	Total	2,200,000,000				1,342,319,000.00
Hungary	INSOURCING - Large companies	219,677,067	1.00	0.10	0.10	21,967,706.70
	INSOURCING - Medium sized companies	219,677,067	1.15	0.12	0.12	25,262,862.71
	INSOURCING - Small companies	131,806,240	2.20	0.22	0.22	28,997,372.80
	INSOURCING - micro companies	56,488,389	3.50	0.70	0.70	39,541,872.30
	Total	627,648,763				115,769,814.51
Latvia	INSOURCING - Large companies	13,169,722	1.40	0.12	0.12	1,536,467.57
	INSOURCING - Medium sized companies	13,169,722	2.20	0.18	0.18	2,414,449.03

Country	Segment	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
	INSOURCING - Small companies	7,901,833	2.20	0.18	0.18	1,448,669.38
	INSOURCING - micro companies	3,386,500	4.00	0.40	0.40	1,354,600.00
	Total	37,627,777				6,754,185.98
Poland	INSOURCING - Large companies	263,001,686	2.50	0.25	0.25	65,750,421.56
	INSOURCING - Medium sized companies	263,001,686	2.50	0.25	0.25	65,750,421.56
	INSOURCING - Small companies	157,801,012	3.50	0.35	0.35	55,230,354.11
	INSOURCING - micro companies	67,629,005	4.50	0.35	0.98	65,938,279.91
	Total	751,433,389				252,669,477.15
Spain	INSOURCING - Large companies	346,500,000	1.00	0.27	0.27	94,132,500.00
	INSOURCING - Medium sized companies	346,500,000	1.00	0.22	0.22	75,075,000.00
	INSOURCING - Small companies	207,900,000	1.50	0.33	0.33	67,567,500.00
	INSOURCING - micro companies	89,100,000	4.00	2.47	2.47	219,780,000.00
	Total	990,000,000				456,555,000.00

This Table is based on data compiled by the Consortium.

Since the outsourcing of the issuing of invoices is mainly applicable in the situation where non-European businesses performing activities in Europe are not aware of the specific invoicing rules and call in the support of a third party, one of their subsidiaries or affiliated businesses, in the case of self-billing by their customer (i.e. a specific procedure allowing the customer to draft the invoices for the purchased goods or services) or a very small number of larger EU businesses, it was ignored during the measurement. Therefore the analysis is limited to the 'insourcing' segments.

The measurement indicates that most businesses still issue paper invoices. Although the low level of adoption of e-invoicing has a negative impact on the total cost related to the issuance of invoices, this impact is much lower when it comes to the specific VAT costs. This is in particular the case where businesses have already implemented sophisticated invoicing tools. These tools have an impact on all process steps.

Micro businesses in most cases issue invoices manually. This implies invoices are prepared by using office tools, without customised databases. The invoicing process for small businesses is relatively more advanced in the sense of businesses having data available through a database. Once the invoice is generated, checks are still required on specific VAT references (e.g. in the case of exemption of VAT) and VAT rates. Small

businesses rarely use computer- aided 'tax determination software'. For medium-sized and large businesses the process is highly IT driven, implying general data such as customer information is available in databases, including specific VAT references and VAT rates.

Once businesses make use of VAT compliant invoicing tools, time is barely incurred in obtaining invoice data and drafting/reviewing sales invoices. This explains why relatively large businesses need an average time of 0.67 to 2.5 minutes to issue a VAT compliant invoice, while micro businesses, relying on time-consuming manual processes, require between 3.38 and 4.50 minutes per invoice.

At the level of the total administrative cost, costs are further influenced by the total amount of invoices issued. Therefore, the administrative burden for large businesses applying more sophisticated tools could still be higher than for medium-sized, small and even micro businesses.

3.4.3.2 Analysis on country level

The following Table allows comparison per segment.

Table 26: Total time spent and costs incurred on the IO "Issuance of an invoice" – Overview across segments

Segment	Country	Number of occurrences	Internal time per occurrence (minutes)	Internal Cost per occurrence (€)	Cost per occurrence	Total Cost
Large	Cyprus	11,747,409	1	0.27	0.27	3,132,642.40
	France	770,000,000	0.67	0.23	0.23	180,565,000.00
	Hungary	219,677,067	1	0.1	0.1	21,967,706.70
	Latvia	13,169,722	1.4	0.12	0.12	1,536,467.57
	Poland	263,001,686	2.5	0.25	0.25	65,750,421.56
	Spain	346,500,000	1	0.27	0.27	94,132,500.00
	Total		1,624,095,884			
Medium	Cyprus	11,747,409	2	0.53	0.53	6,265,284.80
	France	770,000,000	1	0.35	0.35	269,500,000.00
	Hungary	219,677,067	1.15	0.12	0.12	25,262,862.71
	Latvia	13,169,722	2.2	0.18	0.18	2,414,449.03
	Poland	263,001,686	2.5	0.25	0.25	65,750,421.56
	Spain	346,500,000	1	0.22	0.22	75,075,000.00
	Total		1,624,095,884			
Small	Cyprus	7,048,445	2.5	0.67	0.67	4,698,963.33

	France	462,000,000	2	0.7	0.7	323,400,000.00
	Hungary	131,806,240	2.2	0.22	0.22	28,997,372.80
	Latvia	7,901,833	2.2	0.18	0.18	1,448,669.38
	Poland	157,801,012	3.5	0.35	0.35	55,230,354.11
	Spain	207,900,000	1.5	0.33	0.33	67,567,500.00
	Total	974,457,530				481,342,859.63
Micro	Cyprus	3,020,762	4	2.13	2.13	6,444,292.27
	France	198,000,000	3.38	2.87	2.87	568,854,000.00
	Hungary	56,488,389	3.5	0.7	0.7	39,541,872.30
	Latvia	3,386,500	4	0.4	0.4	1,354,600.00
	Poland	67,629,005	4.5	0.98	0.98	65,938,279.91
	Spain	89,100,000	4	2.47	2.47	219,780,000.00
	Total	417,624,656				901,913,044.48

This Table is based on data compiled by the Consortium.

Analysis on the internal cost level shows that the cost per invoice is not only influenced by the total amount of time spent, but also by the employee type issuing the invoice. For example: even though large Cypriote businesses on an average spend 1.00 minute per invoice, while this is 1.40 minutes for large Latvian businesses, the total cost price per occurrence equals €0.27 and €0.12 respectively.

On the total administrative cost level, costs are influenced by the total amount of invoices issued on Member State level. For example, in the large segment in Spain and France, total administrative costs are much higher although in both Member States the internal cost per invoice is comparable with for example Cyprus.

Comparing the total time spent per invoice reveals that the results for all Measurement Countries are more or less aligned. However, there is still a spread in measurement results even while the Directive is considerably more explicit on invoicing requirements than for other IOs such as "VAT bookkeeping in sufficient detail", because:

- Rules on exchange currency rates in Cyprus, Hungary, Poland and Latvia increase relative time spent per invoice
- Specific rules on corrective invoices in Latvia and Poland, e.g. the invoice should indicate explicitly which data was changed, further reduce the efficiency of the transposition.

The following Table provides an overview of the weighted averages on time spent on the issuance of an invoice.

Table 27: Weighted averages on time spent and costs incurred on the IO "Issuance of an invoice"

Country	Time	Internal Cost
CY	1.93	0.61
FR	1.31	0.61
HU	1.53	0.18
LV	2.08	0.18
PL ⁵³	2.89	0.34
ES	1.38	0.46

This Table is based on data compiled by the Consortium.

As general information, the following Table on the average number of invoices issued by EU businesses (for micro, small, medium and large businesses) is attached:

Table 28: Average number of invoices issued per business

Business segment size	Number of businesses	Invoices issued %	No of invoices issued	AVG No invoices per taxable person
Large	256,972	35%	5,876,976,254	22,870
Medium	1,541,835	35%	5,876,976,254	3,812
Small	6,424,311	21%	3,526,185,753	549
Micro	17,474,127	9%	1,511,222,465	86
Total	25,697,245	100%	16,791,360,727	653

This Table is based on data compiled by the Consortium.

Depending on the business size, the average or 'typical' EU business issues either 86, 549, 3.812 or 22.870 invoices annually when taking into account the relevant 'business segment'. This may seem like a lot. However, it should be kept in mind that businesses are obliged to issue invoices in many cases (e.g. in all business to business transactions as a basic principle).

Each business differs (activity, size, commercial policy, customer type, etc...), as such the number of invoices issued varies per business and per Member State. Interview results show the following spread in the average number of sales invoices issued across Measurement Countries:

- Micro: between 39 and 160 invoices
- Small: between 246 and 1,013 invoices
- Medium: between 1,708 and 7,036 invoices
- Large: between 10,429 and 42,216 invoices

⁵³ Polish figures are excluding 2 Possibilities not stated in the EC Act. This is discussed further in Chapter 5.

3.4.4 Specific areas of irritation

Issuing invoices is not per se considered as irritating by businesses. The invoice after all is a tool through which businesses receive payment for services rendered/supplies performed. Furthermore, the Directive provides an exhaustive list of the content of invoices, which ensures the quality of invoices issued or received.

Businesses accept the invoicing obligation as it is and acknowledge the potential benefits from reforms such as e-invoicing. Despite clear benefits many businesses are reluctant to switch from paper to e-invoicing. Reasons are numerous but the lack of harmonisation of e-invoicing rules between Member States and a perception of enhanced risks because of the lack of tangible (paper) documentation play an important role.

Another aspect influencing the choice for paper invoicing, is the legal obligation imposed on businesses to first obtain the agreement of the customer before sales invoices can be issued electronically.

3.4.5 First simplification suggestions

After an invoice is drafted and issued, it is registered in the sales ledger which is part of the process steps of VAT bookkeeping. As such, efficient invoicing legislation has an effect on the administrative costs incurred by other IOs.

Reduction of administrative costs for the IO "Issuance of an invoice" can be achieved by:

- Acceptance of the invoicing proposal on the harmonisation of specific rules (the time of issue, exempt supplies and Business to Consumer (B2C) supplies), content of the invoices (small value invoices, credit notes, B2C supplies and simplified invoices) and e-invoicing (look at equality of treatment between paper and e-invoices).
- Further reduction will be achieved by the implementation of the new rules on the supply of services (Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services). This will have an influence on the total administrative costs. Limitations of exceptions on the general rule of the place of supply for services will lead to less research on the application of the right VAT system and therefore have a direct impact, meaning,

that businesses issuing invoices will have to spend less time on drafting and reviewing.

3.4.6 Baseline Countries

Extrapolation for this obligation is based on the 6 Measurement Countries and data from the Netherlands. As with other IOs, differences in results between Member States do not imply incorrect application of the SCM methodology or poorly conducted interviews. The differences in principle occur due to varying approaches on the activities which are to be included in the business processes measured and due to scope differences in the Baseline Countries. The following Table shows the results for the Baseline Countries.

Table 29: Measurement results from Baseline Countries for the IO "Issuance of an invoice"

Member State	Cost per Occurrence	Segmentation	Data in BOA
Austria	1.440 minutes for all invoices per annum	None	No
Denmark	?	None	No
Germany	€1,29 per invoice	None	No
Netherlands	3,25 minutes	None	Yes
United Kingdom	€2 per invoice	None	No

Extrapolation for this obligation took place based on the Measurement Countries and the Dutch data. When analysing the different measurement results of Baseline Countries, the Dutch data and approach seem very similar to the EU approach. As a result of this lack of sufficiently comparable baseline data, seven datasets were extrapolated to the 27 Member States.

3.5 Assessment of the main VAT burdens per enterprise on the level of EU27

The Table below presents an overview of average administrative burdens per business entity for the top three IOs (and the Cost IOs) described in this Chapter⁵⁴. Averages are presented per sub-segment (micro, small, medium-sized and large), but are based on an amalgamation of the main segments "Insourcing/Outsourcing". It is important to bear the latter in mind, as average costs may differ between these main segments.

⁵⁴ These obligations alone account for approximately 90% of admin costs/burdens and are therefore adequately suited for the presentation of the average impact on a business.

Table 30: Total administrative burdens per IO and average administrative burdens per business in each sub-segment⁵⁵

Business segment size	Number of businesses	Admin. Burdens IO 1 'VAT bookkeeping' + Cost IOs (€)	AVG Admin. Burdens IO 1 + Cost IOs (€)	Admin. Burdens IO 2 'Issuance of an invoice' (€)	AVG Admin. Burdens IO 2 (€)	Admin. Burdens IO 3 'Submission of a periodical VAT return' (€)	AVG Admin. Burdens IO 3 (€)	TOTAL AVG Admin. Burdens (€)
Large	256,972	2,367,562,962	9,213	2,831,180,335	11,017	282,976,791	1,101	21,33
Medium-sized	1,541,835	7,636,435,804	4,953	2,869,869,752	1,861	2,904,080,964	1,884	8,69
Small	6,424,311	11,555,889,850	1,799	1,936,703,901	301	6,507,882,258	1,013	3,11
Micro ⁵⁶	17,474,127	11,207,374,640	641	1,483,445,693	85	9,502,097,595	544	1,27
Total	25,697,245	32,767,263,256		9,121,199,681		19,197,037,608		

This Table is based on data compiled by the Consortium.

The Table above shows:

- Admin. Burdens IO 1 + Cost IOs = Total administrative burdens in the EU-27 on the IOs "VAT bookkeeping for inspection by tax authorities", "VAT audits", "Software" and "VAT training".
- AVG Admin. Burdens IO 1 + Cost IOs = Total administrative burdens divided by the total number of businesses per segment.
- Admin. Burdens IO 2 = Total administrative burdens in the EU-27 on the IO "Issuance of an invoice".
- AVG Admin. Burdens IO 2 = Total administrative burdens divided by the total number of businesses per segment for this IO.
- Admin. Burdens IO 3 = Total administrative burdens in the EU-27 on the IO "Submission of a periodical VAT return".
- AVG Admin. Burdens IO 3 = Total administrative burdens divided by the total number of businesses per segment for this IO.
- Total AVG Admin. Burdens = Average administrative burdens divided by the total number of businesses per segment on the IOs "VAT bookkeeping in sufficient detail for inspection by tax authorities", "VAT audits", "Software costs", "VAT training", "Issuance of an invoice" and "Submission of a periodical VAT return".

⁵⁵ Figures exclude cost data on Possibilities not stated in the EC Act. These are discussed in Chapter 5.

⁵⁶ Please note that a number of the smallest micro-businesses are not included, because some Member States exempt businesses of certain obligations when falling under country-specific thresholds.

Overall, a typical micro business (i.e. with a yearly turnover up to EUR 500,000) spends approximately €1,270 (i.e. equals total administrative burden) per year on compliance with the three most burdensome VAT IOs and the Cost IOs. A typical large business, with a yearly turnover exceeding EUR 35 million, seems to spend approximately €21,331.

It should be noted that the measurement is based on the time spent and costs incurred on the compliance of IOs. "Time spent" does not only include the time spent by staff, but also by the manager/head of a micro/small business for example. This is especially important to keep in mind, because quantification on the administrative burdens of actual time spent is attempted, and not merely the costs that can be discerned in the balance sheet of a business.

4. Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax : A description of the nature and impact of the other Prioritised IOs

The previous Chapter discussed those IOs that contribute to the most administrative costs in the Tax Law Priority Area (VAT). Besides these IOs, there are seven other Prioritised IOs that have also been measured in six Member States. Administrative costs caused by these seven obligations are considerably less (i.e. 5% of total costs in the Priority Area) than for the top three IOs (more than 82% of total costs in the Priority Area).

Although the costs for these IOs are less than the costs for the most burdensome IOs, these were measured in exactly the same manner. As such, there are for each of these IOs measurement results available from the 6 Measurement Countries. An overview of the total administrative costs for these seven IOs is provided in the following Table.

Table 31: Total administrative costs of the remaining Prioritised IOs divided by EU IO

EU Requirement	Article	EU Requirement Admin. Cost (€ x 1,000)	National Obligations going beyond EU Requirement		Total Admin. Cost Admin. Cost (€ x 1,000)	Total Admin. Burden	
			Possibilities stated in the EU Legal Act Admin. Cost (€ x 1,000)	Possibilities not stated in the EU Legal Act Admin. Cost (€ x 1,000)		Admin. Burden (€ x 1,000)	Share of Admin. Cost (%)
1. Storage of invoices for inspection	Art. 244 - Art. 247	1,743,546.10	0	0	1,743,546.10	1,743,546.10	100
2. Application for VAT refund	Art. 171, 1 (Art. 3(a))	704,867.30	0	0	704,867.30	704,867.30	100
3. Submission of an intra-Community sales listing	Art. 262- Art. 268	704,295.80	0	1,998.80	706,294.50	705,794.84	100
4. Communication of the start of the activity as a taxable person	Art. 213 par. 1	313,416.70	0	18,510.80	331,927.50	327,329.2	99
5. Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT	Art. 171, 1 (Art. 3 (c) and 4 (b))	253,291.90	0	0	253,291.90	253,291.90	100
6. Provision of proofs of exemptions on exportation	Art. 146 – Art. 147	204,884.00	0	0	204,884.00	204,884.00	100
7. Obtain certificate of VAT taxable status to qualify for refund	Art. 171, 1 (Art. 3(b))	94,674.00	0	0	94,674.00	94,674.00	100

This Table is based on data compiled by the Consortium.

The IOs which are in the top of this list cause considerable burdens. However, compared to the costs of the IOs discussed in the previous Chapter these burdens are negligible. The same holds when comparing IOs in the lower part of this list with higher ranking IOs,

e.g. IO7 “Obtain certificate of VAT taxable status to qualify for refund” is little more than 5% of IO1 “Storage of invoices for inspection”. As such, the main effort and focus in this report is on the top IOs. For each of the seven Prioritised IOs, this Chapter provides information on its business process, main cost drivers and differences in implementation between Member States. Segmentation is limited to the main segments ‘insourcing’ and ‘outsourcing’.

4.1 IO 1 “Storage of invoices for inspection” - Article 244 – 247 Council Directive 2006/112/EC

4.1.1 Characteristics of the IO

Article 244 Council Directive 2006/112/EC states: ‘Every taxable person shall ensure that copies of the invoices issued by himself, or by his customer or, in his name and on his behalf, by a third party, and all the invoices which he has received, are stored’.

Each Member State shall determine the period throughout which taxable persons must ensure the storage of invoices relating to the supply of goods or services in its territory and invoices received by taxable persons established in its territory.

The taxable person may decide the place of storage of all invoices, provided that he makes the invoices or information stored available to the competent authorities without undue delay whenever they so request.

It has to be taken into account that the obligation to store invoices is not for VAT purposes alone. There is interference between VAT Law and various other legislations (not to mention the fact businesses would likely store invoices in any case even in the complete absence of legislation). Nevertheless, a specific part of the storage cost is allocated solely to the impact of the VAT legislation. As agreed with the European Commission, the measurement was limited to the mere VAT cost. This implies the cost indicated equals the administrative burden imposed by VAT law only.

This obligation affects all VAT taxable persons in all Member States.

4.1.2 Process for complying with IO

According to Council Directive 2001/115/EC of 20 December 2001 amending Directive 77/388/EEC with a view to simplifying, modernising and harmonising the conditions laid

down for invoicing in respect of value added tax, VAT Law guarantees the free choice of the place and method of storage of invoices and the acceptance of electronic storage. Member States however, may impose additional rules such as:

- Regarding to the place of storage, businesses may store invoices anywhere in the European Union on the condition the information is available electronically and full on-line access is guaranteed. Alternatively, Member States may require businesses to store paper invoices in their territory or may require businesses to notify them of the place of storage, if it is outside their territory.
- Regarding the method of storage, Member States may require invoices to be stored in the original format in which they were sent or made available, being paper or electronic. In the case of invoices stored by electronic means, Member States may require that the data guaranteeing the authenticity of the origin of the invoices and the integrity of their content, also be stored.
- Regarding the period of storage Member States are free to determine the period.

4.1.3 Costs and explanatory variables

The total amount of administrative costs for this IO has been estimated at €1,743.55 million for the 27 Member States.

In each of the 6 Measurement Countries one could argue that VAT is not creating – or in any case (very) limited – administrative costs for the storage of invoices because the period of storage seems to be the same for VAT law or lower than for other legislation; Furthermore, as stated above VAT Law does guarantee the free choice of the place and method of storage where other legislation sometimes restricts this.

The following Table shows that in all Measurement Countries the period of storage for commercial and/or accounting purposes is superior or at least equal to the period of storage required for VAT purposes.

Table 32: Period of storage in the six Measurement Countries

4.1.4	Storage term for accounting purposes	Storage term for VAT purposes
CY	7 years	7 years
FR	10 years	6 years (paper invoices) 3 years (e-invoices)
HU	8 years	5 years

LV	5 years	5 years
PL	5 years	5 years
ES	6 years	5 years

This Table is based on data compiled by the Consortium.

The costs incurred on storage of invoices are based on two components. In general, time is spent on archiving invoices (both invoices received and invoices issued), and costs are incurred in storing these invoices for several years, according to the legal storage terms. As businesses most likely would store these invoices for some time even without any legislation applicable, and given the fact that various legislations next to VAT Law impact the storage of invoices, considerable “business-as-usual” costs apply. The two main components (time spent on archiving one invoice and costs incurred for storage for a certain period of time of the same invoice) resulted in an amount, where a “business-as-usual”-percentage of 80% was applied. This high percentage is initially based on the VAT specific data requirements versus the general requirements, but takes into account the effect of the impact of multiple legislations versus the VAT legislation.

Table 33: Total time spent and costs incurred on the IO “Storage of invoices for inspection” in the 6 Measurement Countries

		Number of occurrences ⁵⁷	Internal time (minutes) per occurrence	Cost per occurrence (€)	Total Cost (€)
PL	Insourcing	1,639,491,031.00	0.10	0.004	6,557,964.12
HU	Insourcing	1,369,415,485.00	0.10	0.012	16,889,457.65
LV	Insourcing	82,096,968.00	0.10	0.010	793,604.02
CY	Insourcing	73,230,600.00	0.10	0.026	1,879,585.40
FR	Insourcing	4,800,000,000.00	0.10	0.053	254,400,000.00
ES	Insourcing	2,160,000,000.00	0.10	0.033	70,560,000.00

This Table is based on data compiled by the Consortium.

4.1.5 Specific areas of irritation

Businesses store invoices, regardless on whether this is legally required. As such, this is not considered as an irritation. However, the number of years that invoices need to be stored can in some cases be lengthy. Businesses that have many customers and that are sending or receiving large numbers of invoices can be required to store very large

⁵⁷ This number is the result of an extrapolation based on the number of (mainly B2B) invoices issued as mentioned in: LICHTER G. (EBA) and LYCKLAMA D. (Innopay), E-invoicing 2008 – European market description and analysis, February 2008. Population (‘Q’) equals the total amount of invoices received and issued (in accordance with legal requirements) on a yearly basis.

numbers of invoices. One year additional storage for these businesses can cause significant costs. Some businesses indicated that they would greatly appreciate if the time of storage would be harmonised among legislations because the differences in storage times can be confusing.

In France, e-storage requires a highly efficient process and thus represents a very large development cost for businesses. These costs are experienced as too high for those businesses wanting to opt for e-storage, especially for small businesses.

4.1.6 First simplification suggestions

Invoices will be stored, whether enforced by legislation or by other means. The following reduction ideas are suggested:

- Implement one single term of storage throughout Europe.
- Give businesses the opportunity to store paper invoices electronically.
- Simplify the procedure for e-storage of invoices.

4.2 IO 2 “Application for a VAT refund” - Article 171,1 Council Directive 2006/112 and Article 3 (a) Council Directive 79/1072/EC

4.2.1 Characteristics of the IO

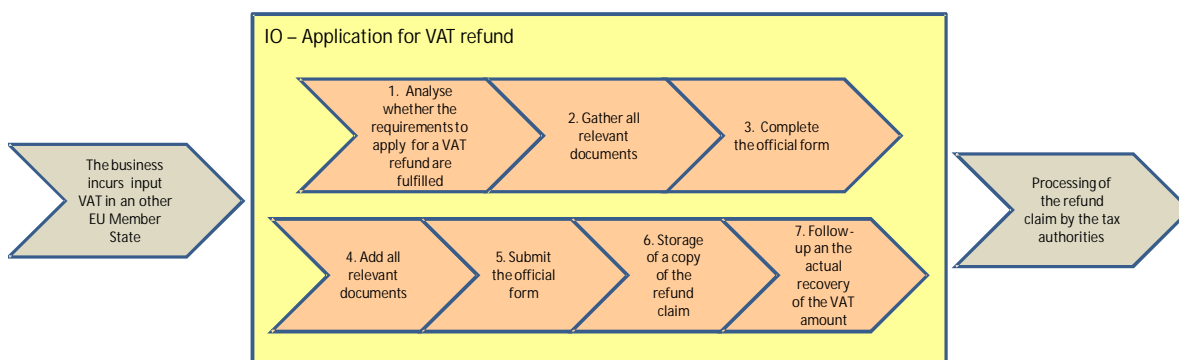
Article 171, 1 Council Directive 2006/112/EC states that VAT shall be refunded to taxable persons who are not established in the Member State in which they purchase goods and services or import goods subject to VAT but who are established in another Member State, in accordance with the detailed implementing rules laid down in Directive 79/1072/EEC.

In order to qualify for refund, taxable persons need to submit to the competent authority a modeled application attaching originals of invoices or import documents and the certificate of VAT taxable status. This refund procedure can only be applied by taxable persons not required to register for VAT purposes in that other Member State. All VAT registered taxable persons incurring input VAT in a Member State they are not filing (or are obliged to do so) periodic VAT returns are affected by this IO.

4.2.2 Process for complying with IO

The procedure for applying for a VAT refund has been developed at a European level. A graphical overview of the process for this IO is provided in the following Figure.

Figure 7: Business process of the IO “Application for a VAT refund”



By Capgemini/Deloitte/Ramboll Management.

Businesses applying for a VAT refund first have to check at which moment in time they are allowed to request a VAT refund in a given Member State. Subsequently, the business will have to collect all original invoices, as well as the certificate of VAT taxable status, and submit these together with the application to the competent authority. Once the application is submitted, businesses need to follow-up on the recovery of the requested VAT amount. Upon receipt of the VAT refund request, the competent authorities may ask additional information. The main cost driver for this obligation is usually the time involved in drafting the application for refund. The provision of additional information to the tax authorities can increase costs in complying with this obligation.

4.2.3 Costs and explanatory variables

The total amount of administrative costs for the IO “Application for a VAT refund” has been estimated at €704.87 million for the 27 Member States.

Costs allocated to this IO were measured as follows: P (total time needed to complete and file the application X hourly rate) X Q (total amount of applications for VAT refund per year).

Table 34: Total time spent and costs incurred on the IO “Application for a VAT refund” - Overview across the 6 Measurement Countries

Country	SEGMENT DESCRIPTION	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time (minutes) per occurrence	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Cost (€)
Cyprus	INSOURCING	70	54		436	148	202	14,135
	OUTSOURCING	70		1,445	266	90	1,535	107,426
	TOTAL COST	140						121,562
France	INSOURCING	49,061	16		169	87	103	5,064,311
	OUTSOURCING	49,061		1,840	89	38	1,878	92,149,230
	TOTAL COST	98,122						97,213,541
Hungary	INSOURCING	5,500	141		363	46	187	1,028,758
	OUTSOURCING	5,500		1,045	127	17	1,062	5,843,429
	TOTAL COST	11,000						6,872,187
Latvia	INSOURCING	22	50		309	31	81	1,783
	OUTSOURCING	22		994	146	15	1,009	22,193
	TOTAL COST	44						23,976
Poland	INSOURCING	25,000	3		746	76	79	1,964,687
	OUTSOURCING	25,000		728	537	116	844	21,093,542
	TOTAL COST	50,000						23,058,229
Spain	INSOURCING	44,500	54		713	241	295	13,136,400
	OUTSOURCING	44,500		1,705	327	135	1,840	81,890,161
	TOTAL COST	89,000						95,026,561

This Table is based on data compiled by the Consortium.

The Table provides an overview of the minutes spent and costs incurred by the insourcing and outsourcing segments per Member State.

Further analysis for this IO starts on the high-level differences between the main segments, followed by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

4.2.3.1 Analysis on segment level

The Table above gives an overview of costs incurred – per Member State. Per main-segment insight is provided on:

- Number of occurrences ('Q') = total amount of application forms filed per year
- Equipment costs = postal costs or courier costs
- Consultancy costs = fees paid to external service providers

- Cost per occurrence = (total time X hourly rate) + external costs
- Total cost = total administrative cost at country level or total cost per occurrence X population

The measurement indicates that micro and small businesses are not often confronted with this IO. Consequently, this IO mostly concerns the medium-sized and large businesses, and only to a small extent the micro and small businesses. Since the procedure is the same regardless of business size, the total administrative cost is influenced mostly by the total amount of invoices one has to handle and provide details on the application form.

The measurement teaches that businesses experience the procedure as lengthy and complex. When the application for a VAT refund is outsourced to a third party or specialised service provider, costs are significantly higher because in practice more extensive or complex refund claims are being outsourced.

4.2.3.2 Analysis on country level

The business process on a European level is adopted in a similar manner in each of the measuring Member States. What should be taken into account is that the data in the Table above relate to refund claims filed by businesses which are established and registered for VAT in one of the Measurement Countries, for VAT incurred in another Member State than the one of establishment.

Differences can be explained by the level of detail, the number of transactions to report in the application form and the complexity of the rules to deduct VAT in the Member State where the refund takes place.

4.2.4 Specific areas of irritation

The refund procedure is complex and experienced as burdensome. Businesses that need to apply for refund spent considerable resources to receive that which they are due. As such, there is a great desire from businesses to simplify this process. The main irritants for this obligation are:

- The lack of clear information available on the exact procedure and attention points (e.g. limitations of deductible VAT and thresholds in order to be entitled to deduction of VAT) for refund in other member States;
- Some businesses claimed that tax authorities take too much time to handle requests. As such, businesses have to wait longer in order to get refunded. In addition to administrative burden, this causes 'financial burdens';
- Non-resident businesses in some Member States (e.g. Bulgaria) need to open a bank account to receive their VAT refund;
- Some tax authorities request documents to be completed in local language or request for specific authorisations (such as an authorisation from a notary or apostils, possibly in local language).

4.2.5 First simplification suggestions

The procedure for this obligation is considered as highly irritating. This is known by the Commission and actions have been taken to reduce the burdens caused by this procedure. Many of the listed irritation factors are addressed by the Council Directive 2009/9/EC of 12 February 2008 laying down detailed rules for the refund of value added tax, provided for in Directive 2006/112/EC, to taxable persons not established in the Member State of refund but established in another Member State. The new procedure will be in effect as of 1 January 2010 and will reduce administrative costs significantly.

4.3 IO 3 "Submission of an intra-Community sales listing" - Article 262–267, 269 and 270 Council Directive 2006/112/EC⁵⁸

4.3.1 Characteristics of the IO

Article 262 Council Directive 2006/112/EC states: 'Every taxable person identified for VAT purposes shall submit a recapitulative statement of the acquirers identified for VAT purposes to whom he has supplied goods in accordance with the conditions specified in Article 138(1) and (2)(c), and of the persons identified for VAT purposes to whom he has supplied goods which were supplied to him by way of intra-Community acquisitions referred to in Article 42'.

The supply of goods in Article 262 refers to the supplies of goods shipped by a taxable person to a VAT registered customer in another Member State (i.e. the VAT exempt intra-

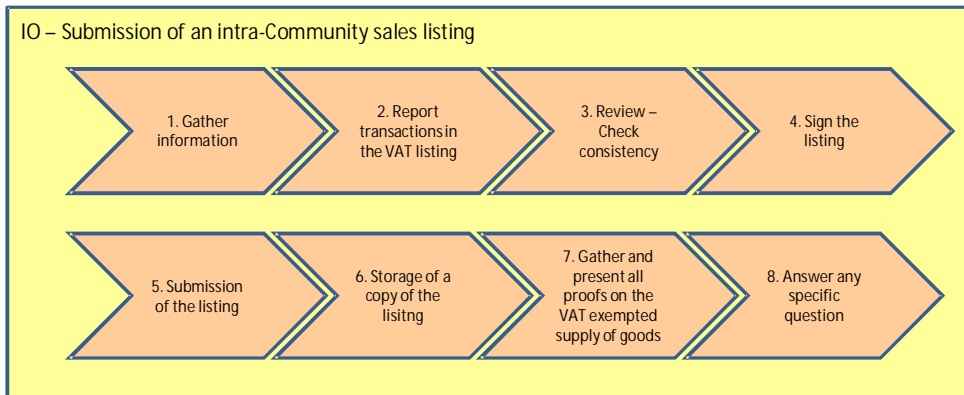
⁵⁸ The name of this IO has been updated at the request of DG ENTR and was formally known as 'Taxable persons making intra-Community supplies'

Community supplies) and to those supplies made within a ‘simplified triangular transaction’ scheme. All taxable persons identified for VAT purposes and performing shipments of goods to other EU Member States are affected by this IO.

4.3.2 Process for complying with IO

Article 262 states that a recapitulative statement on intra-Community sales shall be submitted. Some minimum content requirements are provided. These requirements however do not state anything on the manner of submission or the underlying business process. There is no single European process which businesses in the Member States apply in order to comply with the IO. The minimum steps that are common in the EU are reflected in the following Figure.

Figure 8: Business process of the IO “Submission of an intra-Community sales listing”



By Capgemini/Deloitte/Ramboll Management.

The Figure shows that in order to create the listing information needs to be gathered. This information is reported, checked, signed and submitted. A copy of the listing is stored by the taxable person. Upon request by the tax authorities, taxable persons need to provide proof of the exempted intra-Community supply of goods (via e.g. transport documents, payments, contracts).

Costs allocated to step 1 to 3 can be influenced by businesses’ software tools. Costs related to step 4 to 6 can be reduced by the application of e-government solutions.

4.3.3 Costs and explanatory variables

The total amount of administrative costs for the IO “Submission of an intra-Community sales listing” has been estimated at €706.29 million for the 27 Member States.

Costs allocated to this IO were measured as follows: P (total time spent on fulfilling the requirements of this IO X hourly rate) X Q (total amount of IC sales listings submitted per year). For these measuring Member States combining the intra-Community sales listing with the intra-Community acquisitions listing and/or the Intrastat return, a business-as-usual cost was identified.

Table 35: Total time spent and costs incurred on the IO "Submission of an intra-Community sales listing"

Country	SEGMENT DESCRIPTION	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time (minutes) per occurrence	Internal Cost per occurrence(€)	Total Cost per occurrence (€)	Total Cost (€)
Cyprus	INSOURCING	2,843			165	50	50	140,941
	OUTSOURCING	2,059		298	101	33	331	682,163
	TOTAL COST	4,902						823,104
France	INSOURCING	530,715			81	47	47	27,833,679
	OUTSOURCING	384,311		97	34	21	118	45,160,454
	TOTAL COST	915,026						72,994,133
Hungary	INSOURCING	34,800			598	80	80	2,777,000
	OUTSOURCING	25,200		24	121	15	39	995,388
	TOTAL COST	60,000						3,772,388
Latvia	INSOURCING	4,077			237	24	24	106,815
	OUTSOURCING	2,952		74	4	0	74	218,262
	TOTAL COST	7,029						325,077
Poland	INSOURCING	232,042	1		520	72	73	17,589,579
	OUTSOURCING	168,030		44	116	20	64	10,809,353
	TOTAL COST	400,072						28,398,932
Spain	INSOURCING	522,970			197	65	65	34,074,469
	OUTSOURCING	378,702		190	117	51	240	90,976,827
	TOTAL COST	901,672						125,051,296

This Table is based on data compiled by the Consortium.

The Table provides an overview of the different minutes and costs for the measuring Member States for insourcing and outsourcing.

Further analysis for this IO starts on the high-level differences between the main segments, followed by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

4.3.3.1 Analysis on segment level

The Table above provides an overview of costs incurred – per Member State. Per main-segment insight is given on:

- Number of occurrences ('Q') = total amount of intra-Community sales listings submitted per year or total amount of VAT taxable persons X frequency (or various frequencies) of submission on a yearly basis. Experts estimated the division between micro, small and medium-sized businesses to be roughly 50% insourcing and 50% outsourcing. Large businesses in virtually all cases do not outsource this activity. Furthermore, large businesses are the predominant group of businesses that are subjected to this IO. As such, close to 60% of the number of listings submitted stems from businesses which are part of the main segment 'insourcing';
- Cost per occurrence = (total time X hourly rate) + external costs;
- Total cost = total administrative cost a country level or total cost per occurrence X 'Q'.

From a business point of view, total administrative costs related to the intra-Community sales listing are highly influenced by the total amount of intra-Community supplies that have to be reported. The more transactions to be reported, the more time is required to gather all relevant information and to review the listing. In particular for those businesses not using sophisticated accounting systems, the total amount of intra-Community supplies reported is a cost increasing factor. With respect to the gathering of the necessary data, a distinction should be made between micro and small businesses compared to medium-sized and large businesses. While micro businesses mostly perform their declaration based on their sales invoices, small and medium-sized businesses use customised spreadsheets and large businesses (and to some extent also medium-sized businesses) attempt to automate this process via their accounting system and extract sales data related to intra-Community supplies directly from the accounting system. In case the e-forms of authorities allows for this, data can be recorded directly into the e-forms (e.g. Latvia).

4.3.3.2 Analysis on country level

At Member State level the main cost indicators are:

- the format of the forms, i.e. combination between the intra-Community sales listing, the intra-Community acquisitions listing and/or the Intrastat return.;
- the frequency of filing listings and the manner of submission (electronically or on paper).

Documents collected in order to substantiate the VAT exemption of intra-Community supplies were not defined as specific cost indicators. A comparison on Member State level shows that the VAT Law in all measuring Member States mentions that any document proving the intra-Community supply is sufficient. Costs incurred thus are comparable throughout the Measurement Countries.

In France, the intra-Community acquisitions listing and the intra-Community sales listing are combined with the Intrastat declaration. It is required to tick the corresponding box on the form to indicate if the form relates to the sales respectively the acquisitions of goods. This form has to be submitted monthly. Once a business is liable for submitting DEB (Déclaration d’Echange de Biens) returns, a return needs to be filed even if no transactions are reported for the concerned period. For the submission of a paper form, the forms can be downloaded from the website of the tax authorities. In case of electronic submission, businesses can either employ the internet (EFI) or make use of electronic data interchange (EDI).

In Cyprus the sales listing needs to be submitted each quarter even if the value of the listing is ‘nil’. Submitting is allowed on paper or electronically through the TAXISnet Services (i.e. internet-based). In order to make use of this manner of submission a business needs to register with the VAT Service.

In Hungary the form must be submitted on a quarterly basis. Corrections for a previous period are made on the standard form. For paper submission, no original forms are required. Electronic submission is possible via the eBEV system (internet). In the latter case the necessary software tools are made available by the tax authorities.

In Poland the intra-Community sales and intra-Community acquisitions are listed on the same form. The form has to be submitted each quarter. Corrections can be submitted via a special form. Forms have to be submitted on paper (by post or in person), but no original form is required.

In Latvia the form must be submitted each quarter. Forms are usually submitted on paper and handled mostly in person. No original form is required. Forms can be submitted electronically, using EDS (accessible via internet). It is estimated that approximately 30% of all VAT taxable persons submit this form electronically.

In Spain the intra-Community sales and intra-Community acquisitions are registered on the same form ('Modelo 349: Declaración recapitulative de operaciones intracomunitarias'). In principle, forms have to be submitted on a quarterly basis. Forms may be submitted on an annual basis where no taxable transactions for a turnover of more than €35,000.00 were performed during the previous calendar year and if the amount of intra-Community supplies does not exceed €15,000.00. Forms can be submitted on paper or electronically. The electronic submission is mandatory for all Spanish limited and public limited companies and for all other businesses performing more than 25 intra-Community transactions per annum.

4.3.4 Specific areas of irritation

The submission of an intra-Community sales listing implies submitting a recapitulative statement. Although the process of submitting such a statement is an administrative burden, it is in some way considered as part of normal business. Businesses are more or less accustomed to comply with this requirement and therefore do not consider it as burdensome. Although the principle obligation is not considered particularly burdensome, its implementation in Member States does cause additional burdens, e.g.:

- In Poland, businesses view the obligation to file a special form in the event of corrections as highly irritating;
- Businesses are required to file 'nil' returns even if no intra-Community sales or acquisitions took place. This is considered as highly burdensome, in particular for small and micro businesses with occasional intra-Community activities. The sentiment is understandable since the information obtained by filing a 'nil' listing can also be gathered through the VAT return.

4.3.5 First simplification suggestions

This intra-Community sales listing is a recurring requirement for businesses. Reducing the administrative costs for this obligation can be achieved by reducing the frequency of submission of the listing.

Additionally, some examples of reduction suggestions that would reduce costs for this obligation are:

- Merge different forms into one single form, e.g. the European sales listing and the European acquisitions listing, eventually combined with Intrastat. However, this is only feasible to the extent that the Intrastat returns can be simplified as well.
- Abolish the obligation to file 'nil' listings. This would reduce the number of listings submitted by businesses.
- Encourage the use of eGovernment solutions by implementing user-friendly, uniform and easy accessible applications

4.4 IO 4 “Communication of the start of the activity as a taxable person” - Article 213, 1 Council Directive 2006/112/EC

4.4.1 Characteristics of the IO

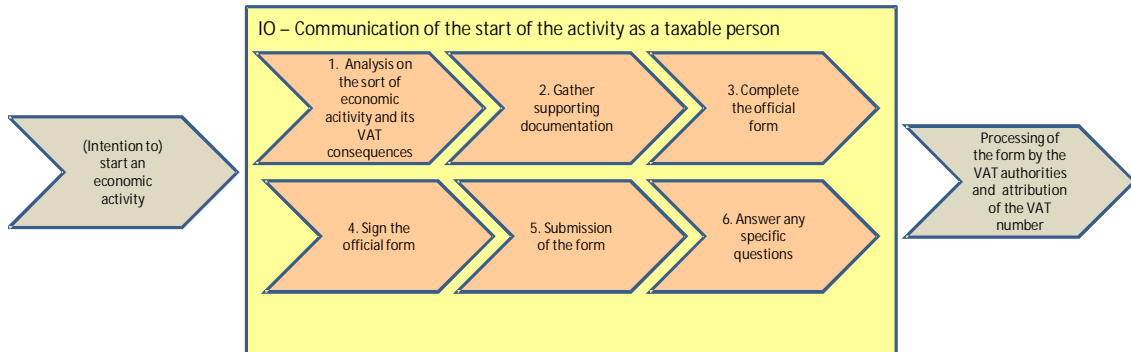
Article 213,1 Council Directive 2006/112/EC states: 'Every taxable person shall state when his activity as a taxable person commences. Member States shall allow, and may require, the statement to be made by electronic means, in accordance with conditions which they lay down'.

This requirement occurs only once for a taxable person in its Member State at the moment of establishment. However, some businesses have to perform multiple registrations because due to economic activities these businesses are required to register for VAT purposes in other EU Member States. This IO applies to all entities commencing a VAT taxable activity in an EU Member State.

4.4.2 Process for complying with IO

The Directive does not prescribe the underlying business process to follow. As such, no single European process can be identified and Member States have their own unique process in place. The business process shown in the following Figure reflects those steps that are common throughout all Member States.

Figure 9: Business process for the IO “Communication of the start of the activity as a taxable person”



By Capgemini/Deloitte/Ramboll Management.

Businesses starting an economic activity need to analyse their VAT status and figure out whether they perform VAT taxable and/or VAT exempted activities. Depending on the outcome they complete a standard form and inform the VAT authorities on the applicable VAT regime. In most cases, additional documents such as the deed of incorporation have to be added and thus time is spent on collecting these documents. Once the form is filled out and signed by the legal representative it is submitted on paper or electronically. Finally, before the VAT number is allocated, VAT authorities can pose additional questions to avoid having fraudulent businesses registered. The main cost driver for this obligation is the time businesses require in gathering the appropriate information and completing the form.

4.4.3 Costs and explanatory variables

The total amount of administrative costs for the IO “Communication of the start of the activity as a taxable person” has been estimated at €313.42 million for the 27 Member States.

Costs allocated to this IO were measured as follows: P (total time spent to fulfill the requirements of the IO X hourly rate) x Q (total amount of communications submitted per year).

Table 36: Total time spent and costs incurred on the IO “Communication of the start of the activity as a taxable person”

Country	SEGMENT DESCRIPTION	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time (minutes) per occurrence	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Cost (€)
Cyprus	INSOURCING	4,503			155	72	72	322,687
	OUTSOURCING	4,503		279	78	27	306	1,380,074
	TOTAL COST	9,006						1,702,761
France	INSOURCING	160,839		50	41	35	85	13,703,852
	OUTSOURCING	160,839		155	30	26	181	29,051,722
	TOTAL COST	321,678						42,755,573
Hungary	INSOURCING	20,500			297	55	55	1,136,315
	OUTSOURCING	20,500		248	118	24	271	5,564,702
	TOTAL COST	41,000						6,701,017
Latvia	INSOURCING	6,548			202	20	20	132,156
	OUTSOURCING	6,548		41	45	5	45	296,031
	TOTAL COST	13,096						428,188
Poland	INSOURCING	107,500			369	68	68	7,358,196
	OUTSOURCING	107,500		25	107	23	47	5,086,360
	TOTAL COST	215,000						12,444,556
Spain	INSOURCING	162,500	1		134	70	71	11,584,230
	OUTSOURCING	162,500		240	108	46	286	46,402,915
	TOTAL COST	325,000						57,987,145

This Table is based on data compiled by the Consortium.

In France and Spain the “Communication of the start of the activity as a taxable person” forms part of a broader registration procedure.

Further analysis for this IO starts on the high-level differences between the main sub-segments, followed by an analysis focusing on differences between Member States and thus explaining the greater part of variation.

4.4.3.1 Analysis on segment level

The Table above shows an overview of costs incurred – per Member State. Per main-segment insight is provided on:

- Number of occurrences ('Q') = total amount of communications submitted per year
- Consultancy costs = fees paid to external service providers
- Cost per occurrence = (total time X hourly rate) + external costs

- Total cost = total administrative cost at country level or total cost per incident X population

The registration procedure is the same for all businesses regardless of size. Differences are there due to the kind of economic activity the businesses perform and time required analysing the VAT status.

4.4.3.2 Analysis on country level

The obligation to register as a VAT taxable person varies per Member State. In principle, the process is rather straight forward and implies filling in forms and providing copies of documents. However, there are variations to this process in the measuring Member States (i.e. France and Spain), which are discussed in the remainder of this paragraph. Further insight is given on the Latvian registration procedure since businesses specifically formulated recommendations for improvement.

France

France is clearly a good practice in term of efficient registration as a VAT taxable person. In France, the communication of the start of the activity as a taxable person is part of a smooth, general administrative process to register a business.

When starting an activity, only one form (known as 'MO or Déclaration de création d'une entreprise') has to be filled out, and submitted to the centralised institution called CFE (Centre des Formalités pour Entreprises) within the first 15 days of activity. This form launches the administrative process to automatically obtain a:

- (1) registration in the Trade Register (SIRENE),
- (2) registration number from the National Statistics Agency INSEE, and
- (3) VAT number from the tax centre.

The VAT part of this form is merely a box to tick in order to choose the correct regime. The registration form can be filed manually, or in e-format.

Spain

As in France, in Spain the VAT registration procedure is part of a larger procedure. This is as far as the similarity goes, because the registration procedure in itself is far more

complex and requires a more extensive number of annexes to be submitted. Registration forms may be filed electronically, although in 90% of cases the registration procedure is filed in paper (even handed over in person) because businesses want to be sure the registration form is received in good order. Electronic submission is experienced as 'not trustworthy' and therefore not used. As specified further in the section on "irritation" (point 4.5.4), in Spain particular difficulties arise when businesses try to comply with this IO.

Within Spain, the notification to the VAT authorities is made through the submission of the relevant 036 form alongside the following documentation:

- the original and a copy of the deed of incorporation.
- a copy of the bylaws of the company.
- the certificate issued by the mercantile registry where the company is incorporated.
- a copy of the ID-card or passport of the person signing the form.
- the original and copy of the document empowering this person to sign the form on behalf of the company.

Latvia

The documents to be gathered in the framework of this IO are similar to those required for in the enterprise registration process. Original documents are required. The registration form must be completed manually and signed by a representative having signature rights, or by a person having a power of attorney, or by a group of persons (as specified in the articles of association of the company).

The registration file (registration form and other required documents) must be submitted in person by a representative having signature rights or by a person having power of attorney. Submission of documents in any other manner (fax, mail, e-mail) is not allowed. During the document submission process, additional questions may be asked to the representative.

4.4.4 Specific areas of irritation

Registration as a taxable person in itself is not considered as particularly burdensome. It is considered as a task all business need to comply with and is therefore accepted. Implementation of the registration process varies per Member State and causes a variety in perceived burdens and irritations. France seems to be a good practice Member State with lean implementation of the requirements. Spanish and Latvian measurements show some areas of irritation such as:

- In Spain VAT related fraud schemes (e.g. carousel fraud) have given rise to an extensive delay (up to 6 months) in relation to the inclusion of a business' VAT number in the VIES system.
- In Spain it is more or less common that officers from the authorities approach businesses with extensive requests for information causing much frustration for businesses.
- Spanish authorities seem to prefer to communicate with businesses by post and not e-mail creating unnecessary delay.
- In Spain electronic submission is considered as not trustworthy.
- In Latvia a specific VAT form is filed. The information requested in this form is similar as the information mentioned in other documents which are part of the enterprise registration process. From an efficiency perspective, it seems unnecessary to have separate forms for these activities requesting identical information. Furthermore, only original documents are accepted, which must be handed over in person to the tax authorities.

4.4.5 First simplification suggestions

Reduction of administrative costs for this obligation can be achieved. The good practice implemented in France shows that the VAT registration process can be fully integrated in the overall process of business registration in Member States.

4.5 IO 4 “Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT” - Article 171,1 Council Directive 2006/112 and Article 3 (c) and 4 (b) Council Directive 79/1072/EC

4.5.1 Characteristics of the IO

Article 171, 1 Council Directive 2006/112/EC states that VAT shall be refunded to taxable persons who are not established in the Member State in which they purchase goods and services or import goods subject to VAT but who are established in another Member State, in accordance with the detailed implementing rules laid down in Directive 79/1072/EEC.

To qualify for refund, any taxable person who supplies no goods or services deemed to be supplied in the territory of the country shall certify by means of a written declaration that:

- (i) no goods or services deemed to have been supplied in the territory of the country,
or
- (ii) no goods or services deemed to have been supplied in the territory of the country other than reverse charge services referred during the period for which the refund is requested

All VAT registered taxable persons, incurring input VAT in a Member States they are not filing (or are required to file) periodic VAT returns are affected by this IO.

4.5.2 Process for complying with IO

Member States request taxable persons to make an official declaration in writing on the fact they did not perform any activities for which they should register for VAT in that particular Member State. In most Member States the application form foresees the possibility to make this declaration on the form itself (i.e. by ticking the relevant box). Therefore, costs allocated to this IO are not related to drafting a written declaration, but to the analyses businesses have to perform in order to find out if they are liable or eligible to register for VAT in a particular Member State or if they can file an application according to the 8th VAT Directive.

4.5.3 Costs and explanatory variables

The total amount of administrative costs for the IO "Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT" has been estimated at €253.29 million for the 27 Member States.

Costs allocated to this IO were measured as follows: P (total time needed to analyse whether one has to register for VAT or apply the 8th VAT Directive X hourly rate) X Q (total amount of applications for refund per year).

Table 37: Total time spent and costs incurred on the IO "Deliver certificate of not having performed transactions for which a business can be held liable to pay VA" in the six Measurement Countries.

Country	SEGMENT DESCRIPTION	Number of occurrences	Equipment costs per occurrence (€)	Consultancy costs per occurrence (€)	Internal time (minutes) per occurrence	Internal cost per occurrence (€)	Cost per occurrence (€)	Total Cost (€)
Cyprus	INSOURCING	70			218	73	73	5,096
	OUTSOURCING	70		1,395	96	32	1,427	99,890
	TOTAL COST	140						104,986
France	INSOURCING	49,061			65	76	76	3,731,323
	OUTSOURCING	49,061		509	13	11	520	25,498,583
	TOTAL COST	98,122						29,229,906
Hungary	INSOURCING	5,500			395	47	47	289,272
	OUTSOURCING	5,500		1,442	72	10	1,452	7,983,985
	TOTAL COST	11,000						8,273,258
Latvia	INSOURCING	22			83	8	8	182
	OUTSOURCING	22		1,315	163	16	1,331	29,282
	TOTAL COST	44						29,464
Poland	INSOURCING	25,000			15	2	2	41,875
	OUTSOURCING	25,000		930	58	13	943	23,564,167
	TOTAL COST	50,000						23,606,042
Spain	INSOURCING	44,500			41	17	17	1,010,675
	OUTSOURCING	44,500		943	118	48	991	44,094,872
	TOTAL COST	89,000						45,105,547

This Table is based on data compiled by the Consortium.

The total administrative costs are influenced by the type of activities businesses are performing in other Member States and by the time needed in order to find out whether that specific activity is leading to the obligation to register for VAT. In most Member States, businesses do not have sufficient in-house knowledge on other Member States VAT regulations. Therefore, as these businesses start performing activities in another Member State or incur VAT from other Member States than their Member State of

establishment, specialised service providers (e.g VAT consultants) are often involved. Furthermore, the measurement shows that large and medium-sized businesses are more often confronted with this IO and incur more administrative costs.

4.5.4 Irritation factors and first simplification suggestions

The measurement of this obligation shows that businesses do not consider this obligation as a source of irritation. Burdens stemming from this obligation are limited compared to other reporting obligations. Some of the larger businesses indicated they would prefer this legislation to be harmonised as to whether or not a business should register in a particular Member State (other than its Member State of establishment).

4.6 IO 5 “Provision of proofs of exemptions on exportation” - Article 146-147 Council Directive 2006/112/EC

4.6.1 Characteristics of the IO

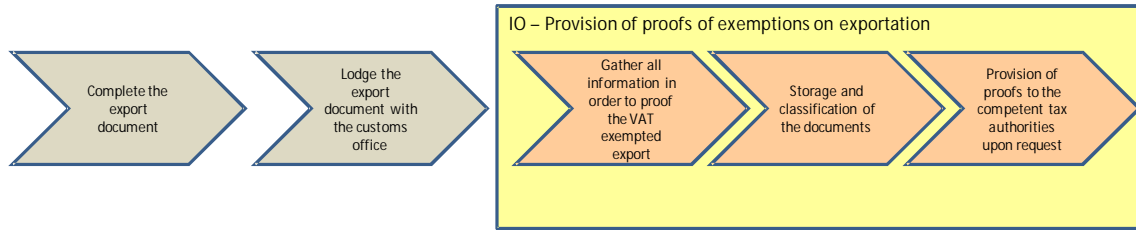
The exemptions provided in Chapter 6 of title IX of the Directive (i.e. the exemptions on exportation) shall apply without prejudice to other Community provisions and in accordance with conditions which the Member States shall lay down for the purposes of ensuring the correct and straightforward application of those exemptions and of preventing any possible evasion, avoidance or abuse.

This IO is applicable to all taxable persons involved in the exportation of goods to a third territory not forming part of the Community.

4.6.2 Process for complying with IO

VAT taxable persons applying the VAT export exemption are required to proof the dispatching of goods outside the customs territory of the European Union to the tax authorities. The following business process description indicates what is measured by this obligation.

Figure 10: Business process of the IO “Provision of proofs of exemptions on exportation”



By Capgemini/Deloitte/Ramboll Management.

The key document in order to proof the exemption of VAT on exportation of goods is the export document. However, the completion and submission of the export document with the custom office is not VAT related. As such, those costs have not been included in the measurement. After declaring the export, the VAT taxable person has to collect the export document and other relevant documents substantiating the VAT export exemption, store these and provide them to the tax authorities upon their request.

4.6.3 Costs and explanatory variables

The total amount of administrative costs for the IO “Provision of proofs of exemptions on exportation” has been estimated at €204.88 million for the 27 EU Member States.

Costs allocated to this IO were measured as follows: P (total time spent to collect all documents related to one export) X Q (total amount of export documents submitted per year).

Table 38: Total time spent and costs incurred on the IO “Provision of proofs of exemptions on exportation” in the six Measurement Countries

Country	SEGMENT DESCRIPTION	Number of occurrences	Equipment costs per occurrence (€)	Consultancy costs per occurrence (€)	Internal time (minutes) per occurrence	Internal cost per occurrence (€)	Cost per occurrence (€)	Total Cost (€)
Cyprus	INSOURCING	30,500			21	7	7	202,825
	TOTAL COST	30,500						202,825
France	INSOURCING	5,640,137			15	7	7	38,832,348
	TOTAL COST	5,640,137						38,832,348
Hungary	INSOURCING	900,000			10	1	1	750,000
	TOTAL COST	900,000						750,000
Latvia	INSOURCING	90,000			58	6	6	522,000
	TOTAL COST	90,000						522,000
Poland	INSOURCING	2,465,987			20	2	2	4,849,774
	TOTAL COST	2,465,987						4,849,774

Spain	INSOURCING	4,393,797			15	3	3	14,279,840
	TOTAL COST	4,393,797						14,279,840

This Table is based on data compiled by the Consortium.

Further analysis for this IO starts on the high-level differences between the main segments, followed by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

4.6.3.1 Analysis on segment level

The Table above provides an overview of costs incurred – per Member State. Per main-segment insight is provided on:

- Number of occurrences ('Q') = total amount of export documents submitted per year. For this IO the 'outsourcing' segment is out of scope: the gathering of documents in order to prove the export for VAT is always done in-house.
- Cost per occurrence = total time X hourly rate
- Total cost = total administrative cost at country level or total cost per occurrence X population

The measurement shows this IO impacts mostly large and medium-sized businesses, and to a certain extent also small businesses; micro businesses are rarely involved in export transactions. Since the procedure is the same regardless of the business size, the total administrative cost per export in general does not differ across segments.

4.6.3.2 Analysis on country level

The general European business process applies for all measuring Member States. Differences are minimal. The main cost indicator seems to be the type of documents to be collected in order to prove the exemption of exportation and the manner of collection for these documents.

Thus, differences in Member States revolve on the level of proof that is required for the authorities to accept the exemption. In Spain the authorities accept the export document as proof of export while in the other Measurement Countries additional documents such as contracts, orders, payment documents and other documents adding to the proof of export have to be collected.

4.6.4 Specific areas of irritation

Businesses in some Member States indicate there is a lack of understanding why VAT authorities are requesting to provide additional documents in order to prove an export, besides the actual export declaration.

Furthermore, some businesses raised the question why the tax authorities demand the export document from the business while the document is already available at the customs office and information is exchanged between customs and VAT authorities.

4.6.5 First simplification suggestions

Businesses indicated that they feel this obligation would be more efficient if VAT authorities would accept the customs declaration (in electronic format) as sufficient proof of exemption for VAT purposes.

Moreover, taking into account the information exchange between customs authorities in the country of departure and arrival on the one hand and the VAT authorities on the other hand, one could even question the necessity of the provision of this document by taxable persons.

4.7 IO 7 “Obtain certificate of VAT taxable status to qualify for refund” - Article 171, 1 Council Directive 2006/112/EC and Article 3 (b) Council Directive 79/1072/EC

4.7.1 Characteristics of the IO

Article 171, 1 Council Directive 2006/112/EC states that VAT shall be refunded to taxable persons who are not established in the Member State in which they purchase goods and services or import goods subject to VAT but who are established in another Member State, in accordance with the detailed implementing rules laid down in Directive 79/1072/EEC.

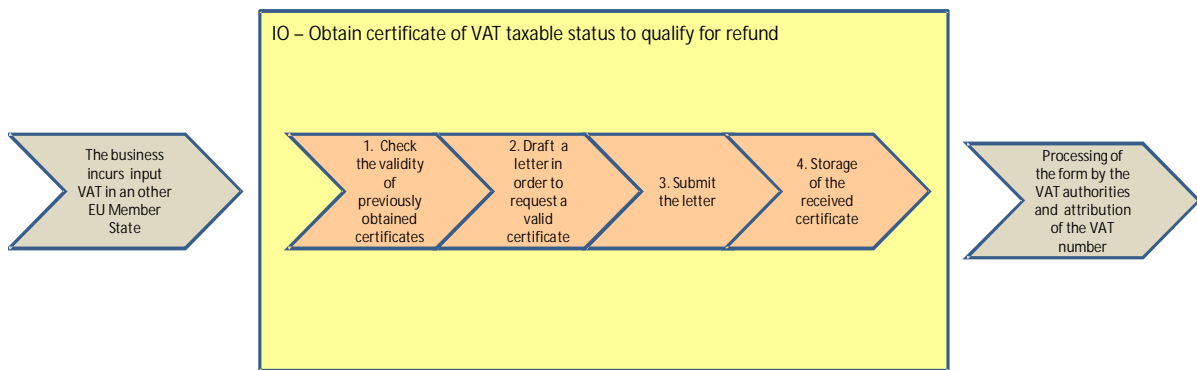
To qualify for the refund of VAT incurred other than that of the Member State of establishment, any taxable person who supplies no goods or services deemed to be supplied in the territory of a Member State (i.e. for which the taxable person should not account for VAT in that Member State) shall produce evidence, in the form of a certificate issued by the competent authority of the Member State of establishment

All VAT registered taxable persons, incurring input VAT in an EU Member State they are not filing (or are obliged to do so) periodic VAT returns, are affected by this IO.

4.7.2 Process for complying with IO

The business process below is considered common throughout all Member States and indicates what was measured under the IO "Obtain certificate of VAT taxable status to qualify for refund".

Figure 11: Business process of the IO "Obtain certificate of VAT taxable status to qualify for refund"



By Capgemini/Deloitte/Ramboll Management.

Businesses requiring a certificate first check the validity of the current certificate followed by the draft of a letter requesting a valid certificate. The business process indicates businesses do not necessarily need to request a new certificate for each application of VAT refund. No new certificate is requested in cases where a business had – within a certain period – submitted a former application in the same Member State. Furthermore, in most Member States the certificate is obtained in writing or via e-mail.

4.7.3 Costs and explanatory variables

The total amount of administrative costs for the IO "Obtain certificate of VAT taxable status to qualify for refund" has been estimated at €94.67 million for the 27 Member States.

Costs allocated to this IO were measured as follows: P (total time needed to draft the letter X hourly rate) X Q (total amount of requests per year).

Table 39: Total time spent and costs incurred on the IO “Obtain certificate of VAT taxable status to qualify for refund” in the six Measurement Countries

Country	SEGMENT DESCRIPTION	Number of occurrences	Equipment Cost per occurrence (€)	Consultancy Cost per occurrence (€)	Internal time (minutes) per occurrence	Internal Cost per occurrence (€)	Cost per occurrence (€)	Total Cost (€)
Cyprus	INSOURCING	70			64	20	20	1,386
	OUTSOURCING	70		360			360	25,200
	TOTAL COST	140						26,586
France	INSOURCING	49,061			30	17	17	810,812
	OUTSOURCING	49,061		249			249	12,216,240
	TOTAL COST	98,122						13,027,052
Hungary	INSOURCING	5,500			131	17	17	91,988
	OUTSOURCING	5,500		45	0	0	45	247,500
	TOTAL COST	11,000						339,488
Latvia	INSOURCING	22			63	6	6	137
	OUTSOURCING	22		164			164	3,612
	TOTAL COST	44						3,748
Poland	INSOURCING	25,000	1		42	5	6	150,189
	OUTSOURCING	25,000		225	10	2	228	5,688,944
	TOTAL COST	50,000						5,839,134
Spain	INSOURCING	44,500	0		47	16	17	742,816
	OUTSOURCING	44,500		328	15	6	334	14,855,213
	TOTAL COST	89,000						15,598,029

This Table is based on data compiled by the Consortium.

Further analysis for this IO starts with the high-level differences between the main segments, followed by an analysis focusing on differences in costs between Member States and thus explaining the greater part of variation.

4.7.4 Analysis on segment level

The previous Table shows an overview of costs incurred – per Member State. Per main-segment insight is provided on:

- Number of occurrences ('Q') = total amount of requests for a certificate per year
- Equipment costs = postal costs
- Consultancy costs = fees paid to external service providers
- Cost per occurrence = (total time X hourly rate) + external costs
- Total cost = total administrative cost at country level or total cost per occurrence X Q.

The measurement indicated that micro and small businesses are not often confronted with this IO. Consequently, this IO mostly concerns the medium-sized and large businesses. In addition, the total administrative costs per application do not differ significantly in relation to the business size.

4.7.4.1 Analysis on country level

In all measuring Member States, businesses are obliged to obtain the certificate in writing. Notwithstanding differences in time spent do occur. This is mainly due to the manner the certificate is obtained. In France, Spain and Poland businesses are able to send a letter or email to obtain the certificate, while in Hungary the certificate needs to be collected from the local VAT office in person. Differences in final costs are mainly explained by the difference in administrative labour costs.

4.7.5 Specific areas of irritation

Businesses pointed out that the entire IO is a source of "irritation". They do not understand why businesses have to go to the trouble of demonstrating VAT registration to one national authority when the information is (or should be made) readily available by another national authority and exchanged between authorities via the VIES system. Moreover, in the case of recurring refunds, national authorities do not accept statements of VAT registrations older than one year. Consequently, the effort which businesses have to make is a recurring one.

4.7.6 First simplification suggestions

At the date of this report, the Council of the European Union had adopted a new refund procedure for taxable persons incurring VAT of a Member State in which they do not file periodic VAT returns. The refund procedure will become an electronic procedure, whereby refund applications will be addressed to the particular Member State where the refund is requested, via an electronic portal set up by the Member State in which the applicant is established. As a result, the certificate confirming that the applicant is subject to VAT in the Member State in which he is established will become redundant. The Member State of residence will not forward the refund application to the "Member State of refund" if the applicant is not eligible for VAT refund.

5. National obligations beyond EU Requirements

This Chapter deals with national obligations that are beyond the requirements stated in Directive 2006/112/EC. These additional requirements are relevant for the total administrative costs of this Priority Area because the costs incurred by businesses can be linked to the VAT Directive or are at least Member States' implementation hereof. These national obligations are referred to as 'Possibilities'. There are two types of 'Possibilities':

1. "Possibilities stated in the EU Legal Act": These are stated in the Directive but leave it up to the Member States to decide on whether to implement the requirement. For example: 'Member State may require the taxable person to submit a return showing all the particulars specified in the Articles 250 and 251 in respect of all transactions carried out during the preceding year. That return shall provide all the information necessary for any adjustments⁵⁹'. The priority area VAT holds nine such EU Possibilities that resulted in 101 national Information Obligations which are discussed in paragraph 5.1.
2. 'Possibilities not stated in the EU Legal Act': These are not stated in the Directive and are national requirements linked to requirements foreseen in the VAT Directive, but are more stringent than the EU requires. In total, 34 of this type of Possibility were identified. The 10 most interesting are discussed in paragraph 5.2.

In total the national Information Obligations beyond EU Requirements amount to € 3,205,288,148 or 4.03% of all administrative costs.

Within this Chapter a high level overview of the Possibilities is provided (in principle excluding Baseline Countries). The focus of this Chapter will be on their implementation in the 27 EU Member States and relevant simplification suggestions.

⁵⁹ Article 261 Council Directive 2006/112/EC

5.1 Possibilities stated in the EU Legal Act

Total Possibilities stated in the EU Legal Act amount to €2,063,544,917.67 or 2.60% of all administrative costs.

The following Table provides a detailed overview of the implementation of the EU Possibilities per Member State, indicating the total administrative costs incurred per requirement and per Member State.

Table 40: Overview of implementation of Possibilities stated in the EU Legal Act⁶⁰

	Notifications relating to storage	Storage of data guaranteeing authenticity, integrity and legibility of the invoices	E-invoicing obligations in case of goods or services supplied from a third country	Obligations for self-billing or third party billing by non-EU entities	Translation of the invoices	Submission of an ICA listing	Submission of a summarising annual VAT return	Submission of an additional summary paper when e-invoicing via EDI	Obligations related to the ICA new means of transport	Total
AT		2,163,425.25			554,782.85		32,411,512.88	323,044.43	31,558.42	35,484,323.83
BE	17,538.93	16,222,000.00			291,045.00				362,250.00	16,892,833.93
BG									10,159.53	10,159.53
CY	1,034.00	460,864.00			65,688.00				84.33	527,670.33
CZ	2,674.67	2,925,280.00			877,812.00				30,432.00	3,836,198.67
DK		299,104.00			0.00				0.00	299,104.00
EE	300.81									300.81
FI										0.00
FR	51,210.00	53,065,350.00	6,221,885.20	20,000.00	7,648,308.33	4,675,273.00		60,135,000.00		131,817,026.53
DE	39,241.08	20,039,393.83			2,574,467.89		510,466,583.07	3,698,893.77	146,450.32	536,965,029.96
EL	82,236.00	1,802,753.55			3,995,250.00	2,307,271.55	103,938,869.39	677,399.49		112,803,779.98
HU	7,480.00	3,000,000.00			1,593,311.87	839,269.08		323,401.82		5,763,462.77
IE	37,390.20	1,355,528.00							12,775.00	1,405,693.20
IT	19,976.67			14,046.00	13,659,680.00	46,613,410.23			684,900.00	60,992,012.90
LV						30,482.64	19,535,853.78		2,246.62	19,568,583.04
LT	150.50	100,416.00		139.78			27,452,349.40			27,553,055.68
LU	490.00	286,181.58			22,962.00		13,783,307.20		47,570.00	14,140,510.78
MT										0.00
NL		5,275,617.54			1,352,870.39					6,628,487.93
PL	15,859.58	1,315,291.43				2,332,546.75			20,764.33	3,684,462.10
PT		4,923,500.00		7,600.00			212,387,743.56		25,949.25	217,344,792.81
RO		739,080.40			267,184.50	601,390.00		157,059.04		1,764,713.94
SK					121,085.75				8,356.96	129,442.71
SL	2,958.75	377,200.67			11,876.90					392,036.32
ES	219,501.00				3,372,015.00	33,513,797.97	819,465,520.64			856,570,834.61
SE	6,664.25	486,243.00							37,614.79	530,522.04
UK		6,474,779.39			1,965,099.89					8,439,879.28
Total	504,706.44	121,312,008.64	6,221,885.20	41,785.78	38,373,440.37	90,913,441.22	1,739,441,739.92	65,314,798.55	1,421,111.55	2,063,544,917.67

This Table is based on data compiled by the Consortium.

⁶⁰ Transposition of the nine EU Possibilities was done at an approximate ratio of 1:1. In some Member States the implementation of one EU Possibility resulted in more national IOs.

Costs incurred at the level of Possibilities stated in the EU Legal Act are influenced by the main cost indicators such as population and labour costs, but also by the type of Possibility implemented.

The top three most burdensome Possibilities are the "Submission of a summarising annual VAT return", "Storage of data guaranteeing authenticity, integrity and legibility of the invoices" and the "Submission of an intra-Community acquisitions listing". The top 10 most cost-intensive Member States are: Spain, Germany, Portugal, France, Greece, Austria, Lithuania, Italy, Belgium and Latvia. Comparison between the most burdensome Possibilities and the total costs at Member State level indicates that:

- Member States which implemented the Possibility "Submission of a summarising annual VAT return" all ended up in the top 10. This also applies for small Member States such as Latvia and Lithuania.
- Member States which have both implemented the Possibility "Submission of a summarising annual VAT return" and the "Submission of an intra-Community acquisitions listing", are relatively the most cost-intensive (i.e. Spain and Greece).

The focus of this Chapter is on the implementation of these Possibilities in Member States and will discuss each one in a detailed manner. The Possibilities are listed from most to least burdensome. Costs incurred in order to comply with Possibilities were measured as follows: P (total time spent on fulfilling the requirements of this Possibility \times employee hourly rate) \times Q (total notifications per year).

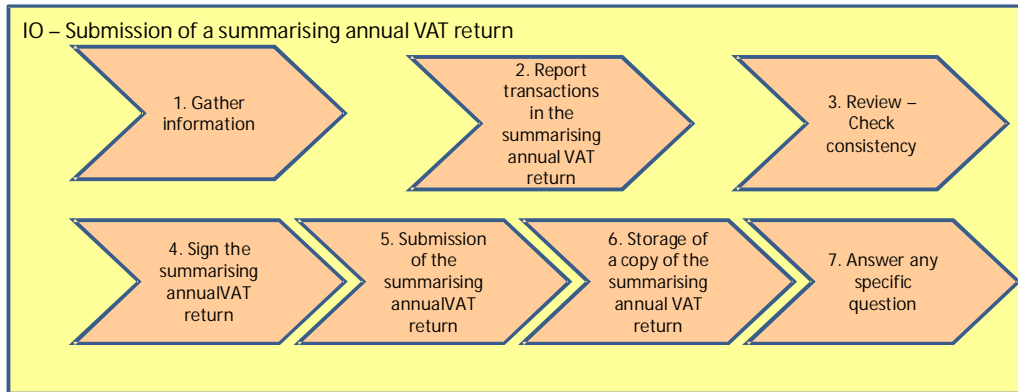
5.1.1 Submission of a summarising annual VAT return – Article 261, 1 Council Directive 2006/112/EC

According to Article 261, 1 Council Directive 2006/112/EC Member States may require the taxable person to submit a return showing all the particulars specified in Article 250 and 251 in respect of all transactions carried out in the preceding year. The return shall provide all the information necessary for any adjustments.

This Possibility has been implemented in eight Member States, i.e. Austria, Greece, Germany, Lithuania, Latvia, Luxembourg, Portugal and Spain and resulted in a total administrative cost of €1,739,441,739.92.

Comparable to the IO “Submission of a periodical VAT return”, the Directive does not prescribe the manner of submission nor the underlying business process. As such, no single European business process can be identified and Member States have their own unique process in place. The business process steps shown in Figure 12 reflect those that are common throughout all Member States.

Figure 12: Business process of the Possibility “Submission of a summarising annual VAT return”



By Capgemini/Deloitte/Ramboll Management.

All Member States in principle follow this basic and straightforward process. However, there are differences reported in the Member States, in particular with respect to the data to be reported and the method of submission.

In Latvia the summarising annual VAT return only contains the total amount of VAT due for the preceding year and eventual corrections with respect to the VAT position. The return can be submitted on paper or electronically, using EDS (accessible via internet). Around 30% of all businesses seem to use e-government solutions.

In Spain it is mandatory to file the annual VAT return electronically. Businesses filing their “normal” VAT returns quarterly can download the form from the website and submit it electronically. Businesses filing monthly VAT returns need to prepare the annual VAT return via specific software which can be downloaded from the internet, thus allowing the return to be submitted via internet using a digital signature.

In Germany the annual VAT return is to be regarded as a summary return allowing businesses to make any adjustments on the transactions reported via the preliminary VAT returns. Where no transactions have been carried out during a year, nil returns must still be filed. The annual VAT return must be filed on paper.

In Austria the annual VAT returns are to be regarded as summary returns. The annual VAT returns must be filed on 30 April (in cases of paper filing) or on 30 June (in cases of electronic filing) of the following year. Even where no taxable transactions have been carried out, a nil return must still be submitted. Small entrepreneurs that do not effect supplies in excess of €7,500 in the course of an assessment period, do not have to file the annual VAT return provided no VAT is payable. Annual VAT returns should, in principle, be submitted electronically via the 'FinanzOnline' system for which businesses have to request a username and password. However, paper filing via a form to be downloaded from the website of the Austrian VAT authorities is still accepted.

In line with the VAT Directive the summarising annual VAT return has to be limited to the particulars of all information provided via the periodic VAT returns. However, in Luxembourg the annual VAT return has more the character of an annual VAT statement. There is no original form needed for submission; it can simply be downloaded from the internet and submitted on paper. It can be electronically submitted via e-TVA. In the past taxable persons had to register for e-filing by submitting a (downloadable) application form. After verification, the taxable person received a paper copy of the application form and the necessary passwords. Since March, 2008 a digital certificate has to be requested. The certificate has to be picked up personally by the legal representative of the business or an application form must be submitted, together with the notarised copy and "apostilled" (legalised) passport/ID card of the legal representative. Obviously, no recapitulative (summarising) annual VAT return is required from taxable persons filing annual periodic VAT returns.

In Greece, summarising annual VAT returns need to be completed and submitted on paper or electronically, but most businesses still opt for paper filing. One of the main objectives of the Greek "Operational Programme of Administrative Reform" is to focus on online applications.

In Lithuania, summarising annual VAT returns are to be submitted only if any adjustments are made to the submitted periodic VAT returns. These can be submitted on paper or electronically.

In Portugal, a summarising annual VAT return needs to be completed and submitted together with the corporate income tax return (a business-as-usual cost was identified and taken into account). The returns must be submitted electronically. The password and log-in required to submit the returns can be ordered via the website of the Portuguese authorities. The password itself needs to be picked up personally.

Costs incurred could be reduced to zero by abolishing the Possibility. If it is considered not desirable to abolish this Possibility, Member States could consider one or more of the following options:

- Encourage the use of e-government solutions by implementing user-friendly, uniform and easy accessible applications. The measurement indicated that the electronic submission of forms can lead to savings of up to 20%.
- Merge different forms into one single form e.g. Portugal implemented a summarising VAT return in combination with the corporate income tax return. This combination reduces the number of fields to be filled in and reduces costs on submission.

5.1.2 [Storage of data guaranteeing authenticity, integrity and legibility of the invoices – Article 247, 2 Council Directive 2006/112/EC](#)

Article 247, 2 Council Directive 2006/112/EC states that Member States may require invoices be stored in their original form (paper or electronic) in which they were sent or made available. Additionally, Member States may require that the data guaranteeing the authenticity of the origin of the invoices and the integrity of their content be stored also.

This EU Possibility has been implemented in 19 Member States and resulted in a total administrative cost of €121,312,008.64.

Most Member States require invoices be stored in their original form, i.e. Cyprus, Greece, Ireland, Hungary, Lithuania, Luxembourg, Romania, Slovenia, Sweden, Poland and Portugal. A variation to this process is implemented in France, Belgium and the Czech Republic, which allow paper invoices to be stored electronically.

5.1.3 Submission of an intra-Community acquisitions (ICA) listing – Article 268 Council Directive 2006/112/EC

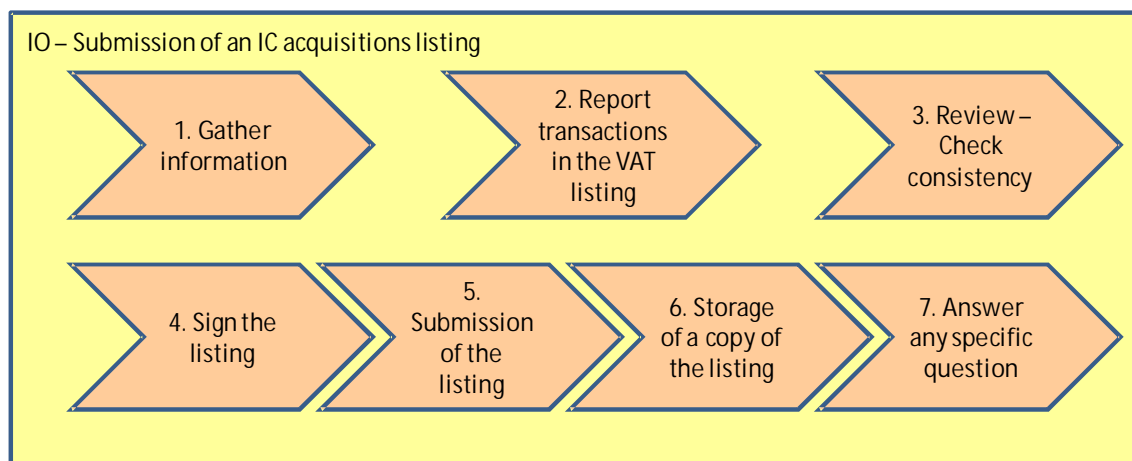
According to Article 268 Council Directive 2006/112/EC Member States may require that taxable persons who, in their territory, make intra-Community acquisitions of goods, or transactions treated as such submit statements giving details of such acquisitions, provided, however, that such statements are not required in respect of a period of less than one month.

This EU Possibility has been implemented in eight Member States and resulted in a total administrative cost of €90,913,441.22.

Costs were measured as follows: P (total time spent on fulfilling the requirements of this Possibility x employee hourly rate) X Q (total amount of ICA listings submitted or total amount of VAT taxable persons x frequency (or various frequencies) of submission on a yearly basis). For these Member States combining the ICA listing with the European sales listing and/or the Intrastat-return a business-as-usual of cost was identified.

The Directive does not prescribe the manner of submission nor the underlying business process. As such, no single European business process can be identified and Member States have their own unique process in place. The business process steps shown in Figure 13 reflect those that are common throughout all Member States.

Figure 13: Business process of the Possibility “Submission of an intra-Community acquisition listing”



By Capgemini/Deloitte/Ramboll Management.

Although the business process is similar for all Member States, its implementation differs. For instance, in France businesses are filing a monthly – ‘DEB’ (Declaration d’Echange de Biens). The ‘DEB’ in fact forms a combination of the ICA listing, the European sales listing (ESL) and the Intrastat declaration. A box has to be ticked on the form to indicate whether the form relates to the sale or the acquisition of goods. Once a business is liable to submit DEB returns, a return needs to be filed even if no transactions are reported. The form can be submitted on paper, via electronic interchange of forms (EFI) – Internet or electronic data interchange (EDI). In general more time is spent on the DEB declaration for intra-Community acquisitions than on the DEB declaration for intra-Community. Businesses have to provide information such as the product codes, which are easier to identify for sales, than for acquisitions. Micro and small businesses mostly prepare the listing based on the received invoices and submit the listing by post or EFI. Large and medium sized businesses try to automate the process by creating product codes in their IT system. These businesses submit the listing mostly by EFI or EDI.

In Hungary ICA listings have to be submitted on a quarterly basis, but no ‘nil’ declaration needs to be filed. The form can be submitted on paper or via the eBEV system, available on the internet. In the latter case, the software tools necessary are made available by the tax authorities.

In Latvia ICA listings must be submitted on a monthly basis. The listings can be submitted on paper or electronically, using EDS (accessible via the internet). Around 30% of all businesses use this e-government application to submit the form.

In Poland the ICA listings must be submitted on a monthly basis. The listing is combined with the European sales listing. The listings have to be submitted on paper. Until January 1, 2008 e-government solutions were not available.

In Spain the micro, small and medium businesses are obliged to submit quarterly ICA listings, while large businesses file monthly listings. The listing is combined with the European sales listing and can be submitted on paper or electronically. Spanish limited and public limited businesses are obliged to submit the listing via electronic means. The same holds true for all other businesses carrying out more than 25 intra-Community transactions per year.

In Greece the ICA listings must be submitted quarterly. Electronic filing is obligatory for businesses obliged to file their VAT returns electronically. No "nil" listings have to be filed.

In Italy the ICA listings must be submitted on a monthly, quarterly or yearly basis. ICA listings and Intrastat returns are combined. However, even though the same form is used for both, the frequencies and thresholds differ for VAT and statistics respectively. As a result, businesses may be obliged to submit Intrastat returns containing incoming transactions on a monthly basis, while they only submit quarterly returns for intra-Community acquisitions. For this reason, the measurement of the administrative cost was limited to the filing of the ICA listing only. The listing is to be filed on paper (by registered mail), on electronic carrier or via electronic means. It is estimated that 34% of all businesses file their ICA listings on paper, 36% hand them in on CD-ROM (or floppy-disk) and 30% submit them online.

In Romania the ICA listings must be submitted on a quarterly basis. The listing is combined with the intra-Community sales listing. The listing can be submitted by post (by registered letter) or by electronic means (i.e. electronic submission based on electronic certificates). The listings have to be prepared using a special programme which can be downloaded (free of charge) from the internet. No 'nil' listings have to be filed.

Costs incurred could be reduced to zero by abolishing the EU Possibility. This implies Member States would need to obtain their information solely via the intra-Community sales listings which are declared by all other EU Member States and recorded into a central database.

Should it be considered that the abolition of this Possibility is not desirable, Member States could consider one or more of the following options:

- Abolish the obligation to file 'nil' listing.
- Encourage the use of e-government solutions by implementing user-friendly, uniform and easy accessible applications.
- Merge different forms into one single form, e.g. the intra-Community sales listing and the intra-Community acquisitions listing, eventually combined with Intrastat, provided the Intrastat returns could be simplified as well.
- Lower the frequency of submission.

5.1.4 Submission of an additional summary paper when e-invoicing via EDI – Article 233, 3 Council Directive 2006/112/EC

According to Article 233, 3 Council Directive 2006/112/EC Member States may, subject to conditions which they lay down, require that an additional summary document on paper be sent for invoices sent or made available by means of electronic data interchange ('EDI').

This Possibility has been implemented in six Member States, i.e. Austria, France, Germany, Greece, Hungary and Romania and resulted in a total administrative cost of €65,314,798.55.

Comparable to other processes requiring businesses to submit data to third parties, time is invested in gathering data, drafting a paper, verifying its content, and submitting it to the parties involved. Between the Member States that implemented this Possibility, some differences were identified:

In France, a business issuing or receiving e-invoices via EDI must ensure that a sequential recapitulative listing of all the messages transmitted or received, including any anomalies, is kept on paper or electronically. The listing has to be kept during 6 years. At the moment of a tax inspection, the listing needs to be at the disposal of the authorities, but there is no need to print the listing and send a copy to the customer. It could be argued that there is no "exact" transposition in the French VAT Law of Article 233, 3 Council Directive 2006/112/EC, just because of the non-requirement of sending the listing to the customer.

In Hungary, a business issuing e-invoices must keep monthly summary documents. One paper copy of the monthly list is to be kept by the issuer while the other copy is to be sent to the customer.

In Greece, businesses issuing invoices via EDI are required to issue an additional recapitulative document in paper form containing the particulars of the parties and the values of the transactions. The foregoing only applies to cross-border transactions and where no hard copies of the invoices are stored.

In Romania, taxable persons issuing invoices via EDI have to keep a summary document on paper showing all invoices sent within a calendar month and/or all invoices received within a calendar month if the supplier is not registered for VAT purposes.

Costs incurred could be reduced to zero by abolishing the EU Possibility.

5.1.5 Translation of the invoices in the language of the Member State in which the supply takes place - Article 231 Council Directive 2006/112/EC

According to Article 231 Council Directive 2006/112/EC Member States may, for control purposes, require invoices in respect of supplies of goods or services in their territory and invoices received by taxable persons established in their territory to be translated into their national languages.

This Possibility has been implemented in 17 Member States and resulted in a total administrative cost of €38,373,440.37.

In practice, the authorities will mainly require a translation of the description of the goods or services mentioned on the invoice, whenever they feel said translation is warranted given the specific circumstances during an audit. The occurrence of this particular requirement is rather limited throughout the Member States where it has been implemented.

5.1.6 E-invoicing obligations in case of goods or services supplied from a third country – Article 235 Council Directive 2006/112/EC

According to Article 235 Council Directive 2006/112/EC Member States may lay down specific conditions for invoices issued by electronic means in respect of goods or services supplied in their territory from a country with which no legal instrument exists relating to mutual assistance similar in scope to that provided for in Directive 76/308/EEC and Regulation (EC) No 1798/2003.

French taxable persons cannot store e-invoices in a country which has not concluded a mutual assistance agreement with France.

This EU Possibility has only been implemented in France and resulted in a total administrative cost of €6,221,885.20.

5.1.7 Obligations related to the intra-Community acquisitions of new means of transport – Article 259 Council Directive 2006/112/EC

According to Article 259 Council Directive 2006/112/EC Member States may require persons who make intra-Community acquisitions of new means of transport as referred to in Article 2 (1) (b) (ii), to provide, when submitting the VAT return, all the information needed for VAT to be applied and its application checked by the tax authorities.

This Possibility has been implemented in 15 Member States and resulted in a total administrative cost of €1,421,111.55.

Throughout the Member States where this Possibility has been implemented, a variety of additional documents have to be provided to the authorities, e.g. the purchase invoice or statements indicating that the new vehicle is registered on behalf of the taxable persons.

5.1.8 Notifications relating to storage – Article 245, 2 Council Directive 2006/112/EC

According to Article 245, 2 Council Directive 2006/112/EC Member States may require taxable persons established in their territory to notify them of the place of storage of all invoices, if it is outside their territory.

This Possibility has been implemented in 16 Member States and resulted in a total administrative cost of €504,706.44.

Overall, Member States have transposed this Possibility in a similar way: a notification mentioning the location of storage of the invoices needs to be drafted on paper. Such a document has to be submitted to the competent tax office. Although the business process is similar for most Member States, the following national differences of implementation were identified:

- Italian VAT legislation states that the notification should be drafted on a specific form instead of a free format letter;
- In Luxembourg the notification is complied with by mentioning the location on the summarising annual VAT return;

It should be noted that at first glance also Latvia transposed this Article. However, the Latvian VAT Law refers to Accounting Law stating that, paper as well as electronic invoices must be stored on Latvian territory. As the accounting rules are applicable in the VAT area, Latvian VAT Law in fact is not in line with Article 245, 2 Council Directive 2006/112/EC which explicitly states that storage of invoices in the own territory is only mandatory for paper invoices.

Costs incurred by this Article can be reduced by abolishing the Possibility. Alternatively, Member States could allow businesses to submit the notification by electronic means or by use of a standard form as in Italy.

5.1.9 Obligations for self-billing or third party billing by non-EU entities – Article 225 Council Directive 2006/112/EC

According to Article 225 Council Directive 2006/112/EC, Member States may impose specific conditions on taxable persons supplying goods or services in their territory in cases where the third party, or the customer, who issues invoices is established in a Member State with which no legal instrument exists relating to mutual assistance similar in scope to that provided for in Directive 76/308/EEC and Regulation (EC) No 1798/2003.

This Possibility has been implemented in five Member States, i.e. France, Greece, Lithuania, Italy and Portugal and resulted in a total administrative cost of €41,785.78.

In France, a taxable person must inform the tax authorities in writing if they have appointed a customer established in a third country with which no mutual assistance agreement is in place to issue invoices. The declaration must be submitted to the competent tax office and within the same time limit as the declaration of results or profits. This declaration may be submitted on paper or electronically.

Italy allows for self-billing providing a notification is filed to the tax authorities. However, self-billing is only allowed in cases where the Italian taxpayer's activities have been in place for at least 5 years and during that period no violation of the VAT rules has been notified.

In Portugal a prior authorisation from the tax authorities must be obtained before self-billing is allowed. The obligation to obtain an authorisation costs 5 times more than obligation to make a notification.

Although Greece implemented this Possibility via its national VAT regulation, no additional requirements apply. Consequently, the administrative cost is effectively "nil".

Costs incurred can be reduced to zero by abolishing the Possibility. Alternatively, Member States could allow businesses to make the notification via electronic means.

5.2 Possibilities not stated in the EU Legal Act

In total the national obligations going beyond EU Requirements amount to €1,141,743,230.85 or 1.43% of the administrative costs.

The following Table provides a detailed overview of 10 of the 34 Possibilities not directly stated in the EU Legal Acts identified in the 27 Member States, indicating the total administrative costs incurred per requirement and per Member State. These 10 are discussed further, as these were assessed as being the most interesting of the 34. The situations described are in some cases also applicable in other Member States. For these national obligations in principle no reduction ideas are presented. As these Possibilities are in addition to EU Requirements it is not up to the European legislator but to the Member states to remove these burdens. However, as these requirements are in addition to the minimum requirements, one can wonder if these should not be abolished anyway.

Table 41: Overview of the 10 most interesting Possibilities not stated in the EU Legal Act

Member State	Possibilities not stated in the EU Legal Act	Admin. Cost (€)	% of Total Admin. Cost for Possibilities not stated in the EU Legal Act
IT	Submission of an annual VAT communication	826,979,723.30	72.43%
PL	Confirmation of receipt of corrective invoices	53,941,000.00	4.72%
PL	Draft of internal invoices	48,673,000.00	4.26%
BU	Submission of the accounting registers along with the VAT return	15,512,351.93	1.36%
ES	Keeping accounts of intra EU transfers of movable tangible property – inclusion of transfers	7,023,333.33	0.62%

Member State	Possibilities not stated in the EU Legal Act	Admin. Cost (€)	% of Total Admin. Cost for Possibilities not stated in the EU Legal Act
ES	Keeping a register of shipments without transfer of ownership – inclusion of transfers	7,023,333.33	0.62%
BU	Submission of an intra-Community sales listing – reporting of intra-Community services	1,998,752.18	0.18%
HU	Notifications related to storage	300,000.00	0.03%
BE	The change of VAT return regime	278,250.00	0.02%
BE	Keeping a register of shipments and accounts of intra EU transfers	92,000.00	0.01%
TOTAL		961,821,744.07	84.24%

This Table is based on data compiled by the Consortium.

This Table, ranking the Possibilities not stated in the EU Legal Act from most to least burdensome, demonstrates that the administrative costs are not only influenced by the main cost indicators, such as population and labour costs, but also by the type of Possibility implemented. The Table shows most costs are incurred by Italian businesses filing annual VAT communications. In this case costs are influenced by both the time spent on fulfilling this (burdensome) national requirement and the large population (approximately four million VAT taxable persons). Bulgaria on the other hand contains a relatively modest number of VAT taxable persons (approximately 100,000), but the nature of the requirement implemented (i.e. the obligation to submit the accounting registers along with the VAT), requires considerable investment on the part of Bulgarian businesses, resulting in relatively high total costs.

5.2.1 Italy – Submission of an annual VAT communication

According to Article 250, 1 Council Directive 2006/112/EC every taxable person shall submit a VAT return setting out all the information needed to calculate:

- The VAT amount taxable;
- The VAT amount deductible, in so far as necessary for the calculation of the taxable base;
- The total amount of the transactions on which VAT is chargeable and deductible, as well as the value of any VAT exempt transactions.

In Italy, two returns have to be filed per year: the annual VAT communication and the annual periodic VAT return. The annual VAT communication is a preliminary report summarising the data related to the transactions relevant for Italian VAT purposes carried out in the previous calendar year. The annual VAT communication has informative purposes in order to communicate to the tax authorities which are the total transactions of the business (in terms of taxable/zero rated/exempt amounts; intra-Community transactions) and the total VAT due and recoverable. The annual VAT return is a detailed declaration reporting all transactions performed by the business, split up by VAT rate and type of exemption. Also specific information is required such as a split up between sales to tax payers and to non tax payers, options for VAT reporting, etc.

The main purposes of the VAT return is to define the annual VAT position of the business, detailing this for each reporting period (monthly/quarterly) and taking into account the credit carrying forward from the previous year, detailing compensation eventually performed during the year, making any adjustment to the VAT that may occur and finally, reporting the outstanding credit and its destination.

This national Information Obligation resulted in a total administrative cost of €826,979,723.30.

Costs incurred could be reduced by abolishing this national requirement and combining the specifics of the annual VAT communication with the annual VAT return.

5.2.2 Poland – Confirmation of receipt of corrective invoices

According to Article 220 Council Directive 2006/112/EC every business shall ensure that an invoice is issued, either by himself or by his customer or, in his name and on his behalf, by a third party (...).

In case the Polish taxable person (seller) issues a corrective invoice decreasing the taxable amount, VAT can only be recovered via the VAT return for the month during which a confirmation from the purchaser on the receipt of the corrective invoice was received. This national requirement resulted in a total administrative cost of €53,941,000.00.

5.2.3 Poland – Draft of internal invoices

According to Article 220 Council Directive 2006/112/EC every business shall ensure that an invoice is issued, either by himself or by his customer or, in his name and on his behalf, by a third party for the following transactions (...).

In Poland, taxable persons are obliged to draft (additional) internal invoices for the following transactions:

- The intra-Community acquisitions of goods (including the intra-Community transfers of own goods);
- Domestic supplies of goods for which the purchaser is liable for payment of VAT and supplies of services from another EU Member State for which the purchaser is liable for payment of VAT.

Internal invoices do not necessarily have to be issued per occurrence as the taxable person may issue one single internal invoice covering the complete taxable period (i.e. monthly or quarterly). Businesses in Poland consider this requirement as highly burdensome because taxable persons are obliged to draft a second invoice in line with Polish invoicing rules (i.e. amongst others the taxable amount, the total VAT due, the applicable VAT rate should be stated on the document) while they already received an invoice from their supplier.

This national requirement resulted in a total administrative cost of €48,673,000.00.

5.2.4 Bulgaria – Submission of the accounting registers along with the VAT return

According to Article 250, 1 Council Directive 2006/112/EC every taxable person shall submit a VAT return setting out all the information needed to calculate the VAT amount taxable, the VAT amount deductible, as well as, in so far as necessary for the calculation of the taxable base, the total amount of the transactions on which VAT is chargeable and deductible, as well as the value of any VAT exempt transactions.

In Bulgaria, accounting registers have to be filed together with the monthly VAT return and this on paper, electronically or on magnetic or optic carrier. Demanding businesses to submit their accounting registers on a regular basis forces businesses to constantly audit accounts. This causes high costs for all businesses and is not in line with the aim of avoiding tax fraud.

This national Information Obligation resulting in a total administrative cost of €15,512,351.93.

5.2.5 Spain – Keeping a register of shipments without transfer of ownership – inclusion of transfers

According to Article 243, 1 Council Directive 2006/112/EC every taxable person should keep a register of the goods dispatched or transported, by him or on his behalf, towards another EU Member State for the purposes of transactions consisting in work performed on those goods or their temporary use as referred to in points (f), (g) and (h) of Article 17, 2.

In Spain, taxable persons are also required to record all shipments which for VAT purposes are equated with intra-Community supplies in accordance. This national requirement resulted in a total administrative cost of €7,023,333.33.

Businesses do not understand why the Spanish tax authorities ask for the inclusion of this additional information.

5.2.6 Spain – Keeping accounts of intra-EU transfers of movable tangible property – inclusion of transfers

According to Article 243 Council Directive 2006/112/EC every taxable person shall keep accounts in sufficient detail to enable the identification of goods dispatched to him from another Member State, by or on behalf of taxable person identified for VAT purposes in that other Member State, and used for services consisting in valuations of those goods or work on those goods as referred to in point (c) of Article 52.

In Spain, taxable persons must also declare all shipments which for VAT purposes are equated with intra-Community acquisitions. This national requirement resulted in a total administrative cost €7,023,333.33.

5.2.7 Bulgaria – Submission of an intra-Community supplies listing

According to Article 262 Council Directive 2006/112/EC every taxable person identified for VAT purposes shall submit a recapitulative statement of his VAT exempt intra-Community supplies and of the persons to whom he has supplied goods as party in a simplified triangular transaction.

In Bulgaria the European sales listing (recapitulative statement) not only needs to include information on the intra-Community supplies of goods but also on the following services rendered towards taxable persons established in another Member State: intellectual services, intra-Community transport services and intermediary services.

This national requirement resulted in a total administrative cost of €1,998,752.18.

5.2.8 Hungary – Notification relating to storage

According to Article 245, 2 Council Directive 2006/112/EC Member States may require taxable persons established in their territory to notify them on the place of storage, if it is outside their territory.

Member States are allowed to implement a notification requirement for taxable persons. This notification relates to the exact location of the storage of invoices in cases where this is situated outside the territory of the Member State of establishment of the taxable person. Member States may require taxable persons established in their territory to store within that territory invoices issued by themselves or by their customers or, in their name and on their behalf, by a third party, as well as all the invoices that they have received, when the storage is not by electronic means guaranteeing full on-line access to the data concerned.

In Hungary, as soon as the place of storage of invoices is not located at the registered office of the taxable person, a notification has to be made to the competent authorities. The notification is to be made on an official form and submitted on paper or electronically to the competent tax authorities. This goes beyond the EU article only requiring a notification if the place of storage is outside the territory of the Member State involved. This national requirement resulted in a total administrative cost of €300,000.00.

Businesses are of the opinion that as long as the invoices are stored in Hungarian territory, they are available without undue delay. Consequently, it is not understood why this notification is needed.

5.2.9 Belgium – Change of the VAT return regime

According to Article 252 Council Directive 2006/112/EC the VAT return shall be submitted by a deadline to be determined by Member States. That deadline may not be more than two months after the end of each tax period. The tax period shall be set by each Member State at one month, two months or three months. Member States may, however, set different tax periods provided that those periods do not exceed one year.

The national implementation of the above entails that in practice many Member States have adopted several frequencies of submission of VAT returns. Changes between the implemented schemes occur for a variety of reasons (but very often according to thresholds based on a certain amount of turnover).

In Belgium a taxable person should notify the competent VAT office in writing of a transition from one VAT return regime into another, and this even in cases of a compulsory change from quarterly to monthly declarations. This requirement does not have to be complied with on a regular basis, but it is regarded as burdensome since the tax authorities should be able to extract this kind of information from their systems.

This national requirement resulted in a total administrative cost of €278,250.00.

5.2.10 Belgium – Keeping a register of shipments without transfer of ownership and accounts of intra EU transfers of movable tangible property

According to Article 243, 1 and 243, 2 Council Directive 2006/112/EC taxable persons are obliged to keep a register of shipments without transfer of ownership and accounts of intra EU transfers of movable tangible property.

In Belgium, a taxable person whose activity necessitates the keeping of such a register has to present it to the competent VAT office to have it signed off. Exceptions to this national obligation exist: e.g. businesses in the automotive sector are allowed to combine this register with the general automotive register which can be kept electronically. In this case no signing off is required. This obligation does not necessarily occur on a regular

basis but since (representatives of) taxable persons have to go to the tax authorities in person the national obligation is seen as highly irritant (especially since businesses perceive the added value of this requirement as very low).

This national requirement resulted in a total administrative cost of €92,000.00.

6. Conclusion and Outlook

The total administrative cost resulting from the legislation in scope of the Tax Law (VAT) Priority Area accounts for €79.51 billion. Of the total for this Priority Area, 87.43% (€69.51 billion) has been classified as administrative burden, while €3.20 billion is due to national implementation of National obligations going beyond EU Requirements.

A 25% reduction of the administrative burden for the Tax Law Priority Area (VAT) would amount to €17.38 billion. The focus of modules 3 and 4 is the mapping and measurement of administrative costs imposed on businesses because of legislation in scope of the Tax Law Priority Area (VAT). Hence the study does not look at the benefits of legislation or the direct financial or substantive costs. As objectives and benefits have a significant impact on any potential decision as to whether to amend, replace, or reconsider certain regulatory frameworks or IOs as suggested in this report, these should be clearly analysed and considered before any such decision is made.

Changes of the kind put forward here are part of a highly dynamic environment and cannot be considered separately from this context. How a suggested change will impact the business and its stakeholders are important elements to include in further studies of the simplification suggestions. A structured approach to analysing simplification suggestions is being conducted in Module 5.

The first part of Module 5 was started in parallel to the measurement work presented in this report and focuses on conducting national events in all Member States as well as a large SCM event at EU level, the Cutting Red Tape for Europe Conference⁶¹. The events were conducted to:

- Disseminate the early results of this project,
- Involve and activate national and EU stakeholders further, and
- Collect input into the analysis of the simplification suggestions.

⁶¹ Held in Brussels on June 20th 2008; see www.cuttingredtape.eu.

To maintain and develop further positive results of these activities, an e-magazine on important SCM news is produced quarterly and DG Enterprise's Administrative Burdens Reduction website was restructured and editorial input provided.

Work to be undertaken in the second part of Module 5 uses the results of the first part of Module 5 as well as results from Modules 3 and 4 to deliver reduction recommendations for the priority areas in this project based on a specially developed reduction methodology. This methodology will be used to identify and distinguish changes to EU Legislation (IOs stemming from EU legislation), changes to implementing/transposing measures adopted by the Member States (better practice, including possible elimination of additional requirements). Furthermore, a monetary evaluation of the reduction recommendations will be conducted along with an analysis on their implementability. In addition to the input stemming from this project, additional input from best-practice countries, EU level experts within and across priority areas, and existing reduction recommendations and strategies are being used. The results of this work are expected by the end of March 2009.

6.1 Summary reduction ideas

The ultimate purpose of the mapping and measurement of costs in Modules 3 and 4 for the Tax Law Priority Area (VAT) is to gather knowledge of and insight on these costs incurred by businesses, making the opportunities for improvement evident. This allows the efficient development of reduction ideas, and is especially useful for assessing whether specific reduction ideas could have a significant enough impact on the costs measured or not.

Current reduction ideas can be classified into three main areas: ideas involving or relating to invoicing aspects, ideas involving the submission of various statements to the authorities and finally ideas concerning (enhanced) communication between the taxable persons and the competent authorities, or even among various (departments of) authorities.

Reduction ideas related to 'invoicing aspects' can involve the IOs "VAT bookkeeping in sufficient detail for inspection by tax authorities", "VAT audit", "Issuance of an invoice", "Submission of an additional summary paper document when e-invoicing via EDI", "Storage of data guaranteeing authenticity, integrity and legibility of the invoices",

“Guaranteeing the authenticity of the origin and integrity of the content of e-invoices” and “Storage of invoices for inspection”. The following reduction ideas could be considered:

- (1) Stimulate the use of e-invoicing: the total time spent on the IO “VAT bookkeeping in sufficient detail for inspection by tax authorities” is very much influenced by the time needed to book sales invoices, and to book and review purchase invoices. The most far reaching idea would be to treat electronic invoicing as equivalent to paper invoicing. This would stimulate the use of e-invoicing by businesses. The enhanced use of e-invoicing could diminish significantly the total time spent in this respect. The combination of e-invoices with an automated booking process – i.e. software programmes allowing businesses to extract the relevant data from the invoice and have them booked directly into the VAT ledgers – brings the time spent on booking invoices close to zero and might reduce the time needed to review purchase invoices.
- (2) Provide a standard invoice format: businesses not shifting to e-invoicing could benefit significantly from a uniform invoice or a uniform part of the invoice where all data required for VAT are mentioned in predetermined fields. This way time spent on processing sales and purchase invoices can be reduced. The use of optical character recognition could significantly increase the hit rate, reduce the costs for processing invoices considerably and reduce the total costs allocated to the IOs “VAT bookkeeping in sufficient detail for inspection by tax authorities” and “Storage of invoices”.
- (3) Reduce costs on storage of invoices: overall costs incurred by businesses storing paper invoices could be reduced by implementing a single, reduced term of storage throughout the EU. The Possibility that allows Member States to require taxable persons storing invoices received in their original format, should be abolished. This implies that taxable persons could e-archive purchase invoices in paper format at all times. Member States should provide simple procedures for e-storage.

Reduction ideas related to the submission of various statements can involve the IOs “Submission of a periodical VAT return”, “Submission of an intra-Community sales listing”, “Submission of a summarising annual VAT return”, “Submission of an intra-Community acquisitions listing”, “Communication of the start of the activity as a taxable person”, “Communication of the change of the activity as a taxable person” and “Communication of the cessation of the activity as a taxable person”. The following reduction ideas could be considered:

- (1) Implement uniform VAT statements throughout the European Union: statements that are extremely complicated and require very extensive information, hamper the customisation of software and consequently have a negative impact on the total costs incurred. It could be envisioned that a uniform, simplified VAT statement could be implemented throughout the European Union;
- (2) Harmonise and lower the frequency for submission of VAT statements: instead of providing Member States the option of setting tax periods, the Directive could envisage standard intervals to be determined by e.g. business turnover. Lowering frequencies leads to lower costs;
- (3) Merge different forms imposed by the same or various (pieces of) legislation(s): In order to avoid businesses having to file different forms containing (at least partially) the same information, Member States could consider merging specific forms.
- (4) Abolish the obligation to file 'nil' statements: Member States could simply consider not requiring the submission of 'nil' statements.

Reduction ideas related to 'enhanced communication' can involve a large and number of various IOs, e.g. "Provision of proofs of exemptions on exportation", "Submission of a periodical VAT return", "Submission of an intra-Community sales listing", "Communication of the start of the activity as a taxable person", "Notifications relating to storage", etc.... The following reduction ideas could be considered:

- (1) Encourage the use of eGovernment: the measurement teaches that the use of eGovernment solutions lowers the administrative costs for businesses. Member States should therefore focus on the implementation of user-friendly, uniform and easy accessible applications.
- (2) Ease the communication between authorities and VAT taxable persons: businesses indicate that they are often obliged to communicate with the authorities via post while e-mail traffic is faster and more efficient. This applies, for example to the IOs "Notifications relating to storage" and "Obligations for self-billing or third party billing by non-EU entities". Further, businesses claim the authorities do not provide sufficient clear information in order to apply VAT rules correctly (see e.g. IO "VAT bookkeeping in sufficient detail for inspection by tax authorities").
- (3) Enhance information exchange between authorities: Member States' VAT authorities should avoid collecting information via the VAT taxable persons when the same information is available from other authorities. Efficient information exchange between VAT and customs authorities could relieve the administrative burden on businesses of providing proof that they have dispatched goods outside the customs territory of the European Union.

In general, abolishing the Possibilities not stated in the EU Legal Act should be given consideration. However, as these Possibilities are in addition to EU Requirements and implemented by the Member States, it is up to them to decide upon their removal.

6.2 List of future regimes

In this section a brief description of future regimes is presented, together with their impact on some of the IOs described.

On 12 February 2008 the EU Council of Finance Ministers adopted new rules on the place of supply of services⁶². As from 2010 the general rule on the place of supply for services provided to businesses (B2B) will be the place where the customer is established while the services provided to non business clients (B2C) will be located where the service provider is established. The implementation of these new rules will lead to a simplification for businesses for several reasons. Limitations of exceptions on the general rule of the place of supply for services will lead to less research on the application of the right VAT system and therefore has a direct impact on the time spent on drafting sales invoices and reviewing sales and purchase invoices. This will have a considerable impact on the costs allocated to the IO "VAT bookkeeping in sufficient detail for inspection by tax authorities" and on the IO "Issuance of an invoice".

Taxing services in the country of establishment of the business customer can further drastically reduce the VAT incurred by businesses outside their country. Cash flow impact and administrative costs associated with foreign VAT recovery will largely disappear. Meaning, the implementation of these rules will have a positive impact on the administrative costs incurred on the IO "Application for a VAT refund" and the IO "Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT".

Businesses providing services covered by Council Directive 2008/8/EC for which they were supposed to register for VAT in another EU Member State than that of establishment will no longer be obliged to register for VAT and fulfill the local VAT obligations. This will have a positive impact on the administrative costs incurred in relation to the IOs: "Communication of the start of the activity as a taxable person", "Communication of the

⁶² Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services

change of the activity as a taxable person”, “Communication of the cessation of the activity as a taxable person”, “Submission of a periodical VAT return” and “Submission of an intra-Community sales listing”.

Further, as of 1 January 2015 telecoms, broadcasting and electronic services to non-business customers, will be taxable where the customer is established. A one-stop-scheme will allow these service providers to fulfil all EU VAT obligations in one Member State (i.e. only one registration, declaration and payment will be required, even for services provided where the supplier is not established).

As of 1 January 2010, if EU businesses incur a VAT liability outside the Member State of establishment, they will be able to file a refund request through an electronic portal in their Member State⁶³. Today, when businesses incur VAT a VAT liability in an EU Member State in which they are not regarded as the person liable to pay VAT, they have to submit 8th EU VAT Directive refund claims to a competent VAT office in that country. This involves sending a standard form, (in most cases) original purchase invoices, and a certificate of VAT taxable status, which they have to obtain from their local tax authorities.

The decision to change this situation starting in 2010 has been taken and will significantly reduce the costs incurred by EU businesses on the IO “Application for a VAT refund”. Costs incurred in relation to the IO “Obtain certificate of VAT taxable status to qualify for refund” will even disappear. The certificate confirming that the applicant is subject to VAT in the Member State of establishment will become redundant. Applications will have to be submitted via an electronic portal set by the Member State of residence. The latter is responsible for submitting this to the relevant Member State and will not forward the refund request if the applicant is not eligible for VAT refund.

⁶³ Council Directive 2008/9/EC of 12 February 2008 laying down detailed rules for the refund of value added tax, provided for in Directive 2006/112/EC, to taxable persons not established in the Member State of refund but established in another Member State

6.3 Reduction proposals in the pipeline

The provisions of Council Directive 2001/115/EC of 20 December 2001 which were implemented in the VAT Directive, did not fully meet their stated aims of simplifying, modernising and harmonising the conditions laid down for invoicing in respect of VAT. Therefore the European Commission has commissioned a study focussing on the four principal areas of invoicing: (i) the requirement to issue an invoice; (ii) the content of the invoice; (iii) e-invoicing and (iv) archiving of invoices. The results of the study can be consulted via:

http://ec.europa.eu/taxation_customs/taxation/vat/traders/invoicing_rules/index_en.htm.

6.4 Conclusions

Of the 13 Priority Areas, Tax Law (VAT) is by far the biggest both in administrative costs as in administrative burdens. Within the Tax Law Priority Area (VAT) clear trends can be identified, e.g. the three most burdensome Information Obligations represent more than 82% of the overall administrative cost for this Priority Area). As such the measurement provides a helpful tool to measure progress and a clear direction to focus on in Module 5 and further reduction programmes.

Under no circumstances should it be forgotten that complying with the requirements of national VAT legislation poses a difficult challenge for businesses within the European Union. This challenge intensifies when national authorities adopt a strategy of non-fluent communication and severe application/interpretation of national VAT Law towards well-intentioned VAT taxable persons. All reasonable efforts should be made to ensure that an efficient a balance as possible is achieved between the needs of the authorities to collect taxes and the need for businesses for simple, limited legislative requirements.

7. Annex

7.1 Methodological challenges in the Priority Area VAT

7.1.1 Recruitment of companies

For the priority area Tax Law (VAT) the data collection chosen was the 'workshop'. Measurement Countries were instructed to recruit businesses following the sub-segmentation micro, small, medium-sized and large and the main-segmentation insourcing (i.e. businesses handling their VAT-bookkeeping in-house) and outsourcing (i.e. businesses which leave the VAT-bookkeeping to their consultant).

Initially it was decided to organise two workshops, i.e. conform the main-segmentation insourcing and outsourcing. In these two workshops each of the sub-segments had to be present and discussion groups would be set up based on business size.

Because of this detailed sub-segmentation and in order to organise the recruitment procedure as efficient as possible, Measurement Countries were instructed to use the contacts of the consortium, personal contacts and contacts with Member State organisations whenever possible.

In some of the Measurement Countries it seemed difficult to involve sufficient participants in workshops. The recruitment for the 'insourcing workshop' went difficult because of businesses' lack of willingness to participate and the timing of the measurement interfering with companies' annual accounting or VAT reporting. The recruitment for the 'outsourcing workshop' was even more difficult because businesses were not the right interview subjects. They mostly pay a global price to their consultant in order to handle their VAT-bookkeeping and thus are not placed to split this over the different VAT IOs. Therefore, the only option was to involve their experts.

Because of the above it was necessary to re-evaluate the measurement approach and tailor this for each of the Measurement Countries.

Hereafter an overview is given on how the data collection was performed in each of the Measurement Countries:

Cyprus

Two workshops were organised: for the 'insourcing workshop' we involved micro, small, medium-sized and large businesses, while for the 'outsourcing workshop' large consultancy businesses and local service-providers were invited. The workshops were lead by the Deloitte VAT department. Data were collected for each of the VAT IOs.

France

In France, measurements were performed via face to face interviews. In this respect, the Deloitte network was used. However, two difficulties were faced: (1) low rate of cooperation – especially problematic for the insourcing micro segment – and (2) for some VAT IOs it was difficult to obtain sufficient data points (e.g. 'Application for VAT refund'). For these cases an expert assessment was needed.

Hungary

Of all Measurement Countries, recruiting seemed to be most difficult in Hungary. Businesses were not willing to put effort in participating in the measurement. In order to limit the time they had to spend, companies received all documentation upfront and then were interviewed via telephone. Further, for some of the VAT IOs it was difficult to identify businesses being confronted with the specific IO. For these an expert assessment was needed.

Latvia

Two workshops were organised: for the 'insourcing workshop' we involved micro, small, medium-sized and large businesses, while for the 'outsourcing workshop' large consultancy companies and local service-providers were invited. Assistance was given by the Deloitte VAT consultants. For some of the VAT IOs no data could be collected during the workshop; therefore, follow up interviews and expert assessments were needed.

Poland

Recruiting businesses to participate in a workshop was extremely difficult. In the end an insourcing workshop could be organised because this workshop could be combined with a seminar organised by the Deloitte VAT-department. All sub-segments, except micro, were present. For the insourcing micro segment and for the outsourcing segments data were collected via face-to-face interviews.

Spain

Recruitment in Spain went rather difficult. Via the cooperation of the local Chamber of Commerce a workshop could be organised for large and medium-sized businesses insourcing their VAT-bookkeeping; data for micro and small businesses were collected via face-to-face interviews (assistance was provided by the Deloitte VAT consultants). For some of the IOs in some of the segments no interview subjects were identified, and expert assessment was needed. For businesses outsourcing their VAT-bookkeeping, interviews were conducted by the Deloitte VAT consultants.

7.1.1 Data collection

The data collection for the Priority Area Tax law (VAT) faced a number of considerable challenges. Despite the fact every effort was made to target businesses that would have experience with the majority of the IOs measured, only a minority of the businesses were confronted with all IOs. In addition, segmentation according to 'insourcing' and 'outsourcing' was not always straightforward (and in some cases not even applicable), because it is exceptional for a business to insource either all or none of the compliance with all IOs (i.e. that all IOs are insourced or all IOs are outsourced). Often a 'mixture' was encountered. Businesses sometimes had difficulties to allocate costs to a certain VAT obligation (despite clear guidelines provided, such as communicated to the Commission on October 15th 2008), i.e. because VAT and accounting are highly integrated, but also because of the interaction between different VAT obligations (e.g. "VAT bookkeeping in sufficient detail" and "Submission of a periodical VAT return").

7.1.2 Standardisation

In the priority area Tax Law (VAT) most of the IOs (e.g. "VAT bookkeeping in sufficient detail", "Taxable persons making intra-Community supplies", "Submission of a periodical VAT-return") are highly influenced by non (exclusive) VAT specifics such as business processes (e.g. the use of VAT compliant accounting systems) as well as VAT specifics (e.g. the total amount of transactions a certain business- has to handle). Therefore, interview results were reviewed in detail, taking into account the business specifics, and subsequently, the segment average was taken into account as the standardised result.

7.2 Data annex

7.2.1 List of EU Requirements and Possibilities stated in the EU Legal Act

- 'Application for a VAT refund': To qualify for refund, any taxable person who supplies no goods or services deemed to be supplied in the territory of the country shall submit to the competent authority referred to in the first paragraph a modelled application attaching originals of invoices or import documents;
- 'Communication of the cessation of the activity as a taxable person': Every taxable person shall communicate towards the local Tax authorities when his activity as a taxable person ceases;
- 'Communication of the change of the activity as a taxable person': Every taxable person shall state when his activity as a taxable person changes;
- 'Communication of the start of the activity as a taxable person': Every taxable person shall state when his activity as a taxable person commences;
- 'Deliver certificate of not having performed transactions for which a business can be held liable to pay VAT': To qualify for refund, any taxable person who supplies no goods or services deemed to be supplied in the territory of the country shall: (...) Certify by means of a written declaration that he has (i) supplied no goods or services deemed to have been supplied in the territory of the country or (ii) has supplied no goods or services deemed to have been supplied in the territory of the country other than reverse charge services referred during the period for which the refund is asked;
- 'E-invoicing obligations in case of goods or services supplied from a third country': Member States may lay down specific conditions for invoices issued by

electronic means in respect of goods or services supplied in their territory from a third country (i.e. a non-EU country);

- ‘Formalities relating to the exportation of goods’: The formalities relating to the exportation of goods in free circulation which are dispatched or transported from a Member State to a third territory forming part of the customs territory of the Community, shall be the same as those laid down by the Community customs provisions in force for the exportation of goods from the customs territory of the Community;
- ‘Guaranteeing the authenticity of the origin and integrity of the content of e-invoices’: The authenticity of the origin and the integrity of the content of invoices which are sent via electronic mails are to be guaranteed either by means of an advanced electronic signature, by means of EDI (Electronic Data Interchange) or by making use of other electronic means accepted by the Member State concerned. The taxable person should obtain an advanced electronic signature or conclude an agreement to use electronic data interchange (EDI), or use another method accepted by the Member States;
- ‘Issuance of an invoice’: Every business shall ensure that an invoice is issued, either by himself or by his customer or, in his name and on his behalf, by a third party for the following transactions:
 - Supplies of goods to other taxable persons or to a non-taxable legal person;
 - Distance sales;
 - Intra-Community supplies;
 - Payments of accounts related to the abovementioned types of supplies of goods;
 - All payments of accounts relating to services which are not yet performed.
- ‘Issuance to principal of statement as a public auctioneer’: The organiser of the sale by public auction to whom the goods have been transmitted pursuant to a contract under which commission is payable on a public auction sale must issue a statement to his principal;

- ‘Keeping a register of shipments without transfer of ownership’: Every taxable person should keep a register of the goods dispatched or transported, by him or on his behalf, towards another EU Member State for the purposes of transactions consisting in work performed on those goods or their temporary use;
- ‘Keeping separate accounts for special margin and other transactions’: Where the taxable dealer applies both the normal VAT arrangements and the margin scheme, he must show separately in his accounts the transactions falling under each of those arrangements, in accordance with the rules laid down by the Member States;
- ‘Keeping accounts of intra EU transfers of movable tangible property’: Every taxable person shall keep accounts in sufficient detail enabling the identification of goods dispatched to him from other Member States for valuation purposes or for work on those goods;
- ‘Maintain record of transactions in investment gold’: Member States shall ensure that traders in investment gold keep, as a minimum, accounts of all substantial transactions and keep the documents which enable the customers in such transactions to be identified, for a period of at least five years;
- ‘Notifications relating to storage’: Member States may require taxable persons to notify them of the place of storage of the invoices, if this place is located outside the territory of the Member State;
- “Notification of cessation of conditions of exemption for EC acquisitions”: Every taxable person or non-taxable legal person, which first was in a situation in which subject its intra-Community acquisitions were not subject to VAT in the country of arrival on the goods, needs to lodge a notification with the local VAT authorities that he no longer meets the conditions for not making these intra-Community acquisitions subject to VAT (i.e. they need to inform the local tax authorities that the yearly IC acquisition threshold has been exceeded);
- “Obtaining an import certificate for the purpose of import VAT deduction”: In order to exercise the right of deduction on import VAT, a taxable person must hold an import document specifying him as a consignee or importer and stating the amount of VAT due, or enabling that amount to be calculated;

- “Obtain certificate of VAT taxable status to qualify for refund”: To qualify for refund, any taxable person who supplies no goods or services deemed to be supplied in the territory of the country shall: produce evidence, in the form of a certificate issued by the official authority of the State in which he is established, that he is a taxable person for the purposes of value added tax in that State;
- “Obligations related to the intra-Community supplies of new means of transport”: Member states shall take all measures necessary to ensure that the vendor, which is either a normal taxable person, either an occasional taxable person, of a new means of transport, towards a customer in another EU Member State that is not identified for VAT purposes, communicates all the information needed for VAT to be applied and its application checked by the tax authorities. Member States shall also lay down the rules for the deduction of input VAT for occasional taxable persons.
- “Obligations for self-billing or third party-billing by non-EU entities”: Member States may lay down specific conditions for invoices issued by electronic means in respect of goods or services supplied in their territory from a third country (non-EU country);
- “Obligations related to the intra-Community acquisitions of new means of transport”: Member States may require persons to provide, when submitting the VAT return according to Article 258, all the information needed for VAT to be applied and its application checked by the tax authorities;
- “Provision of proofs of exemptions on exportation”: The exemptions provided in Chapter 6 of title IX of the Directive shall apply without prejudice to other Community provisions and in accordance with conditions which the Member States shall lay down for the purposes of ensuring the correct and straightforward application of those exemptions and of preventing any possible evasion, avoidance or abuse. Member States shall exempt the supply of goods dispatched or transported to a destination outside the Community by or on behalf of the vendor. Member States shall exempt the supply of goods dispatched or transported to a destination outside the Community by or on behalf of a customer not established within their respective territory;

- “Storage of data guaranteeing authenticity, integrity and legibility of the invoices”: Member States may require that the data guaranteeing the authenticity of the origin of the invoices and the integrity of their content also be stored;
- “Storage of invoices for inspection”: Every taxable person shall ensure that copies of the invoices issued by himself, or by his customer or, in his name and on his behalf, by a third party, and all the invoices which he has received, are stored;
- “Submission of VAT returns for the intra-Community acquisition of goods other than means of transport and excise goods”: Member States shall take the measures necessary to ensure that non-taxable legal persons who are liable for payment of VAT due in respect of intra-Community acquisitions comply with the obligations relating to the submission of a VAT return. The non-taxable legal person should gather all the relevant (VAT) information on his intra-Community acquisitions of goods relating to a specific period. He should prepare a VAT return and submit it to the Authorities either on paper, either by electronic means;
- “Submission of an intra-Community sales listing”: Every taxable person identified for VAT purposes shall submit a recapitulative statement of his VAT exempt intra-Community supplies (intra-Community supplies are supplies of goods shipped to a VAT registered customer in another EU Member State) and of the persons to whom he has supplied goods as party in a simplified triangular transaction;
- “Submission of a VAT return in case of intra-Community acquisitions of new means of transport”: Member States shall lay down detailed rules for the submission of VAT returns in respect of intra-Community acquisitions of new means of transport by businesses which other intra-Community acquisitions are not subject to VAT;
- “Submission of a periodical VAT return”: Every taxable person shall submit a VAT return setting out all the information needed to calculate the VAT amount taxable, the VAT amount deductible, as well as, in so far as necessary for the calculation of the taxable base, the total amount of the transactions on which VAT is chargeable and deductible, as well as the value of any VAT exempt transactions;
- “Submission of a VAT return in case of intra-Community acquisitions of excise duty products”: Member States shall lay down detailed rules for the submission of VAT returns concerning the intra-Community acquisitions of excise duty products for businesses which other intra-Community acquisitions are not subject to VAT;

- “Submission of an intra-Community acquisitions listing”: Member States may require that taxable persons who, in their territory, intra-Community acquisitions of goods, or transactions treated as such, submit statements giving details of these acquisitions, provided, however, that such statements are not required in respect of a period of less than one month;
- “Submission of a summarising annual VAT return”: Member States may require the taxable person to submit a return showing all the particulars specified in the periodic VAT returns for all transactions carried out during the preceding year. That return shall provide all the information necessary for any adjustments;
- “Submission of an additional summary paper document when e-invoicing via EDI”: Member States may require, subject to the conditions they lay down, that in the case of e-invoicing by means of EDI, also an additional summary document on paper is sent.;
- “Translation of the invoices in the language of the Member State in which the supply takes place”: Member States may require a translation of the invoices for supplies of goods or services which are deemed to take place in their country for VAT purposes;
- “VAT bookkeeping in sufficient detail for inspection by tax authorities”: Every taxable person shall keep accounts in sufficient detail for VAT to be applied and its application checked by the tax authorities. The taxable person should keep the appropriate VAT registers.

In addition to the above and in agreement with the Commission three EU ‘Cost’ IOs were mapped and measured, to represent general costs that are not specifically attributable to any single EU Information Obligation. These ‘cost’ IOs are “VAT training”, “Software costs” and “VAT audits”.

7.3 Collection and extrapolation of population data

A detailed description of the process of population data collection and extrapolation can be found in the Main Report covering all Priority Areas⁶⁴. This annex covers only the specific Tax Law Priority Area (VAT) and describes the efforts that were carried out to obtain population data and to assure the quality of data.

⁶⁴ The extrapolation model as well as the process of population data collection and extrapolation is further described in the annex of the Main Report.

For Tax Law Priority Area (VAT), the Consortium population data was collected based on national government reports/websites, baseline measurement reports or even direct contacts with the national authorities. Sometimes several conflicting sources were available. In these case sources were prioritised according to credibility, the publishing source and date of publishing. In most of the cases, it was not possible to gather data on segmented level. Where no sources were available for Member States, population data was extrapolated/expert assessed, taken into account different impacting aspects for specific IOs (if any).

For the Tax Law Priority Area (VAT), one environment variable was set up to extrapolate data points where these were missing. This environment variable was the number of VAT registered taxable persons per Member State, as this indicates economic activity in the Tax Law Priority Area (VAT). The environment variable was tested against gross national product, number of businesses and specific sources (overview submitted to the Commission on October 15th 2008).

The quality assurance for this Priority Area was integrated in the process of data collection and extrapolation. After extrapolation, the plausibility of the figures was verified by expert assessment and by comparing the extrapolation results to the output of the desk research and to the results of the Baseline Countries.