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**A7-0318/2011**

30.9.2011

# REPORT

on the future of VAT  
(2011/2082(INI))

Committee on Economic and Monetary Affairs

Rapporteur: David Casa

## CONTENTS

	<b>Page</b>
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
EXPLANATORY STATEMENT .....	11
OPINION OF THE COMMITTEE ON BUDGETARY CONTROL .....	15
OPINION OF THE COMMITTEE ON THE INTERNAL MARKET AND CONSUMER PROTECTION.....	18
OPINION OF THE COMMITTEE ON TRANSPORT AND TOURISM.....	22
RESULT OF FINAL VOTE IN COMMITTEE.....	24
RESULT OF FINAL VOTE IN COMMITTEE.....	25

## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the future of VAT (2011/2082(INI))

#### *The European Parliament,*

- having regard to the European Commission’s Green Paper on the Future of VAT (COM(2010)0695),
  - having regard to the European Commission’s Staff Working Document (SEC(2010)1455),
  - having regard to the ‘Small Business Act’ for Europe (COM(2008)0394),
  - having regard to the Commission communication entitled ‘A Digital Agenda for Europe’ (COM(2010)0245),
  - having regard to the PWC Study on the feasibility of alternative methods for improving and simplifying the collection of VAT through the means of modern technologies and/or financial intermediaries,
  - having regard to Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax<sup>1</sup>,
  - having regard to the OECD Guidelines on the Neutrality of VAT,
  - having regard to the EC publication ‘Taxation Trends in the EU’ (2010 Edition),
  - having regard to the OECD Consumption Tax Trends 2010,
  - having regard to the European Parliament report on a coordinated strategy to improve the fight against fiscal fraud from 2008,
  - having regard to Court of Auditors Special Report No 8/2007 concerning administrative cooperation in the field of value added tax, together with the Commission’s replies<sup>2</sup>,
  - having regard to Rule 48 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Budgetary Control, the Committee on the Internal Market and Consumer Protection and the Committee on Transport and Tourism (A7-0318/2011),
- A. whereas the current VAT system in the EU, which has been in place for 17 years, has been described as provisional with an expectation to move to a new system in due course; whereas the new initiative of the Commission's Green Paper is only the beginning of a procedure which is likely to be long, difficult and complex, and whose success will

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<sup>1</sup> OJ L 347, 11.12.2006, p.1.

<sup>2</sup> OJ C 20 25.1.2008, p. 1.

depend on real determination by Member States to develop a 'simpler, more robust and efficient' system that is more transparent and is based on close cooperation and exchange of best practices between Member States whilst respecting the principle of subsidiarity,

- B. whereas the aim of a common VAT system is to enhance the efficient functioning of the Internal Market, a crucial tool for the EU to remain competitive,
- C. whereas 99% of all businesses in the European Union are SMEs (small and medium-sized enterprises),
- D. whereas the European Union is seeking, by means of the 'Small Business Act', to help SMEs to grow by taking advantage of the opportunities and benefits offered by the single market,
- E. whereas the VAT exemption threshold for SMEs varies from Member State to Member State and applies at national level only,
- F. whereas the OECD recognises the presence of a global trend indicating a shift from direct to indirect taxation, with an increasing role for VAT systems; whereas Parliament also recognises this trend but at the same time stresses the importance of direct taxation for the progressivity of the tax system; whereas the OECD also notes a broad variation in VAT efficiency in OECD countries, indicating a broad scope for increasing VAT efficiency; whereas, however, any measures aimed at increasing VAT efficiency should also be accompanied by measures to tackle fraud and to consider ending the VAT exemption on financial transactions following an analysis of the implications involved, while taking into consideration the proposal for a Council Directive CNS/2007/0267,

### **General considerations**

1. Welcomes the Commission's Green paper on overhauling and reforming the current VAT system, and agrees that a comprehensive VAT system should reduce operational costs for users and administrative charges for authorities while combating fraud, which is a considerable burden on public finances and on consumers;
2. Emphasises that rendering the VAT system fraud-proof must be a key priority, given the massive losses incurred by Member States, possibly amounting to EUR 100 billion; particular attention needs to be paid to "carousel" fraud. Recalls the detailed suggestions contained in the Bowles report (A6-0312/2008), which are still valid and should be implemented without delay;
3. Notes that definitions such as "social wellbeing" or "principles of social reasons" which define services that are eligible for exemption or reductions of the VAT rate, are very vague due to the fact that they are determined by national courts in the light of Member States' law and therefore harbour the risk of a permanent distortion of competition;
4. Considers that Member States in the current VAT system find themselves in a prisoner's dilemma: the abolishment of fiscal border controls in 1993 has not been replaced by a sufficient degree of cooperation between Member States; notes that, as a result, they have lost a significant amount of potential income from VAT and other tax revenues because

some legitimate businesses may refrain from entering the Single Market and because fraudsters exploit the existing fragmented VAT system;

5. Calls therefore upon Member States to continue to build relationships based on trust, transparency and cooperation between national tax administrations, and to build ‘tax partnerships’ with businesses as the ‘unpaid tax collectors’ for tax authorities;
6. Urges the Commission to develop a coordinated strategy to improve the fight against fiscal fraud, as VAT fraud affects the financial interests of the Community;

### **VAT design, exemptions and reduced rates**

7. Calls upon Member States to move towards a ‘broad based’ VAT system; also stresses that the current financial climate presents important challenges and that a shift from direct to indirect taxation alone is not sufficient to ensure economic stability; therefore calls also for fair alternative sources of income to be sought;
8. Stresses the importance of looking closely into the consequences for regional autonomy within the Member States when discussing a shift from direct taxation to indirect taxation;
9. Recalls that one of the key features of VAT is the principle of neutrality and therefore that businesses should, as far as is possible, not be made to bear the burden of VAT collection; points out that Member States should ensure that in principle all commercial transactions are taxed as far as possible and that any exemptions are construed narrowly, whilst also ensuring that similar goods and services are subject to the same VAT treatments; underlines, for example, that all books, newspapers and magazines regardless of format should be treated in exactly the same way, which means that downloadable and streamed books, newspapers and magazines should be subject to the same VAT treatment as books, newspapers and magazines on physical means of support and that different cross-border transport services should be given identical VAT treatments irrespective of the mode of transport used; notes that when exemptions present no obstacle to the proper functioning of the internal market Member States should retain the right to grant exemptions based on narrowly construed social and cultural criteria;
10. Calls for a harmonised standard or reduced VAT rate for all intra-EU cross-border travel regardless of the mode of transport, and for harmonised rules on VAT deductibility;
11. Takes the view that the VAT rates for cultural goods should be the same, regardless of the method of selling them (online or offline); considers that such an alignment would contribute to the development of e-commerce and would provide the same cultural and educational benefits for consumers by promoting the development of the booming digital sector;
12. Notes that the transport sector is experiencing market distortions, since some modes of transport such as bus and train are subjected VAT while others are exempted. This creates an uneven playing field since all modes of transport are competing for the same cross-border transport services;
13. Stresses, on the basis of the neutrality principle, that all books regardless of format should

be treated in the same way from a VAT point of view; clarifies that this means that downloadable and streamed books should be subject to exactly the same VAT treatment as books on physical means of support;

14. Calls for a Green VAT strategy to be devised, centred on reduced rates for energy-efficient and environmentally friendly products and services, counterbalancing unfair competition which results from externalities not reflected in the price of a good or service;
15. Emphasises that in order to ensure neutrality, VAT on goods and services that are used for taxed economic activities must be deductible; notes that at present the rules on input tax deduction are complex and cause problems for businesses as a result of issues arising from the nature of their activities (scope), type of service (exemptions) or nature of services (deductibility);
16. Notes, with regard to cross-border intra-Community transactions, that the current VAT system has moved away from the initial commitment by Member States to implement the origin principle, due to a lack of political support among Member States to cooperate in order to apply that principle;
17. Agrees therefore with the Commission's proposal to recognise the status quo and move towards a destination principle; considers that a VAT system based on the place of consumption, for both goods and services, appears to be a promising route that should be further analysed and needs to be accompanied by the introduction of well-functioning one-stop shops (OSS) by Member States; emphasises that the introduction of VAT OSS by 1 January 2015 should continue to be a key priority for the EU;
18. In the light of the converging trend of VAT standard rates, calls upon Member States to further narrow the standard-rate band; acknowledges that Member States must be afforded the flexibility to set their own VAT rate in the light of VAT's importance as a budgetary instrument;
19. Calls on the Commission to come up with a proposal by the end of December 2012 on simplifying cross-border taxation;
20. Underlines that non-profit-making organisations play a vital and very beneficial role in furthering democracy, growth and prosperity in Europe; calls on the Commission to propose a mechanism allowing Member States wishing to strengthen civil society to generally exempt from VAT all or most of the activities and transactions carried out by these organisations; stresses that at least the smaller non-profit-making organisations should be covered by such a mechanism;
21. Calls on the Member States to agree by January 2012 on a list of common goods and services that should benefit from tax exemptions or a reduction in the VAT rate;
22. Invites the Member States to work closely with the VAT committee to reach an agreement on a common interpretation of the legal terms that are relevant in this context, whereby in reverse this would mean that all other goods and services on a European level would be excluded from such entitlements;

23. Calls on the Commission to submit by the end of 2013 a report to the European Parliament and the Council comprising a binding list of common goods and services, on the basis of the findings of the Member States and the VAT committee, that are eligible for a reduced VAT rate or an exemption under the VAT Directive;

### **Reducing Red Tape**

24. Calls upon Member States to better coordinate and converge administrative practices by focusing on exchanging best practices and to implement the measures proposed by the Commission in 2009 to reduce the administrative burdens from EU legislation in the area of VAT, notably by reducing the frequency of the periodic VAT returns, simplifying the proof required for the VAT export exemption, abolishing 'nil' intra-EU sales listings, increasing the use of e-government solutions in line with the Digital Agenda for Europe – in particular for the electronic submission of VAT returns and lists, abolishing interest and penalty payments on VAT related to errors of form if the individual legal entity has not caused the Member State in question to suffer any shortfall in VAT revenue, and considering the introduction of a single VAT reimbursement procedure, VAT identification number and an electronic storage system for VAT for the whole of the EU;
25. Welcomes the Digital Internal Market study; calls on the Commission to improve interoperability of electronic signatures, so as to create a legal framework for recognition of secure e-certification systems, and to consider a revision and extension of the Electronic Signature directive in order to reduce the administrative burden for enterprises, especially SMEs; emphasises the need for mutual recognition of e-identification and e-authentication across the EU;
26. Welcomes the fact that since 2010 a new electronic VAT refund system has been in place within the EU; calls on the Commission to report to Parliament no later than July 2012 on the results, strengths and weaknesses of the new system; stresses that the new rules must always be reviewed in order to ensure that they provide appropriate protection against attempted fraud;
27. Calls on the Commission to present, within a reasonable period of time, a proposal for a Standard European Invoice (paper and electronic) based on a linguistically neutral template that could include information such as full name and address, date of registration and closure of a VAT number and group VAT information, so as to facilitate cross-border transactions and reduce costs for business;
28. Calls upon Member States and the Commission, working with businesses, to take a critical look at the Commission's Action Plan in order to ensure that the primary objective of the 'Better Regulation' agenda – to reduce administrative burdens by 25 % by 2012 – is met. It is clear that the measures in the Commission Action Plan for VAT with the biggest potential impacts have already either been adopted by the Council or are currently under discussion. The remaining measures may reduce some business administrative burdens in the EU, but the benefits may not be universal across the EU;
29. Underlines the importance of increasing and supporting the use of e-government solutions, in particular for the electronic submission of VAT returns and lists;

30. Calls upon Member States to agree at EU level in the short/medium term on a maximum set of standardised VAT obligations that may be imposed on businesses by Member States; calls upon Member States, working with businesses, to examine VAT obligations and administrative practices and identify key business irritants in the current VAT system and to share ideas and 'best practice' approaches in order to simplify it, improve clarity and reduce administrative burdens and trade barriers;
31. Calls on the Commission and Member States to consider introducing a Europe-wide VAT exemption threshold for SMEs, with a view to cutting red tape and costs and facilitating access to the internal market;
32. Calls on the Commission to look carefully into the issue of further reducing VAT red tape for non-profit-making organisations; underlines that there should be a higher degree of flexibility in the VAT system for Member States wishing to take ambitious measures in order to ease the VAT administration burden for these organisations;

### **Efficiency of VAT collection**

33. Agrees with the Commission that the efficiency of VAT collection needs to be improved in order to reduce the VAT gap and limit the possibility of fraud, as well as to protect bona fide traders against VAT fraud; stresses that combating tax fraud in the European Union is a priority, and calls for closer cooperation between the Member States, Europol, Eurojust and OLAF in this area, also calls for clarification of terms and definitions, such as 'country of consumption' and 'country of establishment';
34. Underlines the need to improve cross-border prosecution of intra-Community VAT fraud in the Member States and to increase accountability and risk awareness in this area;
35. In order to establish effective cross-border investigations on, and juridical persecution of, such fraud, stresses the importance of having a comprehensive and uniform definition in EU legislation of a VAT-fraudulent scheme or VAT carousel, the most widely used form of VAT fraud, as well as harmonised administrative penalties;
36. Notes that accurate estimates of the extent of VAT-carousel fraud are unavailable; urges the development of an accurate valuation tool for VAT fraud, which would also enable relevant comparisons to be made in this area between the EU Member States;
37. Stresses the importance of more intensive and rapid cooperation between Member States, better monitoring of exchanges of information and more direct contacts between local tax offices by means of a common online information portal, so as to ensure that Member States provide efficient assistance to each other; urges that cooperation between the judicial authorities of the Member States, Eurojust, Europol and OLAF be enhanced;
38. Calls on the Commission to propose a simplification and consolidation of Community anti-fraud legislation, and to address the weaknesses in cooperation between the Commission and the Member States in the framework of this process;
39. Calls on the Commission to ensure that the recently established (November 2010) EUROFISC functions as a practical added value to Member States' cross-border VAT



fraud investigations, to report regularly to Parliament on its functioning and to make these reports public;

40. Stresses that opportunities for VAT fraud can be significantly reduced by increased use of new technologies and innovative solutions; urges the Commission to further strengthen the Value Added Information Exchange System (VIES) by shortening the timescale for collecting and capturing data and by granting broader direct access to data;
41. Considers, however, that the discussion of VAT collection methods is secondary to solving the underlying shortcomings and problems inherent in the current rules and procedures, and that at this stage the highest priority should be given to addressing the lack of harmonisation and the need to standardise procedures and reduce linguistic barriers, while reducing the system's vulnerability to fraud;
42. Points out the need for a clear European interpretation body where Member States can get binding answers with a view to a common tax methodology and equal application of the VAT rules;
43. Recalls that while international operators are often equipped to cope with problems that arise from conducting business on a global basis, tax administrations often do not have the same level of expertise; highlights the fact, therefore, that cooperation has to be designed in a way that helps to sort out the honest from the fraudsters and to make the system understandable to both sides;
44. Considers that the limited Data Warehouse Model (with a Standard Audit File<sup>1</sup>), combined with the Certified Taxable Person model, are the most promising of the VAT collection models currently being examined by the Commission study, as they are already successfully implemented in some Member States and have proven to increase the efficiency of VAT collection;

### **Legal Process**

45. Considers that the business community requires clear VAT rules that increase legal certainty and the likelihood of uniform interpretation by Member States; considers also that current Council Directives contain unclear provisions that increase the possibility of multiple interpretations, while the resulting complex VAT system hinders cross-border activities and leads to unnecessary administrative burdens; takes the view that VAT rules should not undermine EU policies in other areas, such as sustainability;
46. Calls therefore upon Member States to increase the level of harmonisation by:
  - using Regulations instead of Directives, as far as possible, as they create immediate harmonisation and legal certainty;
  - alternatively, allowing the Commission to issue a ‘Common EU VAT Rulebook’ in the form of Implementing Decisions with the consent of the majority of Member

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<sup>1</sup> As defined/ recommended by the OECD Guidelines.

States<sup>1</sup>, changing the role of the VAT Committee;

- setting up a process of streamlining and coordinating the national implementation process at EU level, giving a stronger role to the Commission;
- generally involving stakeholders and businesses in the drafting and implementation process for VAT legislation both at EU and national level, and in particular involving external experts in the work of the VAT Committee at EU level;

47. Considers that businesses need clear and unambiguous EU VAT rules to support cross-border activities and minimise administrative burdens and therefore costs for business; calls upon Member States and the Commission to increase quality and clarity by:

- producing comprehensive and high-quality impact assessments, with EU businesses involved as part of that process, to support legislative proposals;
- keeping in touch with businesses at the national level during the negotiations and in the implementation phases;
- using Council Regulations to support Council Directives in areas where this would provide additional clarity;
- providing excellent, timely and accessible information and guidance on national rules, including at EU level, particularly in areas where treatment is not uniform;
- looking to opportunities to use technology to disseminate information on an EU-wide basis; sharing ‘best practice’ ideas and approaches in the EU Forum or VAT Committee;
- involving business, possibly in the role of external experts, in support of aspects of the work of the VAT Committee at EU level;
- in general terms, increasing the involvement of businesses in the processes, thereby utilising the knowledge they have gained by operating as unpaid tax-collectors and dealing with intra-community transactions on a daily basis;

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48. Instructs its President to forward this resolution to the Council, the Commission and the national parliaments.

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<sup>1</sup> As proposed by the European Commission in COM(97) 325 of 25.6.1997.

## **EXPLANATORY STATEMENT**

### **Introduction**

Value added tax (VAT) constitutes a major source of revenue for national budgets of the Member States. The VAT system, which is based on legislation adopted at European level and applied at national level, suffers from numerous shortcomings which do not make it fully efficient and compatible with the requirements of a true single market.

On 01.12.2010 the Commission launched a Green Paper on the Future of VAT. The aim of the Green Paper is to generate a broad based debate with all the stakeholders on the evaluation of the current VAT system and the possible ways forward to strengthening its coherence with the single market and its capacity as a revenue raiser whilst reducing the cost of compliance.

The Green Paper covers in particular the treatment of cross border supplies, as well as other key issues addressing tax neutrality, the degree of harmonisation required in the single market and reducing "red tape" whilst ensuring VAT revenues for Member States.

Your rapporteur has consulted with a variety of stakeholders from business (Business Europe, UEAPME, Eurocommerce), experts (PriceWaterhouseCoopers, and Mission of New Zealand to the EU - as NZ is considered best practice in the area of VAT by OECD) and civil society (European Economic & Social Committee), and was represented by ECON Vice-Chair José Garcia-Margallo at the European Commission's conference on the Future of VAT on 6 May in Milan.

Your rapporteur intends to address within the restricted limits of his report the following four aspects of VAT, reflecting the issues considered by the Commission's consultation and raised by stakeholders.

### **VAT design**

In line with past legislative resolutions of the European Parliament, your rapporteur supports the Commission's intention to move towards a 'broad based' VAT system as defined by the OECD. This should include solving the problem of input VAT-deduction relating to in-house production vs. outsourcing as well as solving the issue of "hidden" VAT in supply chains, where exempted businesses supplies to VAT-able businesses.

Your rapporteur also recalls that one of the key features of VAT is the principle of neutrality. Due to the fact that VAT is a final consumption tax, businesses should not bear the burden of the VAT. Therefore Member States need to ensure that in principle all commercial transactions should be taxed and similar goods and services should be subjected to similar VAT treatment.

With regard to cross-border intra-Community transactions, your rapporteur shares the assessment of the Commission, some Member States and many VAT practitioners and stakeholders that the country of origin principle, to which Member States had committed themselves, and which has been supported in the past by both the Commission and the

European Parliament, is not realizable, primarily due to a lack of political support among Member States.

Therefore your rapporteur is in agreement with the Commission's initiative to recognise the status quo and move towards a destination principle. A VAT system based on the place of establishment of the customer, for both goods and services, appears to be a promising route that requires further study and analysis. This needs to be accompanied by the introduction of well-functioning one-stop shops (OSS) by Member States, in order to avoid multiple VAT registrations, increased compliance costs and negative cash flow effects for internationally operating businesses. Well functioning OSS are vital and the essential element for a destination-based VAT system.

### **Reducing Red Tape**

Your rapporteur wishes to focus on this point, to identify areas where red tape could be easily reduced, and particularly where there could be 'quick wins' for both business and tax authorities in the short-term, without fundamental changes to the current system.

The measures that have been suggested in the report include:

- Abolishing the annual summarising of VAT returns and intra-EU acquisition listings
- Reducing the frequency of the periodic VAT returns
- Simplifying the proof required for the VAT export exemptions
- Abolishing 'nil' intra-EU sales listings
- Increasing the use of e-government solutions, in particular for the electronic submission of VAT returns and lists
- Abolishing interest and penalty payments on VAT related to errors of form if the individual legal entity has not caused the Member State in question to suffer any shortfall in VAT revenue
- Introduce a Standard European Invoice based on a linguistically neutral template.

Your rapporteur invites colleagues to further contribute to this section.

### **Efficiency of VAT collection**

The Commission has undertaken an extensive study, looking at several potential collection methods of VAT, to improve efficiency and reduce VAT fraud.

The study examines specifically 4 collection methods in more detail:

#### **The split payment model**

The split payment model is a model in which the purchaser pays the VAT to a blocked VAT

bank account which can only be used by the supplier for paying VAT to his suppliers' blocked VAT bank account. Thus in an early stage of the VAT collection process, the VAT collected is physically transferred to a blocked VAT bank account with the tax authorities' bank. This model allows the tax authorities to monitor and block funds on the VAT bank accounts and prevent taxable persons from disappearing with VAT funds paid to them.

### **The central VAT monitoring database model**

This model can only work if e-invoicing is made obligatory for B2B transactions and if the data contained in e-invoices is actively collected by the tax authorities. The main cost component of this model is the investment by taxable persons to change from paper invoicing to e-invoicing. Additional operational costs will include the cost of the data transfers to the central VAT monitoring database and the cost of maintaining and mining large volumes of data by the tax authorities.

### **The data warehouse model**

In this model, the VAT-liable business' accounting system generates a standard audit file for tax and the data in that file needs to be stored in a data warehouse that can be accessed by the tax authority. This model has already (partially) been implemented in some Member States. The use, format and data elements have been defined in OECD Guidance. Experience in these Member States shows that the investment is limited, as most suppliers of accounting software adapt their applications to comply with the requirement of generating a standard audit file for tax purposes. Implementing data warehouses by each taxable person would, however, require a large-scale investment.

### **The certified taxable person model**

Under this model, the taxable person needs to comply with the requirements for certification and set up an internal control system. The model requires limited investment for taxable persons whose VAT accounting systems have been approved and authorised by the tax authorities and/or that already comply with other legislation that poses similar requirements, such as Sarbanes-Oxley. The benefit of the model is additional assurance that taxable persons use compliant systems and that the risk level diminishes. This could offer opportunities to target audit efforts on segments of taxable persons that pose a higher risk. The benefit in terms of reduction of the VAT Gap is lower than in the other models.

Your rapporteur considers that the discussion on VAT collection methods is, at this stage, secondary to solving the underlying shortcomings and problems inherent in the current rules and procedures, and in particular, the lack of harmonisation.

However, your rapporteur considers that out of the VAT collection models currently examined, the limited Data Warehouse Model (with a Standard Audit File), combined with the Certified Taxable Person model are the most promising, as they are already been successfully implemented in some Member States and have proven to increase the efficiency of VAT collection with limited administrative burden for businesses.

## **Legal Process**

With regards to the legal process, your rapporteur feels that it is crucial to increase

transparency of decision-making processes and enhance cooperation between the Commission, Member States and businesses.

Your rapporteur considers that Regulations should be preferred to Directives, when this is possible. Regulations create immediate harmonization, reduce the possibility of divergent interpretations and thus generate a climate of legal certainty which is crucial for businesses to thrive.

Stakeholders and businesses should be consulted and involved in the drafting and implementation of VAT legislation, both at EU and national level, to ensure harmonised implementation across the EU and create legal certainty.

15.7.2011

## **OPINION OF THE COMMITTEE ON BUDGETARY CONTROL**

for the Committee on Economic and Monetary Affairs

on the future of VAT  
(2011/2082(INI))

Rapporteur: Bart Staes

### **SUGGESTIONS**

The Committee on Budgetary Control calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

- having regard to Court of Auditors Special Report No 8/2007 concerning administrative cooperation in the field of value added tax, together with the Commission's replies<sup>1</sup>,
- 1. Welcomes the Commission's aim to achieve a comprehensive VAT system that remedies the deficiencies of the current system in terms of protection against fraud, is solid enough to resist attacks of fraud, of which the estimated annual cost for the EU27 is around 80 to 100 billion euro, and helps to make EU firms more competitive and transparent;
- 2. Underlines the need to improve cross-border prosecution of intra-Community VAT fraud in the Member States as well as to increase accountability and risk awareness in this area;
- 3. In order to establish effective cross-border investigations on, and juridical persecution of, such fraud, stresses the importance of having a comprehensive and uniform definition in EU legislation of a VAT-fraudulent scheme or VAT carousel, the most widely used form of VAT fraud, as well as harmonised administrative penalties;
- 4. Notes that accurate estimates of the extent of VAT-carousel fraud are unavailable; urges the development of an accurate valuation tool for VAT fraud, which would also enable relevant comparisons to be made in this area between the EU Member States;
- 5. Stresses the importance of more intensive and rapid cooperation between Member States, better monitoring of exchanges of information and more direct contacts between local tax

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<sup>1</sup> OJ C 20 25.1.2008, p. 1.

offices by means of a common online information portal, so as to ensure that Member States provide efficient assistance to each other; urges that cooperation between the judicial authorities of the Member States, Eurojust, Europol and OLAF be enhanced;

6. Calls on the Commission to propose a simplification and consolidation of Community anti-fraud legislation, and to address the weaknesses in cooperation between the Commission and the Member States in the framework of this process;
7. Calls on the Commission to urge Member States to simplify and consolidate their VAT legislation, to introduce a single VAT form and a single list showing the VAT rates applied, in particular a list of the goods and services to which a reduced rate of VAT is applied in a given Member State, to make their legislative texts more easily available and to translate them in at least English, French and German;
8. Calls on the Commission to ensure that the recently established (November 2010) EUROFISC functions as a practical added value to Member States' cross-border VAT fraud investigations, to report regularly to Parliament on its functioning and to make these reports public;
9. Stresses that opportunities for VAT fraud can be significantly reduced by increased use of new technologies and innovative solutions; urges the Commission to further strengthen the Value Added Information Exchange System (VIES) by shortening the timescale for collecting and capturing data and by granting broader direct access to data;
10. Commends the successful approach taken by the UK Government, which established a reverse charge mechanism for the mobile-phone and computer-hardware sectors in order to combat a growing number of VAT carousels, leading to an immediate positive result; urges the Commission to examine and report on cases in which the reverse charge in UK and other Member States has proved to be an effective tool against VAT carousels;
11. Urges the Commission to consider legislative proposals that would tackle VAT carousels at root level by introducing an EU-wide mechanism of reverse charge of VAT, which, besides being an effective anti-fraud measure, would also mean an administrative simplification for producers and traders; calls on the Commission, therefore, to come forward with legislative proposals to establish a reverse charge mechanism for the six most sensitive sectors: audio and video equipment, food and beverages, computer hardware, microprocessors and accessories, mobile telephones and accessories, textiles and automobiles; urges that VAT fraud within the EU Emission Trading System be effectively tackled;
12. Asks the Commission to provide the European Parliament each year with an overview of detected and prosecuted VAT fraud cases above EUR 100 000 in the Member States, including data on judicial follow-up, sentences and financial penalties;



## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	13.7.2011
<b>Result of final vote</b>	+: 24 -: 0 0: 0
<b>Members present for the final vote</b>	Jean-Pierre Audy, Inés Ayala Sender, Zigmantas Balčytis, Andrea Cozzolino, Tamás Deutsch, Martin Ehrenhauser, Jens Geier, Gerben-Jan Gerbrandy, Ingeborg Gräßle, Iliana Ivanova, Bogusław Liberadzki, Monica Luisa Macovei, Aldo Patriciello, Crescenzo Rivellini, Paul Rübig, Theodoros Skylakakis, Bart Staes, Søren Bo Søndergaard
<b>Substitute(s) present for the final vote</b>	Thijs Berman, Zuzana Brzobohatá, Derk Jan Eppink, Christofer Fjellner, Salvador Garriga Polledo, Monika Hohlmeier, Marian-Jean Marinescu, Jan Mulder

2.9.2011

## **OPINION OF THE COMMITTEE ON THE INTERNAL MARKET AND CONSUMER PROTECTION**

for the Committee on Economic and Monetary Affairs

on the future of VAT  
(2011/2082(INI))

Rapporteur: Iliana Ivanova

### **SUGGESTIONS**

The Committee on the Internal Market and Consumer Protection calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Notes that, given the impact of ageing societies on labour markets, savings and consumption patterns and public expenditure in the years to come, and also in the context of the economic and financial crisis affecting the EU, balance between direct and indirect taxation should be debated, both at EU and at national level; stresses however, that such decisions on fiscal policy, even coordinated within EU, must remain at national level; considers, therefore, that a more robust and efficient VAT system, which is now a key instrument of macroeconomic policy, will be all the more necessary in the future;
2. Is deeply concerned about the existing intra-Community VAT fraud and crime and the associated money laundering, which undermines the proper functioning of the internal market, with between EUR 60 and 100 billion leaking away every year; considers that developing a strategy for fighting these problems, including IT tools, could be a very useful instrument for avoiding huge losses to the public treasury and breaches of social and labour legislation;
3. Emphasises that rendering the VAT system fraud-proof must be a key priority, given the massive losses incurred by Member States, possibly amounting to EUR 100 billion; notes that particular attention needs to be paid to 'carousel' fraud; recalls the detailed suggestions contained in the Bowles report (A6-0312/2008), which are still valid and should be implemented without delay;

4. Asks the Commission to come up with proposals to solve the problem of VAT fraud without undermining the proper functioning of the internal market or the fiscal sovereignty of the Member States;
5. Stresses that, as a result of the complexity of rules and administrative burdens, businesses often see the current VAT system as an obstacle to the completion of the internal market; notes that the current VAT arrangements for intra-EU trade tend to reflect negatively on businesses, and especially on SMEs; therefore calls for a reform and simplification of the current rules that would ensure a better fiscal environment for EU enterprises; calls on the European Commission to give some thought to harmonising the rules on VAT bases and strengthening administrative cooperation among competent national authorities;
6. Points out that the new VAT system should encourage cross-border transactions and thus contribute to the deepening of the single market; takes the view that standardisation in the area of VAT obligations would present significant added value; calls on the Commission, therefore, to look into the possibility of creating a standard EU VAT return available in all official languages or of having an exhaustive list of standardised VAT obligations that can be imposed by Member States;
7. Asks the Commission to consider introducing standardised information for invoices in all EU languages, which would help businesses and represent significant added value for the internal market;
8. Considers that the administrative procedures to be followed by businesses liable for VAT should be harmonised further, particularly for international transactions within the Union; considers also that the level of cooperation between tax administrations should be further extended, particularly as regards the automatic transfer of information;
9. Highlights the importance of a uniform approach with regard to the applicable thresholds for VAT exemption under the special scheme for small businesses, in order to avoid fragmentation; considers that the possibility of covering cross-border supplies under this special scheme should be examined in order to take better account of the single market;
10. Notes that different VAT rates and administrative procedures can be a major burden for the development of e-commerce; stresses the importance of removing fiscal barriers to the cross-border activities of e-retailers; considers that clearer VAT rules and VAT reporting obligations should be laid down for these firms that have enormous problems selling goods and services in other Member States so that the true potential of the single market does not remain untapped;
11. Supports the full review of all current VAT exemptions in order to determine their relevance and their impact on the VAT chain; underlines the need for further coordination efforts on VAT exemptions; calls for an in-depth analysis of the compliance costs for SMEs with regard to cross-border transactions involving goods and services;
12. Stresses the need for better coordination among Member States on the applicable VAT exemptions and reduced rates in order to ensure a level playing field for enterprises doing cross-border business;

13. Welcomes the Digital Internal Market study; calls on the Commission to improve interoperability of electronic signatures, so as to create a legal framework for recognition of secure e-certification systems, and to consider a revision and extension of the Electronic Signature directive in order to reduce administrative burden for enterprises, especially SMEs; emphasises the need for mutual recognition of e-identification and e-authentication across the EU;
14. Calls for studies and analyses into the possibilities that exist for aligning VAT in cross-border e-commerce transactions within the EU, and for reductions and exemptions regarding payment of this tax, so that European businesses can benefit from the full potential offered by e-commerce;
15. Welcomes the fact that from 2010 a new electronic VAT refund system has been in place within the EU; calls on the Commission to report to Parliament no later than July 2012 on the results, strengths and weaknesses of the new system; stresses that the new rules must always be reviewed in order to ensure that they provide appropriate protection against attempted fraud;
16. Takes the view that the VAT rates for cultural goods should be the same, regardless of the method of selling them (online or offline); considers that such an alignment would contribute to the development of e-commerce and would provide the same cultural and educational benefits for consumers by promoting the development of the booming digital sector;
17. Stresses that in order to encourage new business models in the book sector and, in particular, to stimulate the single digital market, the Commission and the Member States must ensure that a consistent, book-friendly tax policy is applied to books, whatever their format – printed, digital or audio; stresses that content, in any format, provides the same cultural and educational benefits to consumers;
18. Notes that according to the subsidiarity principle Member States should keep their option to decide on differing levels of VAT in certain sectors in order to better implement European and national policies or on the basis of national historical, economic, social or environmental factors;
19. Emphasises that, in the context of the economic and financial crisis, the tax reform should make the greatest possible contribution to attaining the objectives of the Europe 2020 strategy;
20. Calls for a Green VAT strategy to be devised, centred on reduced rates for energy-efficient and environmentally friendly products and services, counterbalancing the unfair competition which results from externalities not reflected in the price of a good or service;
21. Considers that a regulation rather than a directive would be a more efficient legal instrument to ensure better and more consistent application of VAT rules, which would also lower the risk of double taxation or non-taxation;

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	31.8.2011
<b>Result of final vote</b>	+:                31 -:                0 0:                 5
<b>Members present for the final vote</b>	Pablo Arias Echeverría, Adam Bielan, Lara Comi, Anna Maria Corazza Bildt, António Fernando Correia De Campos, Jürgen Creutzmann, Christian Engström, Małgorzata Handzlik, Malcolm Harbour, Iliana Ivanova, Philippe Juvin, Sandra Kalniete, Edvard Kožušník, Kurt Lechner, Toine Manders, Hans-Peter Mayer, Gianni Pittella, Phil Prendergast, Robert Rochefort, Zuzana Roithová, Heide Rühle, Matteo Salvini, Christel Schaldemose, Andreas Schwab, Catherine Stihler, Róza Gräfin von Thun und Hohenstein, Kyriacos Triantaphyllides, Emilie Turunen, Bernadette Vergnaud, Barbara Weiler
<b>Substitute(s) present for the final vote</b>	Ashley Fox, Anna Hedh, Pier Antonio Panzeri, Antonyia Parvanova, Søren Bo Søndergaard, Marc Tarabella

8.9.2011

## **OPINION OF THE COMMITTEE ON TRANSPORT AND TOURISM**

for the Committee on Economic and Monetary Affairs

on the future of VAT  
(2011/2082(INI))

Rapporteur: Markus Ferber

### **SUGGESTIONS**

The Committee on Transport and Tourism calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Takes the view that the proper functioning of the internal market is being hampered by the current rules regarding VAT on passenger transport, which are creating distortions in competition between transport modes and are prejudicial to improving the social and environmental effectiveness of transport;
2. Draws attention to the complex and unfair situation regarding passenger transport: although domestic passenger transport is taxed in almost all Member States, there are exemptions, zero rates and different rates depending on the mode of transport and the Member State; points out that international maritime and air transport, which includes intra-EU cross-border transport, is exempt from VAT in all Member States, whereas the situation regarding other modes varies across Member States; points out, further, that international air and sea transport providers can purchase some goods and services free of VAT;
3. Draws attention to the proposed 60 % reduction in greenhouse gas emissions from transport by 2050 as compared with 1990, and stresses the need for ‘getting prices right and avoiding distortions’;
4. Calls for a harmonised standard or reduced VAT rate for all intra-EU cross-border travel regardless of the mode of transport, and for harmonised rules on VAT deductability;

5. Calls for more transparency; details of the various VAT rates applicable to passenger transport should be readily available and, if possible, included on tickets, in order to inform passengers as to the exact cost of their journey;
6. Supports, however, a lower or zero rate for urban, suburban or regional public transport on public-interest, social and environmental grounds;
7. Calls on the Commission to ensure that future amendments of Annex III (reduced rate) to the VAT directive are consistent with EU transport policy objectives;
8. Is concerned about the current rule whereby, in cases where VAT is applied, the provision of passenger-transport services is taxed in accordance with where the transport actually takes place, proportionately to the distance covered in each Member State; considers that passenger transport services should be taxed at the place of departure in order to reduce complexity and improve enforceability;
9. Highlights, nevertheless, the fragmentation of the EU passenger transport market, which comprises numerous segments defined, *inter alia*, by journey distance, purpose of travel and the availability of alternative modes; considers, therefore, that the impact of a change in the VAT regime on the mobility of Europeans and the environment is a complex issue that should be the subject of a comprehensive quantitative study;
10. Highlights the opportunity this presents gradually to introduce a harmonised reduced VAT rate on tourism services throughout the Member States as a necessary condition for transparent competition between tourist companies within the EU and with non-EU countries;
11. Calls on the Council to speed up the adoption of the proposal for a directive on the revision of the special VAT scheme for travel agents (CNS/2002/0041) in order to do away with distortions of competition which arise between various categories of operators in the sector because of disparities in national laws.

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	8.9.2011
<b>Result of final vote</b>	+: 28 -: 3 0: 1
<b>Members present for the final vote</b>	Georges Bach, Izaskun Bilbao Barandica, Antonio Cancian, Michael Cramer, Ryszard Czarnecki, Luis de Grandes Pascual, Ismail Ertug, Carlo Fidanza, Jacqueline Foster, Mathieu Grosch, Jim Higgins, Ville Itälä, Dieter-Lebrecht Koch, Werner Kuhn, Gesine Meissner, Olga Sehnalová, Keith Taylor, Silvia-Adriana Țicău, Giommara Uggias, Thomas Ulmer, Artur Zasada
<b>Substitute(s) present for the final vote</b>	Spyros Danellis, Markus Ferber, Gilles Pargneaux, Dominique Riquet, Olle Schmidt, Laurence J.A.J. Stassen, Nuno Teixeira, Ramon Tremosa i Balcells, Sabine Wils, Janusz Władysław Zemke
<b>Substitute(s) under Rule 187(2) present for the final vote</b>	David Campbell Bannerman



## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	22.9.2011
<b>Result of final vote</b>	+: 30 -: 1 0: 0
<b>Members present for the final vote</b>	Udo Bullmann, Pascal Canfin, George Sabin Cutaş, Rachida Dati, Derk Jan Eppink, Diogo Feio, Elisa Ferreira, Ildikó Gáll-Pelcz, Jean-Paul Gauzès, Sven Giegold, Sylvie Goulard, Liem Hoang Ngoc, Othmar Karas, Wolf Klinz, Philippe Lamberts, Astrid Lulling, Hans-Peter Martin, Ivari Padar, Olle Schmidt, Marianne Thyssen
<b>Substitute(s) present for the final vote</b>	Pervenche Berès, Thijs Berman, David Casa, Herbert Dorfmann, Saïd El Khadraoui, Sari Essayah, Sophia in 't Veld, Mojca Kleva, Olle Ludvigsson, Thomas Mann, Gianni Pittella, Andreas Schwab