

Future of VAT (2/12/17)

As the EU single market develops, there is an increasing need to improve the current VAT system, to minimise the VAT burden and obstacles to cross-border trade within the EU, and to prevent tax fraud as efficiently as possible. The need to improve the VAT system is underlined in the new digital single market strategy drawn up by the EU, in the EU green paper on the future of VAT, and in the [EU 2016 action plan for modernising the VAT system](#).

Difficulties in dealing with many different national systems create a significant obstacle to traders attempting cross-border trade. The estimated annual VAT compliance cost averages €5,000 for each member state in which a trader supplies goods or services. And the current system is far from being neutral, with EU traders clearly at a disadvantage compared to non-EU traders, who can legitimately make supplies in the EU without paying VAT. Distortions cut EU traders' revenue down by €4.5bn a year. With VAT rates of up to 27%, there is a significant discrimination in favour of non-EU traders if they are exempt from VAT.

Since 1 January 2015, when the new place-of-supply rules for services came into force, VAT on all telecommunications, broadcasting and electronic services has been levied where the customer belongs. Accordingly, an online registration and payment system has been set up to reduce traders' costs and administrative burden. The European Commission believes that such a system should be extended to cover tangible goods being ordered online within and outside the EU. Instead of having to report and pay VAT in each member state where the customer belongs, traders should be given the opportunity to file a single VAT return and [make payment in their own member state](#).

On 7 April 2016 the European Commission presented an action plan to modernise VAT, listing measures expected to give a new impetus to the current VAT system by making it simpler, reducing the scope for fraud, and making it more favourable to business. The EU action plan outlines ways of modernising the current VAT rules, including –

- the core principles of the EU's emerging common system of VAT;
- short-term measures to fight VAT fraud;
- updated VAT rating rules, including ways of giving member states more discretion in setting their own rates;
- proposals to simplify the VAT rules in e-commerce connected with the digital single market strategy and to adopt a comprehensive [VAT package for easing the operation of SMEs](#).

Under the new rules, cross-border transactions will still attract VAT at rates applicable in the member state of destination (the destination principle), but the way of collecting VAT will be gradually changed to make the system better protected against fraud. At the same time, an EU wide e-portal will be set up to ensure that use of the VAT collection system is easy enough for traders and sufficiently stable for the member states.

The digital single market strategy also states that VAT development should begin with a lower administrative burden on traders arising from different VAT regimes in member states. The strategy underlines the need to adopt a single form for all member states with a single point of registration and the option of accounting for VAT in a single payment for transactions carried out anywhere in the EU, and to adopt a single VAT registration threshold across the EU.¹

Improving the VAT system has been debated for a long time. A key piece of development legislation is the EU green paper on the future of VAT. The future VAT development scenario involves facilitating traders' operations and cutting their administrative costs in furtherance of cross-border trade. A key objective is to introduce standardised VAT returns across the EU and to create a simple and easily accessible central EU website for settling all VAT obligations across the EU. The EU also emphasises the need to widen the range of taxable transactions and minimise exempt or out-of-scope transactions uniformly across the EU in order to avoid distorting the single market and to increase member states' revenues.

¹ Green paper on the future of VAT. Towards a simpler, more robust and efficient VAT system (2010)