WHY DO WE NEED VAT REFORM NOW?

1. Every year EU countries lose up to €50 billion to cross-border Value Added Tax (VAT) fraud. This is money that should be invested into schools, roads and hospitals.

2. Instead, fraudsters are known to use this money to finance criminal and possibly even terrorist activities.

3. The VAT system needs to be made more fraud-proof so that we can protect government revenues.

4. We also need to make life simpler, especially for small companies which currently experience barriers to selling in the Single Market.

DID YOU KNOW?

Almost €1 trillion: All VAT collected in the EU in 2015 – equivalent to 7% of the EU’s total GDP.

The current rules for VAT came into force 24 years ago.

€150 billion: Size of the “VAT Gap”, or the difference between VAT revenues expected and VAT actually collected in 2015.

Cross-border VAT fraud could be reduced by 80% for businesses with the future VAT system.

“Today, we are proposing to renew the current VAT system, which was set up a quarter century ago on a temporary basis. We need a definitive system that allows us to deal more efficiently with cross-border VAT fraud. At the European Union level, this fraud causes an annual tax revenue loss of around €50 billion.”

Valdis Dombrovskis, Vice-President responsible for the Euro and Social Dialogue

“Twenty-five years after the creation of the Single Market, companies and consumers still face 28 different VAT regimes when operating cross-border. Criminals and possibly terrorists have been exploiting these loopholes for too long, organising a €50bn fraud per year. This anachronistic system based on national borders must end! Member States should consider cross-border VAT transactions as domestic operations in our Internal market by 2022. Today’s proposal is expected to reduce cross-border VAT fraud by around 80%. At the same time, it will make life easier for EU companies trading across borders, slashing red tape and simplifying VAT-related procedures. In short: good news for business, consumers and national budgets, bad news for fraudsters.”

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs
WHO COMMITS VAT FRAUD AND HOW DOES IT HAPPEN?

It is mainly well-established criminal networks who commit cross-border VAT fraud. It usually involves at least two or more EU Member States, can involve extremely complicated schemes and may target specific sectors of the economy, including electronics and cars. Proceeds from these activities have even been used to finance terrorist activities.

How does international VAT fraud work?

Currently, VAT is charged on sales of goods between businesses in the same country. This means that businesses are incentivised to collect VAT on their onwards sales to the final consumer or to another company (so they can deduct the VAT paid by them to their suppliers of goods or services). But goods sold cross-border between businesses are currently exempt from VAT.

This difference makes fraud very easy. A dishonest company can buy goods in another EU country – without VAT – and sell them on legally in their own country and charge VAT.

The company then fraudulently takes the cash from the sale, without paying the VAT collected on the sale to its tax administration. And very often these companies disappear, without even being audited.

This happens again and again: the same goods can be passed back and forth across borders between the same shady companies and each time, fraudsters pocket the VAT. This is what we call ‘carousel fraud’.

We need to change how VAT is collected in the EU by introducing VAT on cross-border sales between businesses.
The proposed ‘One Stop Shop’ concept will dramatically improve and make it simpler to do business across borders and will reduce VAT fraud.

How?

If VAT were introduced on cross-border trade today under the current rules, businesses would have to register for VAT, file returns and make payments in every EU country where they operate.

That’s why we’re introducing the “One Stop Shop” concept for VAT on cross-border trade between businesses.

VAT will be declared and paid by the seller via the one-stop-shop mechanism in the country and language of the company.

National tax authorities will then transfer the taxes due to each other directly.

This already happens for sales of e-services and the system works remarkably well. In 2016, Member States were projected to collect around €3.2 billion through the online portal.

This system will make it simpler to do business across the borders while also reducing VAT fraud. Companies big and small, tax administrations, as well as citizens will all benefit.
The cornerstones of a new VAT system for the EU

Abolishing the VAT exemption on cross-border trade

A ‘One Stop Shop’ online portal for businesses to take care of their cross-border VAT obligations in their own language

Agreement that the VAT should always be paid in the Member State of the final consumer and at the rate of that Member State

Simplification of VAT invoicing allowing sellers to prepare invoices according to the rules of his own country.

NEXT STEPS

- Proposal for a modernised system of setting VAT rates
  Modernising the VAT rates framework and give greater flexibility to Member States as regards VAT rates.

- Proposal to reinforce administrative cooperation between Member States
  Enabling Member States to share information more quickly and to cooperate more.

- Proposal to simplify VAT for SMEs
  An update of special VAT rules for smaller companies, including looking at how to ease VAT obligations for small and medium-sized enterprises.

November 2017

- Full technical adaptation of the VAT directive to reflect the changes needed to practically implement the VAT definitive regime as proposed by the Commission.

Spring 2018

- Entry into force of the Single EU VAT area, once agreed.

2022