Executive summary

On 7 April 2016, the European Commission adopted its Action Plan on value added tax (VAT) intended to move towards a more coordinated single European Union (EU) VAT area. The Action Plan was accompanied by a press release issued by the Commission summarizing the main objectives and a more detailed Q&A document setting out the basis for the different elements of the plan.

The plan sets out the immediate and urgent actions the EU intends to take to:

- Tackle the VAT Gap (estimated at around €170b, equating to 15.2% of revenue loss).
- Adapt the VAT system to the digital economy and the needs of small and medium enterprises (SMEs).
- Provide clear “orientations” towards a single European VAT area which implements the definitive “destination principle” for cross border supplies.
- Propose options for a modernized policy on EU rules governing VAT rates.

The Action plan will be of interest to all VAT registered entities.
Detailed discussion
The following highlights arise from the four major topics:

Digital market strategy
The Commission will, as part of its Digital Single Market Strategy, present a legislative proposal by the end of 2016 to modernize and simplify VAT for cross-border e-commerce by:

- Extending the current One Stop Shop concept to all cross-border e-commerce, including distance sales
- Introducing common EU-wide simplifications measures to help small start-up e-commerce businesses
- Streamlining audits in this sector (home country audits)
- Removing the VAT exemption for the importation of small consignments from suppliers in third countries

The Digital Market Strategy also specifically mentions e-publications and states the Commission will make a proposal to address the unequal treatment of paper versus e-publications for VAT purposes. The proposal will attempt to align VAT rates policy for e-publications across the EU.

The VAT gap
The plan sets out 20 measures to tackle the VAT gap and calls for urgent action on several fronts:

- Improve cooperation within the EU and with non-EU countries
- Move towards more efficient tax administrations
- Improving voluntary compliance
- Focus on and improve tax collection

To this end, in 2016, the Commission will present:

- Measures to improve cooperation between tax administrations including from non-EU countries and with customs and law enforcement bodies and to strengthen tax administrations’ capacity for a more efficient fight against fraud
- An evaluation report of the Directive on the mutual assistance for the recovery of tax debts

In 2017, the Commission will present:

- Proposal to enhance VAT administrative cooperation and Eurofisc

Definitive VAT regime for cross-border trade
The Action plan sets out the Commission's understanding of the complexities for the growing number of businesses operating cross-border and that the current system is the basis for significant cross-border fraud.

In 2017, the Commission will present a legislative proposal for a definitive VAT system for cross-border trade which will be based on the principle of taxation in the country of destination of the goods. Under the definitive system the supplier of goods collects VAT from his customer which would be extended to cross-border transactions.

Modernized VAT rate policy
The decision to implement a definitive VAT system based on the destination principle requires a reflection on the rules governing VAT rates.

The Action Plan suggests that Member States could be granted greater autonomy on setting VAT rates and the Commission has put forward two options for giving Member States more freedom:

1. Maintain the minimum standard rate of 15%, keep the current list of derogations and reduced rates and review that list regularly with input from Member States, or
2. Abolish the list of reduced rates but allow Member States to control the number and level of reduced rates they put in place (subject to safeguards and law around unfair competition).

However, the Commission recognizes that this measure also has potential political implications and aims to initiate discussions with Member States and the European Parliament so that, in 2017, detailed legislative proposals can be put forward.
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