

Study in respect of introducing a change in the requirements to the recapitulative statements

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Increase of submission frequency

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I Executive Summary

One of the measures envisaged to strengthen the position for combating certain types of VAT fraud is the introduction of more stringent tax declaration obligations and the improvement of exchange of information. In that respect, the European Commission has decided to explore the impact of the introduction of a more frequent submission of the recapitulative statements.

This matter has been investigated using face-to-face interviews with a sample of 14 case-study companies in an attempt to determine:

- the impact of a more frequent submission period on the administrative costs (one-time and recurring costs);
- other qualitative feedback

The case-study companies were selected at random in specific countries. However, given the subject-matter of the study, we selected companies that are involved in intra-Community supplies of goods. The case-study companies are established in the following countries : Belgium, Denmark, France and Hungary.

For assessing the impact of an increase in the submission frequency of the recapitulative statements on the administrative costs (one-time and recurring costs) this research has used the principles of the "Standard Cost Model methodology".

The results of the interviews are summarised below.

a) impact on Administrative Costs

Introducing a more frequent submission of the recapitulative statements leads to both additional costs, both one-time and recurring. The results of the cost estimates made by the 14 case-study companies are listed in the tables below. Given the small size of our sample, these numbers should not be used for the purpose of estimating the cost to companies in general. Please note that the recurring costs represent incremental annual costs. Given the small amounts and to increase readability, the costs as a percentage of turnover are multiplied by 100.000.

	One-time Cost in EUR	Recurring Cost in EUR	One-time Cost divided by Turnover multiplied by 100.000	Recurring Cost divided by Turnover multiplied by 100.000
Large sized – 7 observations				
Average*	402€	11.224€	0,03	0,32
Min	0€	0€	0,00	0,00
Max	1.232€	56.706€	0,12	1,26
Small and medium sized – 7 observations				
Average*	274€	387€	2,11	2,85
Min	0€	0€	0,00	0,00
Max	781€	1.652€	5,82	12,71
Total Sample – 14 observations				
Average*	344€	6.298€	0,98	1,47
Min	0€	0€	0,00	0,00
Max	1.232€	56.706€	5,82	12,71

* One Large French case-study company and two French SME case-study companies are excluded from the calculation of the average as they already submit the recapitulative statements on a monthly basis and as a consequence incur no additional costs. One French company was not excluded from the calculation of the average as it submits recapitulative statements in two other Member States, which means that it incurs additional costs.

	Large companies	SME companies
Total	7	7
One-time cost in EUR		
EUR 0	1	2
Between EUR 1 and EUR 125	2	1
Between EUR 125 and EUR 500	2	3
Between EUR 500 and EUR 1.000	1	1
Between EUR 1.000 and EUR 2.000	1	0
Additional annual recurring cost in EUR		
EUR 0	1	2
Between EUR 1 and EUR 100	1	3
Between EUR 100 and EUR 1.000	2	1
Between EUR 1.000 and EUR 4.000	1	1
Between EUR 4.000 and EUR 8.000	1	0
One outlier of EUR 56.000	1	0

The interviews revealed that the one-time cost is mainly determined by:

- the IT system(s) of the organisation;
- the maintenance contracts the companies have in place with their IT supplier; and
- the format of submission that is accepted by the tax authorities.

The most important elements influencing the recurring costs are:

- the number of recapitulative statements to be submitted; and
- the tools made available by the tax authorities for submitting recapitulative statements.

In case no one time investment would be made to further automate the process of preparing and filing the recapitulative statement, the case-study companies estimated the additional annual recurring cost as being eight times the current recurring cost for preparing and filing the recapitulative statements for one submission period.

b) Qualitative feedback

The qualitative feedback revealed a couple of positive elements related to the increase of the submission frequency of the recapitulative statements such as an improved data quality – although questions arise as to whether this data can be dealt with by authorities – and better reconciliation between the different tax declarations to be submitted.

However, this feedback also revealed that most case-study companies fear that the introduction of a more frequent submission would lead to more tax audits by the authorities and hence a larger administrative burden.

Despite the fact that the increase of the submission frequency of the recapitulative statements would not have a significant impact on the complexity related to the drafting and filing of the recapitulative statements for the interviewed companies, it should be noted that it is perceived by nearly all interviewed companies as an additional burden (cost) for businesses. Since this increase would in their view not have any clear advantage in return, this extra cost is seen as non-business-friendly and therefore could be not well received by the companies.

II Introduction

On 31 May 2006, the European Commission adopted a communication (COM(2006)254) whose aim is to launch a debate with all parties concerned on a European strategy to combat tax fraud. In the framework of this debate, the Commission envisaged reinforcing tax declaration obligations and improvements in exchanges of information.

Furthermore, at the Council meeting of 5 June 2007, the Council concluded that tax fraud, especially in the field of indirect taxation, must be tackled effectively¹.

As a result, the European Commission has decided to explore various impacts for undertakings of the potential introduction of requirements for a more-frequent submission of the recapitulative statements and/or more detailed requirements relating to the recapitulative statements.

In this respect, PricewaterhouseCoopers has been engaged to research some of the potential impacts that an increase of the submission frequency of the recapitulative statements might have.

The purpose of this research is not to obtain statistically relevant documentation that can be extrapolated to all businesses within the European Union. The aim of the study is merely to gain an indicative overview of the relative impact of both recurring and one-off costs caused by an increase of the submission frequency.

Analysis of the "administrative cost" for complying with the regulations is also in accordance with the "Better Regulation" objective of European Union policy. This policy aims to ensure that the regulatory environment is simple and of high quality.

As part of our research, which is exploratory in nature, we have assessed the impact of such a change in the VAT system in relation to the following aspects:

- the additional administration cost, both one-off expenditures and recurring costs; and
- qualitative feedback.

¹ Council conclusions on combating tax fraud, 2804th Economic and Financial Affairs Council meeting, Luxembourg, 5 June 2007.

The analysis focuses exclusively on the difference in administration costs between the current situation and the to-be situation. Other costs such as operating costs, marketing costs and commercial costs have not been taken into account.

The purpose of the exploratory research is to assess whether there is any impact and whether there are substantial drawbacks in terms of the costs businesses will encounter should the submission period be reduced from 3 months to 1 month.

III Recapitulative statements

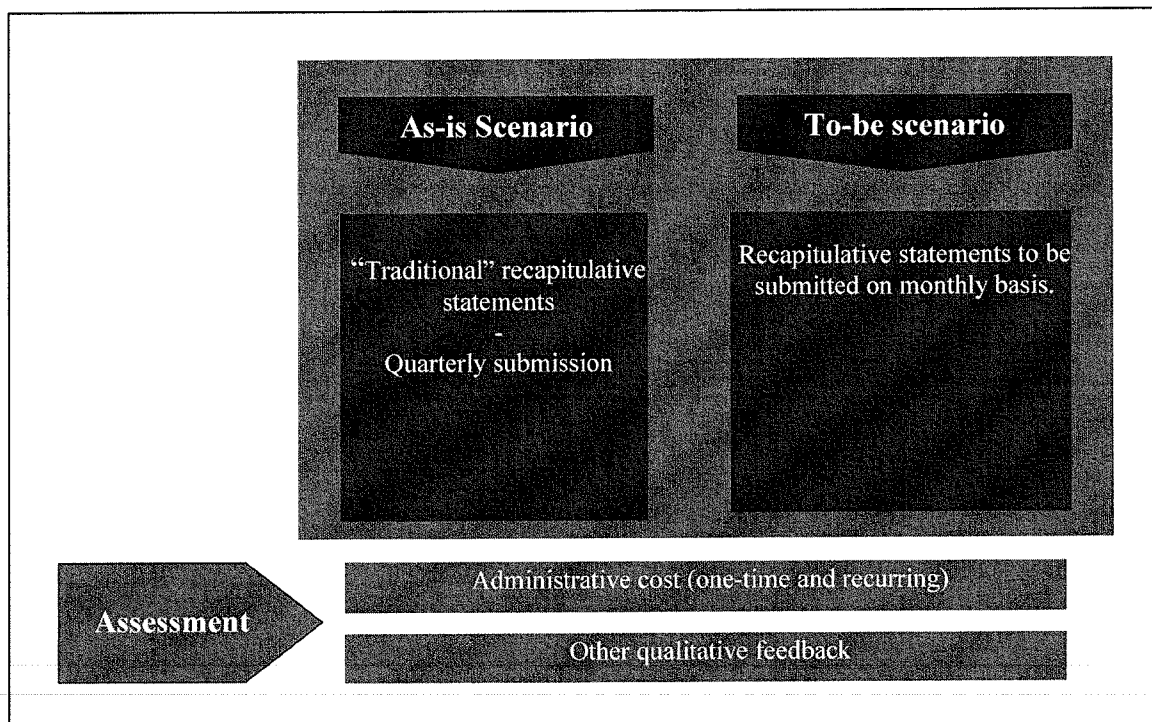
3.1 Scope of the exploratory research

The scope of the exploratory research with a number of selected case-study companies consisted in assessing the additional administrative cost to a business if Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax were to increase the submission frequency re recapitulative statements from a quarterly submission to a monthly submission.

This assessment should allow the European Commission to define the impact of the potential introduction of such changes in the submission period re recapitulative statements throughout the European Union.

As presented in the diagram below, we analysed the as-is scenario and the possible to-be scenario re the envisaged changes.

The exploratory research focused on assessing the additional or reduced administrative cost/profit for a business if a change were to be imposed in the requirements of the recapitulative statements. The cost is compared to the administrative costs undertakings currently incur in doing business.



3.2 Description of the possible to-be scenario

The possible to-be scenario would aim at prescribing an increase in the submission frequency re recapitulative statements from a quarterly submission to a monthly submission.

According to the current provisions of the Directive 2006/112/EC, every taxable person identified for VAT purposes should, in principle on quarterly basis, submit a recapitulative statement of the acquirers identified for VAT purposes to whom he has supplied goods in accordance with the conditions specified in article 138(1) and 138(2)(c) of Directive 2006/112/EC (article 262 Directive 2006/112/EC).

Currently, the recapitulative statement shall be drawn up for each calendar quarter, as a general rule. However, Member States may, as an option, provide that recapitulative statements are to be submitted on a monthly basis (article 263 Directive 2006/112/EC). Under the to-be scenario the above provision would be amended from optional to obligatory, meaning that the recapitulative statement should be submitted on a monthly basis in each Member State.

The European Commission's objective is to assess whether undertakings will encounter any substantial drawbacks in terms of costs in implementing the obligatory monthly report.

IV Methodology and Approach

4.1 Introduction

This research uses the principles of the “Standard Cost Model methodology”. This methodology was first developed by the Netherlands and was later proposed by the European Commission in October 2005 as a common EU methodology for measuring administrative costs of legislation on citizens or businesses². Since then, it has been further elaborated, described and refined by the SCM Network³.

The methodology is described by the SCM Network as follows: *“The Standard Cost Model (SCM) is today the most widely applied methodology for measuring administrative costs. The SCM has been developed to provide a simplified, consistent method for estimating the administrative costs imposed on businesses by central government. It takes a pragmatic approach to measurement and provides estimates that are consistent across policy areas. The SCM methodology is an activity-based measurement of the businesses’ administrative burdens that makes it possible to follow up on the development of the administrative burdens. A key strength of the Standard Cost Model is that it uses a high degree of detail in the measurement of the administrative costs, in particular going down to the level of individual activities.”*

As underlined by the annex to the “Communication on Better Regulation for Growth and Jobs in the European Union”⁴, the data gathered is not used at a macroeconomic level. No extrapolation calculations are performed to assess the global cost to the economy of the change in the requirements re recapitulative statements.

² EU common methodology for assessing administrative costs imposed by legislation, Operational Manual, Annex 10 to “Impact Assessment Guidelines” of the European Commission SEC(2005)791.

³ The International SCM Manual, measuring and reducing administrative burdens for businesses, October 2005, www.administrative-burdens.com, 63 pages.

⁴ Annex “Minimising administrative costs imposed by legislation - Detailed outline of a possible EU Net Administrative Cost Model” of the “Communication on Better Regulation for Growth and Jobs in the European Union” of the European Commission - SEC(2005)175.

4.2 Project Phases

The research was performed in three Phases, sub-divided into 9 project Steps as described below:

Phase 1 - Preparatory analysis & Piloting	
Step 1	Detailed description of the to-be VAT policy.
Step 2	Administrative costs: Identification of the Information Obligations and Activities - Approach for the gathering of cost data.
Step 3	Qualitative questions: derive interview questions from qualitative exploratory research questions.
Step 4	Identification of the countries, business segments and businesses to be contacted.
Step 5	Preparation of Interview Guide.
Step 6	Piloting.
Phase 2 – Data Capture and Standardisation	
Step 7	Business interviews.
Step 8	Completion and standardisation of data collected.
Phase 3 - Calculation and Reports	
Step 9	Reporting and transfer of data.

4.3 Phase 1 – Preparatory Analysis & Piloting

4.3.1 Step 1 – Detailed description of the to-be VAT policy

Assessing the expected impact of introducing a change in the requirements re recapitulative statements requires a description of the hypothetical future situation. Having a description is a prerequisite for the other steps of the project. We refer to Chapter 3.2 in this respect.

4.3.2 Step 2 – Administrative costs: Identification of the Information Obligations and Activities - Approach for the gathering of cost data

4.3.2.1 INFORMATION OBLIGATIONS

The SCM provides a way for breaking down a regulation into a range of manageable components whose costs can be measured. These components are essentially items of information that businesses, as a consequence of the regulation, have to prepare and submit, mainly, to government entities. According to the SCM each regulation can be broken down into Information Obligations (IOs).

The IO identified for the purpose of this study was: "File recapitulative statements".

4.3.2.2 ADMINISTRATIVE ACTIVITIES

To provide the information for each information obligation, a number of specific administrative activities must be undertaken.

The identified administrative activities that are required in order to comply with the information obligation "File recapitulative statements" were split into two categories:

- one-off activities;
- recurring activities.

"*One-off activities*" are activities that only have to be performed once in order to meet the information obligation. "*Recurring activities*" reflect the activities companies have to perform on a periodic basis in order to meet the information obligation. For the purpose of this study, the following administrative activities, both one-off and recurring, were identified:

One-off activities
Analyse new/changed requirements.
Create/change reports in system.
Perform user-tests on system changes.
Update procedure manual.
Give special training.
Recurring activities
Gather necessary information to create recapitulative statements.
Create recapitulative statements.
Submit recapitulative statements for validation.
Validate recapitulative statements.
Submit recapitulative statements to tax authority.
Give recurring training.

4.3.2.3 COST PARAMETERS

Application of the SCM involves deploying the principles of “Activity-Based-Costing” to determine the additional costs incurred by a “normally efficient business” (i.e. a business that handles its administrative tasks in a normal manner, neither better nor worse than may be reasonably expected) as it fulfils the IO.

A distinction is made between “time-based costs” and “acquisition costs”. “Time-based costs” are one-time or recurring costs that relate to time spent by people within the case-study company and are calculated using the time spent, the frequency and the wage rate for each activity.

Time and frequency were assessed by the case-study companies. As regards the wage rate, however, the case-study companies only provided us with the resource type (support administrative personnel, executive administrative personnel or management) that would perform the activity. These were then allocated to a limited list of resource types and their wage level. We refer to Appendix 3 for the resource types and wage rates applied for each country. All wages include 25% overheads⁵.

⁵ The Standard Cost Model Manual describes different overhead percentages for specific countries and sectors. The overhead described in the Manual varies between 25% and 50%. For the purpose of this study 25% is applied to guarantee uniformity for all companies and countries.

“Acquisition costs” are one-time or recurring external costs that are not related to time spent. Examples include postage for a mailing, external IT development, etc. These costs were assessed by the case-study companies.

Appendix 2 shows the cost-data sheet used for each interview. The data sheet shows that time-based and acquisition costs were assessed for each company and each activity.

4.3.3 Step 3 – Qualitative questions: derive interview questions from qualitative exploratory research questions

When assessing administrative costs, the focus was concentrated on collecting data that allows a quantitative analysis.

Qualitative questions were added to the interview to (1) understand the businesses’ views on the introduction of a change in the requirements re recapitulative statements and (2) give the interviewed businesses the opportunity to express their opinions on the proposed scenario.

The following questions were put to each case-study company during the interview:

- What is the current recapitulative statement cycle per Member State where your company is VAT registered?
- How is the current recapitulative statement filed (manually, semi-digitally, digitally)?
- What is the importance of your intra-Community sales? (as a percentage of turnover and as a percentage of transactions)?
- How would such a change in the requirements re recapitulative statements increase/reduce complexity?
- Are there any other positive or negative effects of such a change in the requirements to the recapitulative statements that we have not discussed so far?

4.3.4 Step 4 – Identification of the countries, business segments and businesses to be contacted

Interviews were undertaken in four EU Member States: Belgium, Denmark, France and Hungary. “Business-model relevance” was verified for the case-study companies to be interviewed by assessing if the selected case-study companies dealt with recapitulative statements.

The segmentation on business size split the case-study companies into two groups: “Large” and “Small and Medium-Sized” (SME) case-study companies. The definition for SME case-study companies was based on the Commission Recommendation of 6 May 2003 concerning the definition of micro, Small and Medium-Sized enterprises. Enterprises employing fewer than 250

persons and having an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million are considered as SME case-study companies.

Interviews were undertaken with the following case-study companies:

Country	Size	Sector
Denmark	Large	Manufacture of toys.
Denmark	Large	Manufacture of windmills.
Denmark	SME	Production of plants (vegetation).
Hungary	Large	Electronic computer manufacturing.
Hungary	SME	Manufacture of plastic materials.
Hungary	SME	The building, installation and maintenance of filling stations.
France	Large	Manufacture of customer electronics.
France	Large	Production and sales of paper products.
France	SME	Manufacture of high-tech industrial filters for liquids.
France	SME	Manufacture of titanium materials.
Belgium	Large	Manufacture and sale of products and the performance of services relating to photochemicals.
Belgium	Large	Materials technology.
Belgium	SME	Paint production.
Belgium	SME	Metal processing.

4.3.5 Step 5 – Preparation of Interview Guide

In order to ensure that interviews were performed in a standardised way, a document was developed to support the interview process: the “Interview Guidelines” (see Appendix 1). This document listed all questions to be asked during the interview process and included an introduction. It was used by the interviewer to structure the interview process and collect relevant data during the face-to-face interview.

4.3.6 Step 6 – Piloting

After setting up the questionnaire, a pilot interview was scheduled in order to be able to detect and correct possible shortcomings of the interview guide before the series of interviews were conducted.

For this, the pilot interview was set up and run based on the documents as described in the previous step. Before the pilot interview, internal validation was carried out with a panel of compliance experts. During the pilot interview, no major shortcomings were identified.

During the pilot interview it became apparent that the preparatory work was robust and that interviews could be performed in approximately 1.5 to 2.5 hours of time. Based on the feedback from the pilot case the interview documents were updated in order to continue with the data capture.

4.4 Phase 2 – Data Capture and Standardisation

4.4.1 Step 7 – Business interviews

After the satisfactory pilot interview, interviews took place. At least one member of the project team was present during all interviews, in certain cases accompanied by PwC staff with the required specific language or sector knowledge. All interviews were face-to-face interviews, with the exception of one conference call. The majority of the interviews took place at the premises of the company. The remainder were conducted at local PricewaterhouseCoopers offices.

The case-study company was free to decide who would be present at the interview. In smaller case-study companies this was primarily the CFO or equivalent. In larger case-study companies the interviewee varied between the person responsible for taxation affairs and the executive management from the financial department.

In cases where the interviewee was not able to provide all the data required during the interviews actions were agreed on and the project team contacted the interviewee, by phone or e-mail, in the following days.

4.4.2 Step 8 – Completion and standardisation of data collected

In order to report the findings based on the data collected, all quantitative data was grouped in one data-sheet and standardised in terms of currency and resource costs. In order to determine the cost of time spent on specific tasks, resource profiles indicated during the interview were allocated to standard resource profiles for which country-specific published wage-rates were used. We refer to Appendix 3 for the wage-costs and exchange rates applied.

4.5 Phase 3 – Calculation and Reports

4.5.1 Step 9 – Reporting and transfer of data

The last step was creation of the report based on the collected cost estimate and qualitative feedback. The next Chapter presents these results.

First the results of the impact on administrative costs are presented. The results are described for the one-off activities and for the recurring activities (on a yearly basis). A division has been made between Large companies and Small and Medium-Sized companies.

Next the qualitative findings are presented. The qualitative findings are grouped by subject area and, as mentioned above, aim at understanding the businesses' point of views of the introduction of a change in the requirements re recapitulative statements and giving the interviewed businesses the opportunity to express their opinions on the possible to-be scenario.

V Impact on businesses

This Chapter presents the impact on businesses of a change re requirements as to the submission frequency of the recapitulative statements. In the first part of this Chapter the administrative cost related to the requirements re recapitulative statements is described. This cost contains on the one hand one-off expenditure in order to be able to cope with the changed legislation. On the other hand, it describes the recurring costs that would effectively be incurred in the process of preparing and reviewing the recapitulative statements as required.

The second part of this Chapter details the qualitative feedback that was gathered during the interviews. Here we look at the businesses' point of view on the introduction of a change to the requirements re recapitulative statements and the opinions that the interviewed businesses have expressed on the possible to-be scenario.

5.1 Administrative cost

This section of the report discusses the findings of our exploratory research in terms of the additional administrative costs that would be incurred by the introduction of a monthly submission of the recapitulative statements.

The table below summarises the relevant quantitative data from case-study companies interviewed. The data are classified into two groups: large case-study companies and the SME case-study companies. For each group and for the total of the groups, the average one-time cost and recurring costs are expressed in EUR as well as in percentage of turnover multiplied by 100.000.

Please note that the recurring cost represents the incremental annual cost. Given the small amounts and to increase readability, the costs as a percentage of turnover are multiplied by 100.000. The minimum and maximum value indicates the lower and upper limits of the estimated costs.

	One-time Cost in EUR	Recurring Cost in EUR	One-time Cost divided by Turnover multiplied by 100.000	Recurring Cost divided by Turnover multiplied by 100.000
Large sized – 7 observations				
Average*	402€	11.224€	0,03	0,32
Min	0€	0€	0,00	0,00
Max	1.232€	56.706€	0,12	1,26
Small and medium sized – 7 observations				
Average*	274€	387€	2,11	2,85
Min	0€	0€	0,00	0,00
Max	781€	1.652€	5,82	12,71
Total Sample – 14 observations				
Average*	344€	6.298€	0,98	1,47
Min	0€	0€	0,00	0,00
Max	1.232€	56.706€	5,82	12,71

* One Large French case-study company and two French SME case-study companies are excluded from the calculation of the average as they already submit the recapitulative statements on a monthly basis and as a consequence incur no additional costs. One French company was not excluded from the calculation of the average as it submits recapitulative statements in two other Member States, which means that it incurs additional costs.

The table below summarises the identical quantitative data in a different format. The data are presented using progressive cost categories. This format clearly shows the distribution of the one-time cost and additional recurring cost for the Large case-study companies and the SME case-study companies between the different cost categories.

	Large companies	SME companies
Total	7	7
One-time cost in EUR		
EUR 0	1	2
Between EUR 1 and EUR 125	2	1
Between EUR 125 and EUR 500	2	3
Between EUR 500 and EUR 1.000	1	1
Between EUR 1.000 and EUR 2.000	1	0
Additional annual recurring cost in EUR		
EUR 0	1	2
Between EUR 1 and EUR 100	1	3
Between EUR 100 and EUR 1.000	2	1
Between EUR 1.000 and EUR 4.000	1	1
Between EUR 4.000 and EUR 8.000	1	0
One outlier of EUR 56.000	1	0

5.1.1 One-time costs

5.1.1.1 GENERAL

The average one-time administrative cost of the 11 case-study companies is EUR 344. Three French companies that already submit the recapitulative statement on a monthly basis were excluded from the calculation of the average. The minimum cost of EUR 0 and the maximum cost of EUR 1.232 demonstrate the lower and upper limits of the estimated costs.

Costs in this category are:

- analysing the new requirements;
- changing or creating reports in the IT system(s);
- performing user test on changed system;
- updating procedure manual;
- giving special training.

The majority of one-time costs are determined by:

- the type of IT system(s) of the organisations;
- the maintenance contracts with their IT supplier; and
- the format for submitting the recapitulative statements allowed by the tax authorities.

Some organisations have maintenance contracts that provide that every reporting requirement imposed by law should be provided by the IT supplier, as part of the licensed software, free of charge. Please note that the cost does exist, but was not included in the cost estimate because it is borne by the IT supplier. In this case the only one-time investment is the testing that should be conducted within the organisation.

The flexibility of the tax authority in the way the recapitulative statements can be submitted is another determinant of the one-time cost. Because the recapitulative statements have to be submitted on a more regular basis, some companies argue that they need to further automate their processes related to the preparation and filing of the recapitulative statements. The final step of this process, the transfer or submission of the recapitulative statements to the tax authority, is for some companies a bottleneck due to the limited flexibility of the tax authorities.

Given the fact that submitting the recapitulative statements via electronic file exchange is not accepted in some Member States, a lot of manual work is required. A web portal allowing to type in manually the values of the recapitulative statements is in many cases a more labour-intensive work than filling in a paper form.

5.1.1.2 LARGE COMPANIES

The average one-time administrative cost for six large case-study companies is EUR 402. Companies that do not anticipate any one-time costs already submit their recapitulative statements on a monthly basis (Minimum of EUR 0). This is the case in France. These companies were excluded from the calculation of the average.

A majority of the Large case-study companies have maintenance contracts with their IT suppliers that include updates to be compliant with regulatory requirements. For the Large case-study companies that did not conclude such a maintenance contract, small changes to the information system are required that can lead to a marginal one-time cost (maximum of EUR 1.232).

5.1.1.3 SMALL AND MEDIUM SIZED COMPANIES

The average one-time cost for five Small and Medium Sized case-study companies is EUR 274. The distribution table shows that some companies anticipate no incremental cost or an insignificant incremental one-time cost. The reason for this is twofold:

- the companies active in France already submit their recapitulative statement on a monthly basis;
- a number of these companies have only a limited number of intra-Community transactions.

Most of the SME case-study companies have a rather limited automated process of generating the recapitulative statements. Some of these companies argued that an improved report/process/system would be required when the submission frequency was to be increased. At the same time most of the SME case-study companies did not conclude maintenance contracts that cover the regulatory changes. The consequence of these two elements can be noticed in the one-time cost as a percentage of turnover that is higher for SME case-study companies than for Large case-study companies.

5.1.2 *Recurring costs*

5.1.2.1 GENERAL

The average annual recurring administrative cost of the 11 case-study companies is EUR 6.298 EUR. Three French case-study companies that already submit the recapitulative statement on a monthly basis were excluded from the calculation of the average. The lowest value is a cost of EUR 0 and the maximum value is a cost of EUR 56.706.

Costs in this category are:

- gathering the necessary information;
- creating the listing;
- submitting the listing for validation;
- validating the listing;
- submitting the listing to the tax authority;
- giving recurring training.

As these activities would have to be performed for eight additional periods during one year (12 times instead of 4 times), all interviewed companies incur an incremental cost. The exception to this rule is for case-study companies with filing obligations in France, since a monthly submission of the recapitulative statements is already required in this country. In case no one time investment would be made to further automate the process of preparing and filing the recapitulative statement, the case-study companies estimated the additional annual recurring cost as being eight times the current recurring cost for preparing and filing the recapitulative statements for one submission period.

One of the main determinants of the recurring costs due to an increase in the reporting frequency would be the number of recapitulative statements that the company has to submit. It is possible that a company with multiple VAT registrations across the European Union has to submit multiple recapitulative statements.

Another determinant is the number of transfers of goods (deemed intra-Community supplies of goods) that have to be included in the recapitulative statements, requiring more thorough review of the recapitulative statements and increased complexity for reconciliation.

A last determinant of the recurring costs is the flexibility of and the tools made available by the tax authority to receive and process the recapitulative statements. A tax authority can be very flexible, allowing electronic file exchange, paper submission, etc. A web portal of the tax authority is an example of a tool made available by the tax authority in order to receive and process the

recapitulative statements. It is important to note that the impact of this determinant is country-specific.

5.1.2.2 LARGE COMPANIES

The average annual recurring cost of the six Large case-study companies amounts to EUR 11.224. As for the majority of the Large case-study companies, the number of lines of a recapitulative statement on a quarterly basis is the same as the number of lines of the recapitulative statement on a monthly basis, the incremental cost corresponds with the current time needed to submit the statement on a quarterly basis multiplied by eight.

Furthermore, Large case-study companies often have to submit recapitulative statements in multiple Member States of the European Union. As every Member State has a specific format, multiple formats have to be generated by the Large case-study companies. Also the number of transfers of goods (deemed intra-Community supplies of goods) exceeds the number of transfers of goods for SME case-study companies. For Large case-study companies, this means additional time to be spent for preparing and reviewing the listing.

The maximum value in absolute terms (EUR 56.706) can be explained by the fact that this company is confronted with a combination of the determinants mentioned above (multiple recapitulative statements, multiple lines on each recapitulative statement and transfers of own goods).

5.1.2.3 SMALL AND MEDIUM SIZED COMPANIES

The average annual incremental recurring cost for the five Small and Medium Sized case-study companies is EUR 387.

Although the majority of the Small and Medium Sized case-study companies do not have to submit recapitulative statements in multiple Member States and have fewer transactions to be reported, the recurring costs as a percentage of turnover are high compared with the recurring costs as a percentage of turnover for the Large case-study companies because of the labour-intensiveness of the process for the Small and Medium Sized case-study companies.

5.2 Qualitative findings

5.2.1 Importance of intra-Community sales and transfers

The table below shows the importance of the intra-Community sales and transfers as a percentage of the total transactions and as a percentage of the turnover.

The average number of intra-Community sales and transfers as a percentage of the total number of sales transactions is 29%. The average turnover related to the intra-Community sales and transfers as a percentage of the total turnover is 35%.

The difference between the average as a percentage of the total transactions and the average as a percentage of the total turnover is bigger for the Small and Medium Sized case-study companies. This is due to the fact that most of these companies have fewer intra-Community transactions but for relatively important amounts.

	% intra-community transactions	% intra-community turnover
Large – 7 observations		
Average	42%	41%
Min	28%	33%
Max	90%	75%
Small and Medium Sized – 7 observations		
Average	15%	28%
Min	1%	1%
Max	40%	60%
Total Sample – 14 observations		
Average	29%	35%
Min	1%	1%
Max	90%	75%

Interviewees expressed the feeling that the administrative burden has a stronger correlation with the number of transactions than with the turnover.

5.2.2 Level of automation in recapitulative statement submission

The table below shows how the case-study companies submit their recapitulative statements to the tax authorities.

	Number of companies
Large – 7 observations	
Manual input using web portal	3
Obligatory form manually filled in and sent using postal services	2
Electronic file upload	2
Small and Medium Sized – 7 observations	
Manual input using web portal	4
Obligatory form manually filled in and sent using postal services	1
Electronic file upload	1
Report provided by information system sent using postal services	1

The table shows that the Large case-study companies use the electronic file upload in more cases than the Small and Medium Sized case-study companies. As mentioned earlier, the flexibility that companies have in submitting the recapitulative statement is country-specific. As mentioned in the previous section of this Chapter, the flexibility of the tax authority is a determinant of the recurring cost of the companies.

5.2.3 Data quality

The monthly submission can have a positive impact on the accuracy of information. One company argued that *“Errors in the recapitulative statements can be more easily solved as the information is fresh and one would no longer have to go back three months to figure out what happened”*.

Many case-study companies also hope that the accuracy of the published individual identification numbers, which is by many case-study companies perceived as inaccurate, would benefit from the monthly submission.

Notwithstanding the potential positive impact on accuracy, a potential risk regarding data quality has been mentioned: *“The classical trade-off between time, quality and budget also applies to the monthly submission of the recapitulative statements. Given that the budget for tax compliance is already stretched and time pressure will increase, quality will reduce”*.

A possible timing issue was also highlighted during the interviews: *“If the submission period is decreased from 3 months to 1 month, mismatching due to time delays between bookings at both sides of the transaction will increase”*.

5.2.4 Harmonisation of tax statements

One of the common checks on the recapitulative statements before submitting them to the tax authority is to check the recapitulative statements against the VAT returns. A lot of case-study companies argue that the check would be easier when the submission period of these returns is harmonised. This argument was also acknowledged by the interviewees who already performed a monthly submission of the recapitulative statement.

A more general remark mentioned by the interviewees was the request for further harmonising the VAT returns within the European Union.

5.2.5 Tax authority

Multiple interviewees argued that a more intensive communication with the tax authority would inevitably lead to additional audits and additional administrative burdens.

A number of the case-study companies raised the question as to whether the tax authorities would be able to analyse all the additional data provided. A lot of the interviewed companies were convinced that the tax authorities would not be able to deal with this extra information. The perception is that the authorities already face significant problems in coping with the current workload, with a lag of several years.

5.2.6 Complexity and administrative burden

Despite the fact that the increase in the submission frequency of the recapitulative statements would not have a significant impact on the complexity related to the preparation and filing of the recapitulative statements for the interviewed companies, it should be noted that it is perceived by nearly all interviewed companies as an additional burden (cost) for businesses. Since this increase would not have any clear advantage in return, this extra cost is seen as non-business-friendly and therefore could not be well received by the case-study companies.

VI Conclusion

The aim of the study is merely to receive an indicative overview of the relative impact of the administrative costs, both one-off costs and recurring costs, caused by an increase in the submission frequency. Next to the administrative costs, also qualitative findings were gathered to be able to understand the businesses' point of view on the introduction of a change in the requirements re recapitulative statements and to give the interviewed companies the opportunity of expressing their opinions on the possible to-be scenario.

An estimate of the administrative cost and qualitative questions have been answered through face-to-face interviews and one conference call in 14 case-study companies – both Large case-study companies and SME case-study companies in four Member States. The results of the interviews are summarised below.

An increase in the submission frequency of the recapitulative statements would lead to additional administrative costs. These additional administrative costs are one-time costs to set up the systems and to train the people involved as well as recurring costs which would be incurred when preparing and reviewing the recapitulative statements.

The average one-time cost of 11 case-study companies is marginal and amounts to EUR 344. Three French companies (1 Large company and 2 SME companies) that already submit the recapitulative statement on a monthly basis were excluded from the calculation of the average. Main determinants of these costs would be the type of maintenance contract with the IT supplier and the flexibility of the tax authority in allowing different methods for submitting the recapitulative statements.

Large case-study companies would not have a substantial marginal one-time cost as most of them have a maintenance contract with their IT supplier that covers regulatory changes. Some of the companies however argue that they would need an improved report/process/system when the submission time would be reduced from three to one month.

In the case of SME case-study companies, there would be an additional one-time investment as this kind of change in the system set-up is, for the majority of the interviewed SME companies, not covered by their IT maintenance contract. This fact is reflected in the one-time cost as a percentage of turnover that was higher for the SME case-study companies than for the Large case-study companies. A number of the SME case-study companies with very limited intra-Community transactions do not anticipate the need to make any substantial additional one-time investments.

Because the recapitulative statements would have to be submitted on a more regular basis, some case-study companies argue that they need to further automate their processes related to the preparation and filing of the recapitulative statements. The final step of this process, the transfer or submission of the recapitulative statements to the tax authority, is for some case-study companies a bottleneck due to the limited flexibility of the tax authority.

The average of the estimated additional recurring costs per year amounts to EUR 6.298. The determinants of these recurring costs are:

- the number of recapitulative statements that a company has to submit;
- the number of deemed intra-Community supplies of goods that have to be included in the recapitulative statements, requiring more thorough review of the recapitulative statements and increased complexity on reconciliation; and
- the flexibility of the tax authority to receive and process the recapitulative statements.

In case no one time investment would be made to further automate the process of preparing and filing the recapitulative statement, the case-study companies estimated the additional annual recurring cost as being eight times the current recurring cost for preparing and filing the recapitulative statements for one submission period.

Although the majority of the Small and Medium Sized case-study companies do not have to submit recapitulative statements in multiple Member States and do not have intra-Community transfers to report, the recurring costs as a percentage of turnover are high compared with the recurring costs as a percentage of turnover for the Large case-study companies because of the labour-intensiveness of the process.

The flexibility and ability of the tax authority to receive and process the recapitulative statements in different formats is country-specific and as a consequence is not correlated with the size of the companies.

The 14 case-study companies have also given a more qualitative feedback or insight regarding their views with respect to increasing the submission frequency in the future.

The first subject area is data quality. This area is mentioned as an opportunity as well as a threat. The interviewed companies anticipate a possibility of increased accuracy of the information together with the risk of a decrease in data quality due to the increased time pressure and possible mismatching due to time delays between registrations.

A second subject area is the harmonisation of the tax statements. A harmonisation between the reporting periods of different tax statements within one country was mentioned as positive. A more general remark mentioned by the interviewees was the request for further harmonising the different VAT returns within the European Union.

The relation with the tax authorities is the next subject area. The interviewed companies estimate that extra audits and additional administrative burdens would be incurred because of the more intense communication with the tax authorities. Questions were also raised by the majority of the interviewees concerning the capacity of the authorities to absorb this extra information.

Finally, it should be noted that the proposed change in the requirements re recapitulative statement is perceived by nearly all interviewed companies as an additional burden, without offering any obvious added value for businesses.

APPENDICES

Appendix 1 - Interview Guideline

IDENTIFICATION:

Company Name: _____

Country: _____

Interviewees: Name: _____
 Function: _____
 Contact details: _____

Interviewees: Name: _____
 Function: _____
 Contact details: _____

Interviewees: Name: _____
 Function: _____
 Contact details: _____

COMPANY DETAILS:

Activities of the company (products/services):

...

Headcount: _____

ANNUAL TURNOVER: _____

ANNUAL BALANCE SHEET TOTAL: _____

QUALIFYING AS: Large Company
 Small or Medium Company

N.B. Criteria to qualify as an SME (on an EU viewpoint):

- *Staff headcount of less than 250, and*
- *Annual turnover not more than EUR 50 mio, or*
Annual balance sheet total not more than EUR 43 mio.

Countries to which goods are sold in the European Union:

- Austria
- Belgium
- Bulgaria
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom

Importance of IC sales

<p>% number of transactions:</p> <p>% of turnover:</p>
--

Summary structure of the company

<p>...</p>

PART 1 – Qualitative Assessment of the Impact

Q1.1: What is the software used for accounting purposes?

A1.1:

Q1.2: How is the VAT-department organized within your organisation (in-house, shared-service center, outsourced)?

A1.2:

Q1.3: What is the current IC Sales listing cycle per Member State where your company is VAT registered? (How often do you have to fill in the IC Sales listing?)

A1.3: Monthly
 Quarterly
 Other (specify) _____

Q1.4: How is the IC Sales listing filed (manual, semi-digital, digital)?

A1.4:

PART 2 - Understanding of the to-be scenario

Q2: Do you have any general questions concerning the two topics? I.e. further information that you need in order to estimate the administrative effort required to comply?

(ONLY RECORD ADDITIONAL QUESTIONS NOT ANSWERED IN THE Q&A SECTION)

A2:

...

PART 3 – Cost estimation for each impacted activity.

In order to estimate the change in administrative burden / cost resulting from the introduction of a change in recapitulative statements, we will take you through the different activities that might be impacted.

SEE DOCUMENT “COMPANY INTERVIEW OUTLINE” FOR PROCESS FLOW DETAILS.

Q3.1 Cost estimation topic 1:

We would like to understand what administrative activities you would undertake to prepare and provide the recapitulative statements on a **monthly basis**.

FILL IN EXCEL SHEET: “ACTIVITY LIST AND COST MODEL: TOPIC 1”. Please make sure that the recurring cost reflects the incremental annual cost!

Q3.2: How would such a change in recapitulative statements increase/reduce complexity?

A3.2:

Q3.3: Are there any other positive or negative effects of such a change in the recapitulative statements that we have not discussed so far?

A3.3:

Q3.5 Cost estimation topic 2:

If we look now at topic 2: what activities and costs are impacted by the obligation to provide the recapitulative statements with a **higher level of detail** (Invoice number, invoice date and invoice amount)?

FILL IN EXCEL SHEET: "ACTIVITY LIST AND COST MODEL: TOPIC 2". Please make sure that the recurring cost reflects the incremental annual cost!

Q3.6: How would such a change in recapitulative statements increase/reduce complexity?

A3.6:

Q3.7: Do you think that, in view of your current experiences, providing more detailed information might possibly have affect the number of demands/controls from tax authorities related to the recapitulative statements or the speed of tax credit repayment?

A3.7:

Q3.8: Are there any other positive or negative effects of such a change in the recapitulative statements that we have not discussed so far?

A3.8:

PART 5: Action points

The following action points have been agreed during the interview:

ACTION	DUE DATE	RESPONSIBLE

Thank you.

----- **END OF THE INTERVIEW** -----

ANNEX 1: Q&A

THIS SECTION NEEDS TO BE COMPLETED AND SHARED WITHIN THE PROJECT TEAM DURING THE INTERVIEW PROCESS;

1. What is meant with “companies receive “preferred access” to the results?

The company can receive access to the final report as soon as the Commission has accepted it. It will not need to wait for the publication of the report. (FASTER)
If only part of the final report is made public, the participating companies will get access to the full report. (COMPLETER)

2. Why does the European Commission request more detailed IC Sales Listings?

The Commission is not requesting or intending to request more detailed information in IC sales listings, it is an idea that has been put forward by some Member States in the discussions we are having on a coordinated strategy to fight against fraud, with a view to collect more information for their risk analysis systems. However, this measure could produce its effects only if it was introduced in all Member States in a harmonised manner. This is the reason why we have launched this study to assess the cost this may represent for businesses.

3. What is the added value in case only the IC sales listings are in a higher level of detail and there is no corresponding IC purchase listing with the same level of detail?

It should be pointed out that according to the VAT directive (art 268), Member States which would want to collect detailed information (even at invoice level) on IC acquisitions could already do so. In fact, some Member States do collect monthly information on IC acquisitions from their own taxpayers. For this reason it should be clear that there is no intention to impose uniformly in all Member States the collection of detailed information on IC acquisitions, though we cannot exclude that some Member States would introduce it nationally.

Appendix 3 - Tables and sources of external data used

A. Wages

The wages used for processing input gathered during the interviews are country specific. These costs represent a total cost for the employer including a base salary, material and overhead cost. Overheads are those costs that relate to fixed administration costs, such as expenses for premises (rent or building depreciation), telephone, heating, electricity, IT equipment, etc. These are calculated by applying a standard percentage mark-up (25% of the time-based costs) as recommended by the Standard Cost Model (SCM). External Cost (especially IT-related cost) is included in acquisition cost.

1. Belgium

Category	Wage rate (€ per hour)
Supporting administrative personnel	27
Executing administrative personnel	32
Management	59

Source: "Het Kafka Meetmodel", Dienst voor Administratieve Vereenvoudiging (Office of Administrative Simplification), Idea Consult, www.vereenvoudiging.be, Belgium, 46 pages

2. Hungary.

Category	Wage rate (HUF per hour)*
Supporting administrative personnel	1521
Executing administrative personnel	2305
Management	3066

* Based on monthly growth wage of 253559 HUF, and an additional 25% overhead. The split applied for Admin personnel (0.66) and Management (1.33) is based on standard deviations in other countries.

Source: *Employment and Earnings 1998-2005 (Labour Statistics)*, Hungarian Central Statistical Office, Budapest 2007, 224 pages.

3. France.

Category	Wage rate (€ per hour)*
Supporting administrative personnel	26
Executing administrative personnel	31
Management	56

* Based on the Eurostat hourly labour costs adjusted with the pro-rata division (division supporting administrative personnel – executing administrative personnel – management) of the Belgian Labour costs.

Source: "Hourly labour costs (2005)", Eurostat, <http://ec.europa.eu/eurostat>

4. Denmark.

Category	Wage rate (DKK per hour)*
Administrative personnel	273
Management	456

* Based on total labour cost in DKK and an additional 25% overhead.

Source: "Total labour costs in the private sector by time, group of employees and components (2005)", Danmarks Statistik, www.statbank.dk/SAO31

B. Exchange Rates

Data has often been gathered in local currencies. The exchange rates used are:

Currency (date)	X-rate
EUR	1
HUF (5 September 2007)	255.75
DKK (5 September 2007)	7.4489

Source: European Central Bank, www.ecb.int.