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TEXTS ADOPTED

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**P9\_TA(2022)0034**

**Implementation of the Sixth VAT Directive**

**European Parliament resolution of 16 February 2022 on the implementation of the Sixth VAT Directive: what is the missing part to reduce the EU VAT gap? (2020/2263(INI))**

*The European Parliament,*

- having regard to Articles 4 and 14 of the Treaty on European Union,
- having regard to Article 113 of the Treaty on the Functioning of the European Union (TFEU),
- having regard to the Sixth Council Directive 77/388/EEC of 17 May 1977 entitled ‘The harmonisation of the laws of the Member States relating to turnover taxes – Common system of value added tax: uniform basis of assessment’<sup>1</sup> (the Sixth VAT Directive),
- having regard to Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax<sup>2</sup> (the VAT Directive),
- having regard to Council Directive (EU) 2017/2455 of 5 December 2017 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations for supplies of services and distance sales of goods<sup>3</sup>,
- having regard to Council Directive (EU) 2018/1910 of 4 December 2018 amending Directive 2006/112/EC as regards the harmonisation and simplification of certain rules in the value added tax system for the taxation of trade between Member States<sup>4</sup>,
- having regard to Council Directive (EU) 2019/1995 of 21 November 2019 amending Directive 2006/112/EC as regards provisions relating to distance sales of goods and certain domestic supplies of goods<sup>5</sup>,
- having regard to Council Directive (EU) 2020/285 of 18 February 2020 amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises and Regulation (EU) No 904/2010 as regards the

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<sup>1</sup> OJ L 145, 13.6.1977, p. 1.

<sup>2</sup> OJ L 347, 11.12.2006, p. 1.

<sup>3</sup> OJ L 348, 29.12.2017, p. 7.

<sup>4</sup> OJ L 311, 7.12.2018, p. 3.

<sup>5</sup> OJ L 310, 2.12.2019, p. 1.

administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises<sup>1</sup>,

- having regard to Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112/EC as regards introducing certain requirements for payment service providers<sup>2</sup>,
- having regard to Council Implementing Regulation (EU) No 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax<sup>3</sup>,
- having regard to Council Regulation (EU) 2017/2454 of 5 December 2017 amending Regulation (EU) No 904/2010 on administrative cooperation and combating fraud in the field of value added tax<sup>4</sup>,
- having regard to Council Implementing Regulation (EU) 2017/2459 of 5 December 2017 amending Implementing Regulation (EU) No 282/2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax<sup>5</sup>,
- having regard to Council Regulation (EU) 2018/1541 of 2 October 2018 amending Regulations (EU) No 904/2010 and (EU) 2017/2454 as regards measures to strengthen administrative cooperation in the field of value added tax<sup>6</sup>,
- having regard to Council Implementing Regulation (EU) 2019/2026 of 21 November 2019 amending Implementing Regulation (EU) No 282/2011 as regards supplies of goods or services facilitated by electronic interfaces and the special schemes for taxable persons supplying services to non-taxable persons, making distance sales of goods and certain domestic supplies of goods<sup>7</sup>,
- having regard to Commission Implementing Regulation (EU) 2020/194 of 12 February 2020 laying down detailed rules for the application of Council Regulation (EU) No 904/2010 as regards the special schemes for taxable persons supplying services to non-taxable persons, making distance sales of goods and certain domestic supplies of goods<sup>8</sup>, which relates to the VAT e-commerce package,
- having regard to Regulation (EU) 2021/847 of the European Parliament and of the Council of 20 May 2021 establishing the ‘Fiscalis’ programme for cooperation in the field of taxation and repealing Regulation (EU) No 1286/2013<sup>9</sup>,

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<sup>1</sup> OJ L 62, 2.3.2020, p. 13.

<sup>2</sup> OJ L 62, 2.3.2020, p. 7.

<sup>3</sup> OJ L 77, 23.3.2011, p. 1.

<sup>4</sup> OJ L 348, 29.12.2017, p. 1.

<sup>5</sup> OJ L 348, 29.12.2017, p. 32.

<sup>6</sup> OJ L 259, 16.10.2018, p. 1.

<sup>7</sup> OJ L 313, 4.12.2019, p. 14.

<sup>8</sup> OJ L 40, 13.2.2020, p. 114.

<sup>9</sup> OJ L 188, 28.5.2021, p. 1.

- having regard to the proposal for a Council directive amending Directive 2006/112/EC as regards rates of value added tax (COM(2018)0020),
- having regard to the proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards the special scheme for small enterprises (COM(2018)0021),
- having regard to the proposal for a Council directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States (COM(2018)0329)<sup>1</sup> ,
- having regard to the Commission communication of 6 December 2011 entitled ‘The future of VAT: Towards a simpler, more robust and efficient VAT system tailored to the single market’ (COM(2011)0851),
- having regard to the Commission communication of 4 October 2017 entitled ‘On the follow-up to the Action Plan on VAT: Towards a single EU VAT area – Time to act’ (COM(2017)0566),
- having regard to the Commission action plan of 7 April 2016 entitled ‘Towards a single EU VAT area – Time to decide’ (COM(2016)0148),
- having regard to its position of 12 February 2019 on the proposal for a Council directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States<sup>2</sup>,
- having regard to its position of 10 March 2021 on the proposal for a Council directive amending Council Directive 2011/16/EU on administrative cooperation in the field of taxation<sup>3</sup>,
- having regard to its position of 19 May 2021 on the Council position at first reading with a view to the adoption of a regulation of the European Parliament and of the Council establishing the ‘Fiscalis’ programme for cooperation in the field of taxation and repealing Regulation (EU) No 1286/2013 (06116/1/2021 – C9-0179/2021 – 2018/0233(COD))<sup>4</sup>,
- having regard to its resolution of 13 October 2011 on the future of VAT<sup>5</sup>,
- having regard to its resolution of 24 November 2016 entitled ‘Towards a definitive VAT system and fighting VAT fraud’<sup>6</sup>,

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<sup>1</sup> Entry into force deferred until 1 July 2022.

<sup>2</sup> OJ C 449, 23.12.2020, p. 295.

<sup>3</sup> OJ C 474, 24.11.2021, p. 182.

<sup>4</sup> OJ C 15, 12.1.2022, p. 270.

<sup>5</sup> OJ C 94 E, 3.4.2013, p. 5.

<sup>6</sup> OJ C 224, 27.6.2018, p. 107.

- having regard to its resolution of 26 March 2019 on financial crimes, tax evasion and tax avoidance<sup>1</sup>,
  - having regard to its resolution of 20 May 2021 entitled ‘Shaping the digital future of Europe: removing barriers to the functioning of the digital single market and improving the use of AI for European consumers’<sup>2</sup>,
  - having regard to its resolution of 16 September 2021 entitled ‘The implementation of the EU requirements for exchange of tax information: progress, lessons learnt and obstacles to overcome’<sup>3</sup>,
  - having regard to the study of 30 August 2021 entitled ‘VAT gap, reduced VAT rates and their impact on compliance costs for businesses and on consumers’ drafted by DIW Econ and published by Parliament’s Directorate-General for Parliamentary Research Services,
  - having regard to Opinion No 11/2020 of the European Court of Auditors (issued pursuant to Articles 287(4) and 322(2) TFEU) of 11 December 2020 concerning the draft Council Regulation (EU, Euratom) amending Regulation (EEC, Euratom) No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax,
  - having regard to the European Court of Auditor’s Special Report No 12/2019 of 16 July 2019 entitled ‘E-commerce: many of the challenges of collecting VAT and customs duties remain to be resolved’,
  - having regard to the public consultation open from 8 February 2021 to 3 May 2021 entitled ‘VAT rules for financial and insurance services – review’,
  - having regard to Rule 54 of its Rules of Procedure, as well as Article 1(1)(e) of, and Annex 3 to, the decision of the Conference of Presidents of 12 December 2002 on the procedure for granting authorisation to draw up own-initiative reports,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A9-0355/2021),
- A. whereas in 1977, the Council adopted the Sixth VAT Directive with a view to achieving a uniform tax base under which harmonised rates were to be set out; whereas at the time, all of the Member States had already adopted a system of value added tax in accordance with the first<sup>4</sup> and second<sup>5</sup> Council Directives of 11 April 1967 on the harmonisation of legislation of Member States concerning turnover taxes; whereas the Member States decided to apply a transitional period in which to achieve this, which has since been extended;
- B. whereas the VAT Directive has recast and repealed the Sixth VAT Directive, for the purposes of greater clarification; whereas this directive provides for the transitional

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<sup>1</sup> OJ C 108, 26.3.2021, p. 8.

<sup>2</sup> OJ C 15, 12.1.2022, p. 204.

<sup>3</sup> Texts adopted, P9\_TA(2021)0392.

<sup>4</sup> OJ 71, 14.4.1967, p. 1301.

<sup>5</sup> OJ 71, 14.4.1967, p. 1303.

rules to be replaced by a definitive system based on taxation in the Member State of origin; whereas the transitional system is complex, flawed and structurally vulnerable to fraud;

- C. whereas VAT collection is primarily the responsibility of each Member State;
- D. whereas in 2013 a major overhaul was initiated to introduce a definitive system based on the destination principle, which would be less vulnerable to fraud<sup>1</sup>; whereas the destination principle implies that VAT is sent to the Member State of final consumption;
- E. whereas on 25 May 2018 a proposal for a directive was adopted which introduced detailed arrangements for a definitive VAT regime for intra-EU business-to-business trade in goods and put an end to the ‘transitional’ system<sup>2</sup>; whereas Parliament adopted its position thereon on 12 February 2019; whereas the Council has not yet adopted a position; whereas this decision blockade is delaying important decisions on adapting VAT for the challenges we will face during the EU’s economy recovery and whereas the absence of action means loopholes that could allow the VAT gap to grow have not been closed;
- F. whereas the VAT gap in the EU was reduced from 20 % in 2009 to 10 % in 2019, with preliminary estimates at the time indicating that the gap could fall below EUR 130 billion; whereas owing to the pandemic and its socio-economic effects, this trend was reversed in 2020; whereas estimated losses of EUR 164 billion have been incurred, of which one third has fallen into the hands of fraudsters and organised crime networks; whereas these losses could represent a VAT gap of 13,7 %; whereas this scenario demands strategic policy options;
- G. whereas according to the 2020 Final Report of 10 September 2020 of the ‘Study and Reports on the VAT Gap in the EU-28 Member States’ prepared for the Commission, the VAT gap in the Member States varies greatly, from less than 1 % to more than 33 %;
- H. whereas this loss is detrimental to the EU budget (VAT is the EU’s second own resource), national budgets, businesses and people living in the EU;
- I. whereas the Fiscalis programme for 2021-2027, with a budget of EUR 269 million, aims to fight tax injustice by helping national tax authorities to cooperate better to combat tax fraud, tax evasion and aggressive tax planning; whereas the previous programme brought in EUR 591 million in revenue for the EU;
- J. whereas the platform of anti-fraud experts of the Member States, Eurofisc, which was created in 2010, must, in order to be effective, be strengthened and provided with sufficient resources to carry out joint risk analyses, coordinate investigations and cooperate with the European Anti-Fraud Office (OLAF), Europol and the European Public Prosecutor’s Office, in particular with a view to investigating VAT fraud; whereas a system of differentiated VAT rates and high compliance costs could increase fraud;

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<sup>1</sup> As outlined in the EU Action Plan on a single EU VAT area.

<sup>2</sup> COM(2018)0329.

- K. whereas Opinion No 11/2020 of the Court of Auditors focuses on the new method put forward for calculating the VAT-based own resource; whereas this opinion states that the proposal ‘significantly simplifies the calculation of the Member States’ VAT-based own resource as compared to the current system’ but ‘identified the risk that the definitive multiannual Weighted Average Rate may not be representative for all Member States’;
- L. whereas the socio-economic crisis caused by the COVID-19 pandemic has required substantial fiscal and budgetary efforts from the Member States’ governments, including in the form of aid to businesses;
- M. whereas the VAT-based own resource accounted for 11 % of the EU budget in 2019, for a total amount of EUR 17,8 billion;
- N. whereas the Commission’s ‘action plan for fair and simple taxation supporting the recovery’ is part of the EU’s new strategy for simplifying and adapting taxation to the digitalisation of the economy and the green transition, and for combating tax fraud and evasion; whereas this action plan identifies matters related to VAT as priorities, focusing on the fight against VAT fraud and the modernisation of VAT on financial services, taking into account the digitalisation of the economy;
- O. whereas, since the adoption of the VAT Directive, financial services have been, with certain exceptions, exempt from VAT on the grounds that they are subject to other taxes (such as tax on insurance premiums);
- P. whereas VAT, as an indirect tax collected by all 27 Member States, is collected under several different national regimes, and whereas it is possible to identify good practices from all of them and apply them to an EU-wide reform; whereas national examples should be considered as models to take into account and whereas the Commission must act as a platform to exchange such good practices; whereas the national legislative changes introduced by one Member State, creating incentives for consumers to request invoices in hard-to-tax sectors, are one such good example;
- Q. whereas the general objective of digitalising taxation is key to ensuring transparency, simplicity, accountability and automated reporting, and is essential for a definitive, simplified and future-proof VAT regime; whereas the COVID-19 pandemic has been a catalyst for the development of digitalisation for all transactions; whereas small and medium-sized enterprises (SMEs) are at the centre of this digitalisation process and should be supported in this respect in acquiring the latest technology and know-how;
- R. whereas VAT is broadly harmonised at EU level and is an own resource for the EU budget, and thus requires extensive cooperation at EU level;
- S. whereas Parliament fully respects the principle of national tax sovereignty;

#### ***Tax rates, tax bases and VAT gaps in Member States***

1. Welcomes the fact that the overall trend is positive, with the VAT gap falling to 10 % in 2019 from 20 % in 2009 in the Member States, which suggests that VAT fraud in the EU is in decline and VAT revenue as a proportion of gross domestic product is on the rise;

2. Calls on the Commission and the Member States to analyse and exchange the best practices in those Member States that have succeeded in avoiding a large VAT gap; supports the goal of coming up with innovative tax solutions in line with new economic, social and environmental realities;
3. Notes that according to some estimates, a revenue-neutral tax reform could reduce the standard VAT rate on average by seven percentage points in the EU-27, in addition to reducing compliance costs; highlights the fact that according to those estimates, the size of the reduction varies between EU Member States, from 2 (Estonia) to 13 (Greece) percentage points; notes that this is not the only answer to the need to tackle the complexity of the tax system; observes that a lower standard VAT rate could benefit consumers, in particular low-income households; notes that the Member States have the possibility to explore what benefits a single reduced standard rate would have for fair competition in their market;
4. Takes the view that applying a multitude of reduced rates has a legitimate purpose in society, notably to reduce the regressiveness of the VAT system and help to achieve certain national policy objectives, such as access to essential goods and sectors such as health and food, but that it also aggravates the complexity and opacity of the tax system, increases compliance costs and may facilitate fraud; understands that the application of reduced rates can lead to a decrease in the price to the consumer, but depends on several other factors; notes, therefore, that a thorough analysis and impact assessment need to be carried out;
5. Notes the significant differences in the standard rates applied in the Member States and the complexity that this brings to the system, even if justified by different national economic systems; underlines that this complexity is aggravated by the different ways in which reduced rates are applied, which is legitimate in order to pursue social and environmental objectives; recalls that the possibility to apply super reduced rates (in five Member States) or parking rates (in five Member States) constitutes an additional obstacle to a coherent and fully interoperable common system;
6. Understands that the system is becoming increasingly complicated because of the different rates, but also because of exemptions and derogations, which must be exceptions; recalls the specific situation of unequal treatment of Member States who joined before and after 1992, to which different rules apply; calls on the Commission to address this issue in future legislative proposals;
7. Notes that, over the past two decades, the Commission has launched almost 200 infringement procedures on VAT; calls on it to present a summary of the main findings of these procedures as a basis for future legislative proposals, namely on reduced rates, exemptions and non-transposition;
8. Notes that the COVID-19 pandemic justified VAT-related exception rules, which proves the need for a degree of flexibility when facing urgent or unexpected circumstances; urges the Commission to take this into account in future legislative proposals regarding VAT;
9. Observes that the VAT gap fluctuates in line with the business cycle, and that low tax compliance is sometimes associated with high standard VAT rates, lower legal and

judicial efficiency, weaker legal institutions, higher perceived levels of corruption and the overall share of the shadow economy in the wider economy;

10. Notes with concern that some Member States do not generally exempt in-kind donations from VAT, leading businesses to destroy consumer goods, notably returns, even though such an exemption is possible under the existing VAT Directive; calls on the Commission to issue guidance to Member States, clarifying that VAT exemptions for in-kind donations will be compatible with the existing EU law on VAT until Council proposal COM(2018)0020 (Article 98(2)) is adopted by the Member States;
11. Regrets the lack of available data on regional differences, which could be a major limitation for measuring the VAT gap; calls on the Commission to check whether producing and publishing regional VAT gap measurements could be a valuable tool in improving transparency and reducing the VAT gap;

### ***Impact of the wide variety of reduced rates on businesses***

12. Takes the view that the current diversity of reduced rates creates additional administrative burdens for businesses; notes that the total cost of VAT compliance ranges from 1 % to 4 % of company turnover within the Member States; notes that digitalisation can contribute greatly to the reduction of compliance costs for businesses;
13. Observes that SMEs pay proportionately higher compliance costs, as these costs are fixed and independent of company size, and that high compliance costs constitute a barrier to entry into the EU internal market; takes the view, therefore, that differentiated VAT regimes within the EU may act as a disincentive to intra-EU trade for all businesses, specially for SMEs; notes, however, that the empirical evidence is inconclusive regarding the effects of differentiated VAT systems on international trade, and whether they could create an unequal playing field in such trade, notably due to high compliance costs, exemptions and deficient refund systems;
14. Notes the potential of digitalisation to reduce compliance costs, although these benefits often only materialise in the long term; maintains that digital innovations<sup>1</sup> are likely to reduce compliance costs, help to increase the transparency of commercial transactions and reduce red tape; stresses the need to ensure data security, individual privacy and corporate confidentiality; insists that businesses need to be supported in a subsidiary way<sup>2</sup> through EU programmes, and that SMEs and other vulnerable economic actors in particular need to be supported through EU-organised training on the digital transition, in order to benefit from and contribute to it; stresses that such a general approach towards accelerating the digitalisation of SMEs' know-how and operations on the ground would ultimately benefit VAT collection; highlights the potential of distributed ledger technology to prevent VAT fraud – e.g. missing trader intra-community fraud – and looks forward to the legislative proposal for modernising VAT reporting obligations; calls on the Commission, furthermore, to come up with an initiative focusing on the easy application of distributed ledger technology by traders and reductions in red tape;

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<sup>1</sup> Such as artificial intelligence, big data and blockchain technology.

<sup>2</sup> This means that support comes first from the Member States, and then from the EU.

15. Is of the opinion that in order to facilitate trade and increase legal certainty in the internal market, the Commission, in cooperation with the Member States, should improve the Taxes in Europe database, an EU VAT web information portal for businesses; stresses that the portal should provide quick, up-to-date and accurate access to relevant information about the implementation of the VAT system in the different Member States, and in particular on the correct VAT rates for different goods and services in the different Member States, and the conditions for zero-rate VAT; notes that this portal could also help to address the current VAT gap; proposes that the EU One-Stop Shop be introduced in the EU VAT web information portal;
16. Points to the EU One-Stop Shop as an example of digital innovation allowing EU businesses to simplify their VAT bills and thus compliance costs in the area of e-commerce sales within the EU; notes that such a reduction in compliance costs is particularly beneficial for SMEs; takes note of the willingness of the Commission to propose, for 2022/2023, an amendment to the VAT Directive with a view to further expanding the scope of the VAT One-Stop Shop; calls on the Commission to explore how to expand the scope of the One-Stop Shop;
17. Calls on the Member States to increase and improve cooperation between themselves and thoroughly apply the set of rules on the exchange of VAT payment data to facilitate the detection of tax fraud in cross-border e-commerce transactions, which were adopted in February 2020;
18. Notes that the Member States are already employing new technologies to improve the efficiency of checks on domestic purchases for tax purposes; understands that these national measures must be taken into account in any VAT system reform as good practices to be considered; stands for more coordination between Member States in this regard, in order to facilitate cross-border transactions, without excessive costs for operators and consumers; calls on the Commission to present concrete proposals to promote a quicker system of exchange of information on intra-EU VAT transactions and to make it interoperable with national mechanisms; stands for the expansion of e-invoicing and calls for the introduction of an EU e-invoicing standard harmonising, in particular, the information contained in an e-invoice in order to facilitate cross-border interoperability, ensure legal compliance, increase transparency in commercial transactions and thus limit fraud and errors;
19. Underlines the urgency of tackling VAT cross-border fraud and carousel fraud through the proper implementation of efficient exchange of information mechanisms and adequate means (both human, financial, technical and technological) for national authorities and other authorities such as OLAF; stresses the valuable contribution of organisms like Eurofisc; recalls the role of payment service providers and the need to guarantee high standards of reporting on VAT; considers it necessary to receive an impact study from the Commission to assess the introduction of a generalised reverse charge mechanism in several Member States following the implementation of the Council Directive on the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold<sup>1</sup>, in

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<sup>1</sup> Council Directive (EU) 2018/2057 of 20 December 2018 amending Directive 2006/112/EC on the common system of value added tax as regards the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold (OJ L 329, 27.12.2018, p. 3).

order to combat missing trader intra-Community fraud, and assess, in particular, its impact on the fight against all types of VAT fraud and the consequences for the compliance costs of businesses;

20. Observes that the wide variety of rates may cause price distortion in the internal market, creating incentives for cross-border purchases; notes that in particular, the diversification of VAT rates creates an incentive to exploit price differences across countries by shifting consumption to Member States with lower VAT rates, and distort revenue collection by governments;
21. Recalls that companies need simplified and centralised access to information on rates, the correct VAT rates for different goods and services in the different Member States, and the conditions for zero-rate VAT, as well as clear and unambiguous VAT rules to encourage cross-border business and reduce their administrative burdens; welcomes, in this respect, the simplified and digitised method for registering, through an online portal, for the VAT scheme for small businesses engaging in cross-border activities, which reduces costs and administrative burdens; notes that 26 out of the 27 Member States use reduced rates as an inherent part of their tax and social policies; recalls that a common web information portal about the implementation of VAT systems in different Member States would encourage cross-border business and reduce the administrative burdens of companies;
22. Welcomes the positive trend of reducing compliance costs through the continuing digitalisation of businesses and public administration; notes that in OECD countries, the time necessary for tax compliance fell from 230 hours to 162 hours between 2006 and 2020, mainly due to the adoption of electronic filing and payment systems<sup>1</sup>;
23. Stresses that a well-designed VAT system is neutral and should not affect trade, but that in practice this principle is difficult to verify at global level given the application of VAT exemptions, the ineffectiveness of refund systems and the wide variety of rates, which incur higher compliance costs; recalls that an effective VAT system contributes to the fight against tax evasion and tax optimisation; stresses that an increasing number of SMEs are willing to trade across the EU, especially through online transactions, and that the EU VAT system should be aimed at facilitating cross-border growth;
24. Notes that empirical evidence shows that the current system of multiple VAT rates is regressive in the Member States when measured as a percentage of disposable income, but tends to be proportional or slightly progressive in most Member States when measured as a percentage of expenditure; notes further that when measured in terms of expenditure, existing reduced and zero VAT rates help to make VAT more progressive compared to single-rate VAT systems; notes, in addition, that evidence also shows that only VAT rates which are reduced with the aim of supporting low-income households (such as reduced rates on food) make VAT more progressive; calls on the Member States, when implementing reduced VAT rates, to do so with the specific aim of supporting lower-income households;

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<sup>1</sup> PWC and World Bank Group study of 26 November 2019 entitled 'Paying Taxes 2020: The changing landscape of tax policy and administration across 190 economies', p. 27.

25. Stresses that the Member States should be allowed to apply zero VAT rates on essential goods;

***Impact of reduced VAT rates on consumers and social and environmental objectives***

26. Observes that the application of reduced rates does not systematically give rise to permanent price reductions for the consumer and that the effectiveness of a reduced rate depends on a number of factors, such as the extent to which businesses pass it on to consumers, its duration over time, the size of the reduction and the complexity of the rate system; stresses that the passing-on of reductions in their entirety is therefore a complex process and should not be undertaken without a sound impact assessment; notes that while existing reduced and zero VAT rates are of greater proportional benefit to low-income households in the EU (measured as a proportion of expenditure), they are typically of greater benefit to high-income households in absolute (cash) terms; notes, therefore, that extensive analyses and impact assessments need to be carried out to make sure that reductions only apply where they can benefit low-income households;
27. Highlights the fact that reduced rates normally pursue the legitimate purpose of ensuring that essential goods are accessible to everyone; stresses that reduced VAT rates on necessities (e.g. food) tend to make VAT more progressive; stresses that reduced rates can be more effective in societies with significant income disparities and a high level of social and economic inequality; notes that empirical evidence on the effectiveness of reduced VAT rates in promoting socially desirable or environmental goods is scarce and ambiguous;
28. Is deeply concerned about the regressive nature of consumption taxes; stresses that VAT should be kept at low rates as it burdens lower-income households disproportionately, exacerbating inequality in the distribution of wealth;
29. Observes that the effectiveness of reduced VAT rates in promoting environmentally friendly goods is still difficult to assess due to a lack of empirical evidence, although in certain case studies and according to certain models, positive impacts can be measured; stresses, however, that in order to promote environmentally friendly consumption, it is of primary importance for Member States to phase out all zero VAT rates and reduced rates for harmful environmental goods and services; calls on the Member States to phase out reduced rates for high polluting goods and services by 2030 to achieve the EU's climate objectives enshrined in the European Green Deal; calls on the Member States to study the implementation of compensation mechanisms to help low-income households to cope with the decrease in disposable income arising from higher VAT rates for polluting goods and services;
30. Stresses, in this regard, that reduced rates should take into account the sustainability of public finances; notes that rationalisation designed to achieve a uniform VAT system should take into account the historical and temporary application of reduced rates, provided that other conditions are fulfilled;
31. Stresses that evidence suggests that reduced VAT rates are often a rather inefficient instrument to achieve social or environmental objectives since they lead to considerable costs for governments owing to the size of the rate gap, reduced tax revenues, increased administrative costs, costly checks and inspections, pressure from social and economic

representatives compliance costs, economic distortions or even tax evasion, and difficulties in reaching target groups;

32. Notes that to fully assess the efficiency and effectiveness of non-standard VAT rates, it is necessary to compare them with alternative policy instruments; take the view that these measures can be more effective, flexible, visible and cost-effective tools for achieving these social and environmental objectives, if used by governments in an efficient manner; notes, however, that these instruments are at the core of national tax sovereignty and are included in national competences because there is no EU legislation harmonising them; points out that they must nevertheless respect EU competition policy;
33. Stresses that a uniform VAT system, combined with alternative policy instruments and a raft of social reforms and environmental tax instruments, are all options worth exploring when designing an effective economic, social and green holistic tax system, as long as they do not place an undue burden on low-income households; notes that New Zealand has a uniform 15 % flat-rate VAT system and applies tax credit for low-income households; notes that the effort to simplify or harmonise the VAT system in the EU would not lead to higher standard VAT rates; points out that flat-rate subsidies and information campaigns could be an option for the promotion of merit goods;

### ***Conclusion***

34. Recalls that VAT revenue is one of the chief sources of public revenue, accounting for some 21 % of total tax revenue in the EU on average; notes that the VAT gap stands at 10 % on average, and that VAT also constitutes an own resource for the EU budget; stresses that any reduction in the VAT base may lead to less revenue for public finances; calls on national tax authorities to take initiatives to reduce the VAT gap in order to improve public finances, especially in the light of the economic downturn caused by the COVID-19 pandemic, and increase EU own resources;
35. Welcomes, in this regard, the fact that significant progress has been achieved on cooperation between the tax authorities of the Member States over the last decade; supports further discussions among Member States in order to strengthen administrative cooperation;
36. Endorses the findings of the DIW Econ study, which stresses that on average the standard rate was applied to 71 % of the total tax base in the Member States in 2019; points out that compliance costs of diversified VAT systems can be significantly reduced by continuing digitalisation of businesses and public administrations; points out that the costs of diversified VAT systems on businesses, particularly SMEs, the distortions they may cause in the internal market and trade, and their impact on governments in terms of loss of revenue need to be carefully assessed in order to achieve a cohesive, fair and efficient VAT system in the EU; notes that reduced rates on necessities (e.g. food) tend to make VAT more progressive and that low-income households do benefit from reduced VAT rates even if they are less efficient means of achieving revenue distribution or environmental objectives;
37. Notes that the difficulties in reducing the VAT gap between Member States are caused by a combination of factors, such as the need to maintain a number of VAT exemptions for certain goods and services and the willingness of Member States to maintain

reduced rates of at least 5 %; acknowledges that Member States need to retain the flexibility to set their own VAT rates given the importance of this tax as a budgetary instrument;

38. Calls for a simplified and modernised VAT system with limits on exemptions and non-standard rates to be introduced with a view to promoting fair and efficient business competitiveness within the internal market, reducing compliance costs and improving voluntary compliance; notes that such a simplified VAT system would still benefit from a One-Stop Shop in order to reduce compliance costs for EU companies and boost intra-EU trade; takes note of the proposal by the former Portuguese Council presidency and the current Slovenian Council presidency to phase out all zero VAT rates and reduced rates on environmentally harmful goods and services at Member-State level, such as fossil fuels, chemical pesticides and chemical fertilisers; calls for the implementation of social measures for low-income households to be studied in order to compensate for the decrease in disposable income arising from higher VAT rates for polluting goods and services; urges the Member States to quickly adopt the proposal for a revised directive on VAT rates<sup>1</sup>;
39. Stresses that the VAT gap is chiefly attributable to a combination of factors in each Member State, such as legislative loopholes, a lack of resources and digital efficiency in tax administrations, the ineffectiveness of enforcement and control measures, particularly those against tax evasion and avoidance, and aggressive tax planning; calls, in this regard, on the Member States to improve administrative cooperation and enhance the performance of national tax authorities; welcomes the Transaction Network Analysis tool and supports the establishment of enhanced cooperation between Eurofisc members in order to rapidly detect carousel-type fraud; calls on the Conference on the Future of Europe to address this issue in the context of the protection of the EU's financial interests;
40. Considers it necessary to explore a more harmonised introduction of electronic invoicing in all Member States, beyond its current mandatory use in public procurement across the EU, given that it has proved to be an effective tool for combating fraud and evasion in the countries where it also has been introduced for other types of transactions, and has also led to greater simplification and reduced compliance costs;
41. Recalls the importance of the independence and non-partisan character of the European Tax Observatory, which was created on the initiative of Parliament; stresses that the Fiscalis 2021-2027 programme is an essential tool to ensure rapid and constructive cooperation between tax authorities;
42. Recalls that the effectiveness of reduced rates as a policy tool must always be assessed in the specific context of other existing policy tools; adds that reduced rates are often complementary to existing social and environmental policy tools, and that direct tax incentives are instruments that better target low-income households – e.g. a tax-free threshold and progressive tax rates – and are generally less costly, provided that other conditions are fulfilled;
43. Stresses the need to move to a definitive VAT system based on the principle of taxation in the country of destination; urges the Council to adopt, as soon as possible, the

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<sup>1</sup> COM(2018)0020.

proposal for a directive of 25 May 2018 (COM(2018)0329) given the extent of the loss of national and EU budgetary resources under the current regime; highlights, in this regard, the main principles of the prospective definitive VAT system for cross-border taxation of intra-EU goods at the destination and charging and collecting VAT in the Member State of destination by the supplier;

44. Calls on the Commission to follow up on this report with concrete legislative proposals, addressing the specific topics referred to above; calls on the Council to value dialogue and cooperation with Parliament on pursuing a proper reform of the VAT system, bearing these proposals in mind, as well as the fundamental need to guarantee the democratic character of the changes on the EU's taxation policy;
45. Supports the Court of Auditors's proposal<sup>1</sup> to consider establishing a mechanism revising the multiannual weighted average rate during the period covered by the multiannual financial framework in order to avoid distortions in the level of contributions based on VAT during this period if a Member State decides to change its VAT policy;
46. Notes that the VAT Directive is subject to unanimous approval in the Council in accordance with Article 113 TFEU;
47. Recalls the merits of the taxpayer identification number as a useful instrument to guarantee compliance with and respect for tax obligations; calls on the Commission and the Member States to explore all the possibilities of the taxpayer identification number as a mechanism to safeguard high efficiency standards for reporting;
48. Supports the idea of expanding the scope of the VAT One-Stop Shop, which has been in place since 2015, to the declaration and payment of VAT; underlines the need to specifically target the adaptation of the One-Stop Shop at the expanding e-commerce market;
49. Calls on the Commission to assess the current framework and propose concrete legislative proposals on the verification of cross-border transactions, which must be reinforced to secure VAT; underlines, in this regard, the need to specifically address the opportunities that come from the use of new digital technologies, with high standards of data protection and privacy as corollaries of taxpayer rights;
50. Recalls the importance of guaranteeing the full transposition and proper implementation of the VAT e-commerce package; calls on the Commission to evaluate the state of play in this regard and present concrete proposals to adapt the rules, where needed, taking the exponential growth of e-commerce into consideration; notes that there is a considerable VAT collection gap in the e-commerce sector; invites the Commission to study the conclusions of the European Court of Auditors' special report on the matter, in order to close the collection gap;
51. Recalls the importance of closer dialogue with international partners, mainly the most relevant trade partners, regarding VAT; considers that this cooperation should start with and be based on the principle of administrative cooperation, in order to guarantee an

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<sup>1</sup> Opinion No 11/2020.

effective logic of exchange of information that can enhance the combat against schemes leading to fraud or evasion;

52. Notes the Commission's intention to change the nature of its VAT Committee and its objectives regarding a future comitology committee; underlines the need to count on Parliament's position on this matter; recalls the need to guarantee full respect for the EU institutional framework on taxation and the distribution of competences regarding indirect taxation;

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53. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States.