

European Commission proposes far-reaching reform of EU VAT system

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Executive summary

On 4 October 2017, the European Commission (the Commission) published proposals for what is described as the largest reform of the European Union (EU) Value Added Tax (VAT) system in 25 years.

This Alert summarizes the key proposals.

Detailed discussion

A definitive VAT system for the EU has been a long-standing commitment of the Commission. Recently, the Commission's [VAT Action Plan](#) explained in detail the need to arrive at a single EU VAT area.

The Commission is proposing a series of fundamental principles or "cornerstones" and key reforms for the EU's VAT area designed to improve and modernize the VAT system. The EU's priority is to make the VAT system more robust and simpler while preventing fraud. In particular the Commission is seeking agreement on:

- ▶ **One Stop Shop:** VAT obligations for companies that sell cross-border will be simplified. The "One Stop Shop" is a concept already used in cross-border trade.
- ▶ **Greater consistency:** A move to the "destination" principle where the final amount of VAT is paid to the final consumer's Member State at the rate applicable in that Member State.

- ▶ **Less red tape:** A significant simplification of invoicing rules which would allow sellers to issue invoices in compliance with their local rules, even when the underlying supply is cross border.
- ▶ **Tackling VAT fraud:** VAT would be charged on cross-border trade between businesses. Currently, this type of trade is exempt from VAT. See the definitive VAT system below for further information.

The current proposal also introduces the notion of a Certified Taxable Person (CTP) - a trusted business who will benefit from simplified and time-saving rules. This is a new concept to facilitate and simplify trade for companies operating cross border in the EU. Provided that companies meet a set of criteria, they will be able to obtain a certificate allowing them to be considered a reliable VAT taxpayer throughout the EU. Once certified, both the CTP and any company doing business with it will enjoy a number of simplified procedures for the declaration and payment of cross-border VAT. The CTP status will be mutually recognized by all EU Member States.

The definitive VAT regime

The current proposal is for a system where VAT will be charged on cross-border sales at the rate applicable in the country of destination. The VAT would be collected by the tax authority of the country of supply and transferred to the country where the goods or services are ultimately consumed. For example, if a French company sells to a Polish customer, they would charge Polish VAT. Initially the definitive VAT system will focus on goods.

“One Stop Shop”

In order to remove the potential requirements for numerous EU VAT registrations, businesses will be able to make declarations, payments and deductions for cross-border supplies of goods through a single online portal, as is already the case for the supply of e-services. The online portal would allow VAT to be collected by the country where the sale is made and transferred to the country where the goods are consumed.

Short term quick fixes

In addition to the proposals around the definitive VAT regime, the Commission has proposed a number of short-term measures to improve the VAT system until the definitive regime has been fully agreed and implemented.

These quick fixes address a number of issues explicitly requested by businesses and Member States:

- ▶ Simplification of VAT rules for companies in one Member State storing goods in another Member State to be sold directly to customers there (call-off stock). This simplification is limited to CTPs who will no longer need to register and pay VAT in another Member State when they store goods there.
- ▶ Simplification for those elements of a chain transaction which do not involve the physical movement of goods, for example when goods are sold via several traders, but physically the goods move directly from the original seller to the final buyer. This simplification is limited to CTPs.
- ▶ New harmonized and uniform rules making it easier for traders to prove that goods have been transported from one EU country to another. This simplification is also limited to CTPs.
- ▶ Clarification that, in addition to proof of transport, the VAT number of the commercial partners recorded in the electronic EU VAT-number verification system (VIES) is required for the cross-border VAT exemption to be applied under the current rules.

Next Steps

The proposal will be forwarded to the European Parliament for consultation and to the Council of Ministers for their agreement. It will require unanimous agreement from all Member States in the Council before it can enter into force.

A second directive overhauling the whole VAT Directive will be proposed in which the cornerstones will be implemented and the current transitional articles will be replaced or deleted.

Further changes regarding the administrative cooperation rules and substantial IT developments will be needed in order to ensure the proper operation of the system.

The adoption of this second directive is currently scheduled for 2018 and the definitive VAT regime should enter into application in 2022.

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