



European Commission
Taxation and Customs Union

Workshop 3

**Changing the VAT system: the
ultimate solution?**

Jean-Claude BOUCHARD



Generalised optional reverse charge

- Principle of good administration
 - Proportionality
 - Fiscal certainty



Generalised optional reverse charge

- Proportionality and Fiscal Certainty
 - Too much of administrative burden on the businesses
- Examples:
 - Up to seven categories of VAT transactions for national deliveries
 - B to B below threshold
 - B to B above threshold
 - B to small businesses (SMEs)
 - B to Public Bodies
 - B to B exempt
 - B to B for personal purposes
 - B to SMEs over the threshold



Generalised optional reverse charge

- Examples (contd.)
 - Complexity for a business issuing invoices to 40 million customers per month
 - Complexity concerning intra-community traffic, if the system is optional and only applied in certain countries
 - More traders in a VAT repayment situation (timing of payback of input VAT)



Generalised optional reverse charge

- Proportionality and Fiscal Certainty (contd.)
 - Black market economy VAT losses not solved by the system
 - Currently Tax Authorities have no risk management systems
 - Missing Trader problem shifted to national transactions
 - Missing Trader fraud in i/c supplies has led to insolvencies of honest retailers in many cases
 - Move to a sales tax system
 - A sales tax, whose rate exceeds 10%, is avoided
 - A reverse charge system cannot sustain rates up to 25%
 - Example: highest sales tax rate in the U.S. 8%
 - Sweden shifted from sales tax system to VAT in order to avoid the high level of fraud



Generalised optional reverse charge

- Proportionality and Fiscal Certainty (contd.)
 - Reverse charge – a way to chaos
 - Is it not going too far?
 - The transitional system (reverse charge of i/c supplies, services) covers 10% of all VAT transactions, to change the remaining 90%?? ...
 - UK experiment is a limited one and has to be measured over time
 - It may shift the fraud either to other products or to other countries
 - VAT loses its self-policing qualities



Generalised optional reverse charge

- Proportionality and Fiscal Certainty (contd.)
 - Need for more harmonization in the EU – optional reverse charge is quite the opposite
 - Who bears the risk?
 - e.g. if nature of customers changes after electronic check
 - Threshold hard to identify



Taxation of Intra-Community Supplies

- Complex, but could work
- How do you secure the right of deduction in the Member State of arrival?
- Brazilian system?
- Uniform EU model of invoices for intra-Community traffic
- It would be a good tool to combat fraud
- Good step towards Internal Market



Joint & Several Liability

- Clearly rejected because of uncertainty and disproportionality
- Ought to have known because of objective criteria
- Businesses deserve better treatment
- Slippery slope; blind alley
- Enormous burden when we should be reducing burdens



Amending rules on the right of deduction

- Right of immediate deduction depending on the status of the supplier
- “Absolute disaster”
- Cuts right into the heart of the system
- Principle of neutrality is at stake
- Discriminating against SMEs
- Authorised Economic Operators & another procedure for small businesses



Taxable status

- Giving the quality of “taxable person” to a person who fulfils his tax obligations: Appearance v. reality
- Hijack VAT numbers
- Parasite fraud
- All about accreditation...
- Authorised Economic Operators & another procedure for small businesses



Conclusions

- Do not change the system radically
- One needs national and international resources
- One needs an international team with cross-border competence to chase after the fraudsters
- We need the tax administrations to interconnect and correctly exploit the declarations filed by the business
- Ultimately, having sorted the bad ones from the good ones, allow good ones to perform intra-Community traffic, which could lead ultimately to taxation of intra-Community supplies