

OPENING SPEECH AT TAX FORUM

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CENTRE ALBERT BORSCHETTE,
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1. SPEECH

Introduction

I would like to welcome you all to the 7th Brussels Tax Forum.

This year Commissioner Šemeta has chosen a subject that is particularly important for me, but also for the vast majority of citizens of the EU. Every day, several millions of people pay VAT on their purchases, or collect it as suppliers. On average, around 10% of the expenditure made by EU citizens is represented by VAT payments.

It would be in everybody's interest that the VAT paid and collected is contributing to state finances. However, it is probably not reassuring to hear that around 20% of VAT theoretically due is not arriving in the coffers of the treasuries. This represents almost EUR 200 billion of uncollected or unpaid VAT each year.

1st Session: VAT fraud

Of course, not all uncollected and unpaid VAT is the result of fraudulent behaviour, but a significant part is. This is the reason why the first session of this year's Brussels Tax Forum will be devoted to VAT fraud.

For this discussion, we are delighted to welcome both the Belgian Secretary of State for the fight against social and fiscal fraud, **John Crombez**, and the Portuguese Secretary of State **Paulo Nuncio**, to present their thoughts on this subject.

I'm pleased to say that the Commission has done much to fight VAT fraud. This year the Council adopted the Commission proposals for a Quick Reaction Mechanism and for the Reverse Charge Mechanism on fraud sensitive goods and services. These measures should help tackle the abuse of missing trader and carousel fraud.

But it is clear that more needs to be done. In looking at the amount of VAT uncollected in Europe, there are wide differences. Some EU countries perform exceedingly well and have VAT collection levels of over 95%. Others are less good.

The recent study on the VAT gap is a stock check of where we are in collecting VAT. It can be a help in identifying those countries with good VAT collection and sharing with others best practices. Within a common EU VAT system, it should be possible to move towards consistently high VAT collection levels for all EU countries and not just a few.

2nd Session: Fiscal consolidation and VAT

Of course combatting fraud is important in ensuring Member States collect the VAT they are entitled to receive. However, it is equally important that they have VAT systems that are as efficient as possible in bringing in tax revenue. And this takes me onto the second topic of this Tax Forum, namely fiscal consolidation.

All Member State should be interested in closing the VAT Gap and making their VAT system more efficient and more yielding. Some are in need to find new revenue so as to fend off their sovereign-debt crisis and regain access to financial markets at affordable conditions. Others have to improve their revenue basis, besides cutting the dynamics of spending trends.

To explore this topic more in depth, we are happy to have here **José Antonio de Azevedo Pereira**, the Director General of the tax and customs authority in Portugal. He will start the discussion on this item and will explain to us what measures are being taken in his country to turn the Portuguese VAT system into an efficient revenue raiser.

Very often, a typical quick fix in this context is simply to raise the standard rate of VAT and hope for more revenue. However, this might backfire, to a certain extent, for three reasons:

First, it might trigger higher inflation at times of falling standards of living. Second, it might be perceived as an unfair additional reward to those that avoid paying the tax in the first place and as an unfair additional burden on those who honestly pay the tax due. Third, it invites the honest taxpayers to contemplate tax circumvention, or to protest against further tax rate increases.

It is possible to increase VAT receipts within a more efficient VAT system. Certain parameters should be improved when using the VAT as a key instrument for the fight against unsustainable public finances.

For example, the VAT gap should be narrowed and the fight against VAT fraud should be fostered so as to make other reforms more efficient and contributing to a fairer VAT system.

The tax base should also be broadened. The economic literature states that around 50% of potential VAT revenue is “lost” by applying a wide range of reduced rates and exemptions to a wide array of goods and services.

We are not suggesting everything must be taxed at the standard rate. Equal efforts should be made to improve the efficiency of the systems by moving towards a broader based single standard VAT rate system. Indeed, the Commission made recommendations to 10 EU countries to do more in this respect.

One way to do this is to look at the extent of the exemptions from VAT that are currently allowed or required. There are in fact too many. Not only do they mean the business is treated as a final consumer, but the calculation for VAT deduction, and the associated tax planning, creates complexity.

The Commission will take a first look at exemptions through a review of public bodies. Currently there is a public consultation on-going and you are all invited to participate and express your opinion.

Another way is to consider carefully the application of reduced VAT rates. This is particularly true as the rich benefit more in absolute terms than the poor from reduced rates. To tackle the potential regressive nature of VAT, it would seem wiser to introduce targeted measures in favour of the needy parts of the population.

The raising of revenue should become the sole purpose of VAT. The achievement of other goals – such as social, cultural, environmental or employment goals – should be delegated to other, more targeted instruments.

A key advantage of shifting the tax burden to VAT is that efforts could also be made to lower taxes on labour. This would help the EU labour market to get out of the current stagnation, but also to make EU businesses become more competitive in the world. As a matter of fact, thanks to such a shift the cost of goods being exported would fall, since exports are exempt of VAT but include labour costs.

3rd session: VAT compliance

This brings me neatly onto the last session of today's event, VAT compliance. I'm sure **Chris Needham** will mention some of the frustrations suffered from a business perspective and what he'd like to see to improve the situation.

It should be said that a complex VAT system does not help with improving VAT compliance. The 200 billion EUR of uncollected VAT each year is not only down to intentional fraud. Mistakes unquestionably contribute for a significant amount. Thus, a simple system, whether on VAT rates or on VAT obligations, would improve compliance, reduce burdens and mistakes, and help narrowing the VAT gap.

In this respect, I am pleased to remind you that the standard VAT declaration proposal was adopted by the Commission on 23 October. It is a proposal which is business friendly, yet at the same time provides tax authorities the scope to perform the necessary risk analysis to determine which businesses to audit.

It has the potential, if implemented as proposed, to save businesses up to 15 billion EUR annually by cutting red tape. The simplification would be particularly relevant for those businesses declaring VAT in several EU countries.

We have already harmonised invoicing obligations, putting paper and electronic invoices on an equal footing across the whole EU. We have just proposed a standard VAT return for all Member States. Both these measures would reduce barriers in the single market for taxpayers, allowing them to expand their businesses across borders and saving them billions of Euros every year.

Of course, harmonised instruments can help but only in part. If the business still has to register and pay VAT in the EU country where the sales are made, EU trade will be discouraged, especially for SMEs. With the start of the mini-One Stop Shop in 2015, life will be made easier at least for those businesses selling e-services, broadcasting and telecommunication services cross border.

For business-to-consumer sales in other Member States, this system will allow the payment and declaration of VAT due in the Member State where the business is established.

It's a good start but we should go further. The Commission, as outlined in the 2011 Communication on the Future of VAT, will look to extend the scope of the mini-One Stop Shop once its success in 2015 is confirmed.

The Communication on the Future of VAT set out many ambitious actions. Some of these have been adopted by the Council, others have been proposed by the Commission. Other actions, such as the design of a definitive VAT regime for the cross border supply of goods, necessitate further work.

It is our plan to keep everyone informed on where we are with our announced actions. In the course of next year, it is our intention to adopt a Communication illustrating the state of play of the various initiatives.

Handover to Sharon Bowles

Before handing over the floor to Ms **Sharon Bowles**, the chair of the ECON Committee of the European Parliament, I would like to say that Commissioner expressed his hope you would enjoy this first Brussels Tax Forum dedicated to VAT. The importance of VAT is growing in terms of national tax receipts. In parallel, the challenges to keep it as a simple, robust and efficient way to collect tax are increasing too.

The European Parliament has always stimulated and inspired the discussion, also on VAT initiatives. Therefore, I am glad to hand-over now the word to Sharon Bowles and listen to her contribution to the discussion on how to turn the European VAT system into a real efficient one.