

Green Paper on the future of VAT: Towards a simpler, more robust and efficient VAT system (COM(2010) 695 final).

FINAL DOCUMENT APPROVED BY THE COMMITTEE

The Finance Committee of Italy's Chamber of Deputies,

having examined the Green Paper on the future of VAT, presented by the European Commission on 1 December 2010 (COM (2010) 695 final);

noting that the Green Paper was presented by the European Commission with the welcome goal of overhauling the current VAT system in order to achieve five main objectives:

strengthening its coherence with the single market;

increasing its capacity to raise revenue and resist attacks of fraud of the kind experienced in recent years, at the same time supporting the process of fiscal consolidation in the Member States;

reducing the cost of compliance and collection for taxpayers;

enabling the system to adapt to changes in the economic and technological environment;

supporting the delivery of the Europe 2020 strategy for growth and employment and, more generally, reviving the European economy after the crisis;

whereas:

coordination of national taxation systems should be, at this stage of the process of European integration, a priority, as it is necessary to combine boosting growth and employment with the fair and effective readjustment of the public finances;

further harmonisation of value added tax must be included within a broader strategy of convergence of tax policies, aimed at preventing harmful competition that could have an adverse impact on the overall competitiveness of the European economy: this strategy should be pursued within the scope of the new economic governance mechanisms, as part of the European Semester, for the *ex ante* coordination of national economic policies;

we welcome the Green Paper's aim of introducing, for the first time since the establishment of the tax, a comprehensive reform of the entire VAT system to address the many gaps and contradictions in the existing regulatory framework at the European and national levels;

Europe's current VAT regulatory framework is inconsistent with the principle of proportionality, characterised by its increasing complexity and excessive

administrative burdens for taxable persons and its disregard for the needs of small and medium-sized enterprises;

the system of VAT rates, given the numerous exemptions and reduced and super-reduced rates applied by individual Member States, is highly incoherent and fragmented, and can distort the functioning of the internal market and competition;

of all taxes, VAT is afflicted by the highest rate of tax evasion and avoidance, partly due to the complexities of its multistage nature, thus seriously undermining both the level playing field for businesses and, therefore, the implementation of the single market itself, and the national and European tax systems;

tax evasion and avoidance, which result in a significant loss of tax revenue, appear to derive in no small part from the inherent weaknesses in existing legislation, notably the provisions allowing VAT-exempt cross-border purchases of goods and services and the way the tax is collected, which has remained essentially unchanged despite the technological innovations that have occurred in the meantime;

addressing this complex issue calls for the adoption of a comprehensive strategy to combat evasion, which must necessarily involve regulatory reform and harmonisation, as well as more extensive use of information technologies for invoicing, VAT returns and payment of the tax;

despite the challenges outlined in the Green Paper, it would be advisable to assess the possibility of moving to the system of taxation in the Member State of origin – reversing a number of recent contrary developments - as well as ensuring a high degree of harmonisation of VAT rates in order to prevent differences in tax rates from influencing decisions about where to purchase and implementing an effective clearing system to ensure that VAT receipts accrue to the Member State of consumption;

Article 113 of the Treaty on the Functioning of the European Union, which provides the legal basis for the harmonisation of VAT, does not specify the legal instrument to be used for this purpose. In this regard, the almost exclusive use of directives, while allowing Member States to take account of the peculiarities of their legal systems in transposing EU legislation, has resulted in a lack of uniformity in national VAT regulations;

it is necessary for this final document, along with the text of the opinion expressed by the Committee for European Union Policies, to be transmitted to the European Commission within the scope of the informal political dialogue and to the European Parliament and the Council;

CALLS ON THE GOVERNMENT

to take action in the appropriate decision-making fora of the European Union to:

- a)* ensure that the European Commission follows up on the consultation initiated with the Green Paper, presenting the necessary legislative proposals in order to proceed with the modernisation of the VAT system in accordance with the objectives and principles outlined in the Green Paper itself;
- b)* give preference, with a view to further harmonisation of the VAT system, to the use of regulations rather than directives in order to achieve greater consistency and uniformity in the application of the tax in national legal systems;
- c)* rationalise of the system of VAT rates, which should be made more coherent and fair. In particular, it is necessary to lay the foundations for setting a single standard rate and a single reduced rate for goods and services considered eligible for this relief at the Community level, eliminating the national differences that currently distort competition, taking steps to ensure, however, that harmonisation does not fuel inflation;
- d)* in this context, undertake a complete overhaul of the system of reduced rates and numerous special derogations or exemptions currently envisaged in favour of individual Member States, in order to enhance the efficiency and neutrality of the tax and to broaden the tax base, thus offering a viable alternative to increasing VAT rates for the consolidation of national public finances;
- e)* in particular, limit the application of reduced rates to – in addition to labour-intensive services - locally delivered services and, more generally, services provided by European small and medium-sized enterprises, while allowing the Member States temporarily to adopt reduced rates in order to cope with national economic crises, providing the reasons therefor;
- f)* in addition, achieve harmonisation of VAT rules for cultural products by applying the reduced rate to music and audiovisual products, electronic publishing products and audio books, which are currently subject to more onerous tax treatment than other products of similar cultural significance;
- g)* in connection with the process of harmonisation of tax rates and exemptions, consider the possibility of introducing a system of taxation of transactions based on the principle of the country of origin of goods or services, assessing whether the benefits of such a system in terms of simplification and countering tax evasion outweigh the possible problems arising from the need to establish a clearing system for the Member States in which the goods or services are consumed;
- h)* assess the advisability of establishing a special VAT scheme for small and medium-sized enterprises, based on a common access threshold, in order to reduce the administrative burden associated with application of the general VAT rules;
- i)* in general, take steps to drastically reduce the administrative burden associated with paying the tax, including by way of establishing, at the European level, a comprehensive list of standard VAT obligations that can be imposed by Member States, as well as through the preparation of standard European forms for all obligations relating to returns and payment of the tax;

l) continue to vigorously combat the very serious problem of VAT evasion, which, besides being a major source of inequality between taxable persons, causes considerable harm to the public finances of the Member States and the European Union itself, which is a factor of even greater concern in the current crisis situation;

m) in the latter regard, take steps to extend, to the greatest possible extent, the mandatory use of electronic invoicing for VAT-liable transactions or to encourage, along the lines envisaged under Directive 2010/45/EC, the use of such invoicing by reducing the many reporting requirements currently in force, providing for each VAT document to be transmitted electronically to both the recipient of the goods or services and the competent office of the tax authorities of the country involved, giving them access to a VAT data warehouse updated in real time;

n) in this context, assess the possibility of introducing automatic tax payment procedures, channelled through the banking system or electronic money institutions, that allow full traceability of transactions and directly link payment for the goods or services in the taxable transaction to payment of the tax to the tax authorities;

o) in addition, assess the possibility of extending the reverse-charge mechanism, under which the tax is paid by the recipient rather than the supplier, to all sectors with high added value and high risk of fraud in order to eliminate one of the factors which most increases the risk of tax evasion, represented by the transfer of sums of money for VAT at every intermediate stage. In this regard, it should be noted that Directive 2010/23/EU has adopted this position, allowing Member States to apply, albeit on a temporary basis, the reverse-charge mechanism to transactions involving the sale of taxable goods or services under the greenhouse gas emission allowance trading scheme precisely in order to combat VAT fraud in this area;

p) consider, as an alternative to extending the reverse-charge mechanism, the possibility of applying cash accounting for VAT on a systematic basis to transactions between taxable persons (so-called "business to business" transactions), under which the payment and deduction of VAT take place at the time payment is made, in order to eliminate the difficulties faced by suppliers in recovering VAT in cases of losses on receivables or in bankruptcy proceedings involving the creditor;

q) establish mechanisms to reduce the number of VAT identification numbers, in particular by verifying the correspondence between formal VAT positions and actually engaging in a business, craft or profession in order to counter the distortions that may result from this situation, especially with regard to fictitious transactions (for example, in cases of "carousel fraud") and unwarranted deductions, within a framework of more general restrictions on the ability to deduct VAT paid on goods and services used for non-business purposes;

r) take action with regard to the application of VAT to intra-EU cross-border transactions in order to address the current system's particular vulnerability to fraud in such transactions;

s) in general, enhance the rationality and effectiveness of the mechanisms used to control and verify compliance with VAT obligations, as well as cooperation between the tax authorities of the Member States, making more extensive use of new information technologies, especially to identify sectors at greater risk of fraud or tax evasion.