

Special Committee on Financial Crimes, Tax Evasion and Tax Avoidance (TAX3)

Hearing on 'VAT fraud'

Thursday 28 June 2018, at 11h00 until 13h00

Speech

Honourable Members of Parliament,

- I am pleased to be here today to present the Commission's view on the crucial topic of VAT fraud in the EU and on the Commission initiative to make the European VAT system more efficient and VAT fraud proof to create **a single EU VAT area**.

[Importance of VAT revenues]

- **VAT is an important revenue source for national budgets and is part of the EU own resources.** In 2016 in the EU-28 Member States VAT revenues was EUR 1 044 billion! This corresponds to 18% of all tax revenues.
- However, **every year a large amount of the expected VAT revenue is lost because of fraud.** Our statistics show that in 2015 the VAT Gap amounted to EUR 151.5 billion (which represents more than 12% of the total expected VAT revenue).
- Even though the VAT gap is also due to other reasons than VAT fraud, such as bankruptcies, financial insolvencies and miscalculations, we estimate that intra-EU VAT fraud causes EUR 50 billion being extorted from the national budgets each year. Such a massive amount of money requires an efficient money laundering process comparable if not the same to the one showcased in the Paradise Papers.
- Also, the **Paradise Papers** and the recently published report of the UK House of Common on **VAT fraud in the field of e-commerce (about £ 1- £1.5 billion only in the UK)** raise concerns about the

efficiency of the current VAT system and calls for **action from Member States and the Commission.**

[Commission initiatives]

- The Commission takes the issue of VAT fraud very seriously. President Juncker made the need for a **deeper and fairer internal market** as one of the priorities for his mandate; everybody, citizens and business, should pay their fair share of taxes.
- First, **the Commission has been continuously stressing that the Member States should apply VAT rules.** This has been raised in several VAT avoidance cases (also highlighted by the Paradise Papers), made possible because of the wrong VAT treatment of certain supplies of yachts and aircrafts, and for which the Commission opened infringement procedures against a few Member States.
- Second, **the ECOFIN agreed on 22 June on a general approach on a Commission proposal to provide tax authorities with new and more efficient tools to combat the so-called missing-traders fraud.** In particular, Member States will have the possibility to carry out joint risk analysis to better detect and fight organised fraud. This new proposal also allows sharing data with customs, OLAF and Europol with the aim to establish a multidisciplinary front line against VAT fraud.
- Third, we need to be aware that even with an enhanced administrative capacity of tax authorities to combat fraud, the current EU VAT system remains subject to VAT fraud and needs to be modernised. **The Commission has therefore proposed to change the VAT system as regards B2B intra-Union supplies of goods.** This new regime will be based on the principle of taxation in the country of destination of the goods. This means that the taxation rules according to which the supplier of goods collects VAT from his customer will be extended to cross-border B2B transactions on goods. The **removal** of the **exemption** for intra-Community supplies of goods, which is at the

root of the cross-border VAT fraud (since the exemption allows the goods supplied B2B to cross borders without the VAT having been paid), should help reduce fraud by EUR 40 billion per year.

- The new rules will be combined with the introduction, at least in a first phase, of the concept of **Certified Taxable Person (CTP)**. This status is granted to a reliable taxpayer recognised as such by its own tax administration. Only when the acquirer of the goods is a CTP will the goods be allowed to cross borders without the VAT having been paid, which in itself should not give rise to fraud, since the CTP status will only be granted to reliable taxpayers.
- In the context of the definitive VAT system for intra-EU trade, the Commission adopted in October 2017 a legislative proposal which, inter alia, outlined the **cornerstones** or basic principles (such as the above-mentioned destination principle, the liability of the supplier - except where the customer is a CTP - and the One Stop Shop for output and input VAT) for this simpler and fraud-proof definitive system. This was followed on 25 May by a Commission proposal for a directive on the **detailed technical measures** for the practical implementation of these cornerstones. We expect the Council and the European Parliament to proceed quickly with these files.

[To summarize]

- To conclude, fighting VAT fraud is a priority for the Commission. In this regard, two main elements need to be addressed: one is the **capacity of tax authorities to enforce VAT rules and cooperate to fight VAT fraud**. The other element is the VAT system as such: the administrative actions to tackle the VAT gap, while useful, are not sufficient to put an end to cross-border fraud. The **VAT system needs to be modernised to be fully compatible with the requirements of the single market**.
- Thank you for your attention and looking forward to the discussion.