

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

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Increased level of detail

Final report to the European Commission

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TABLE OF CONTENTS

I	EXECUTIVE SUMMARY	4
II	INTRODUCTION.....	7
III	RECAPITULATIVE STATEMENTS	9
	3.1 SCOPE OF THE EXPLORATORY RESEARCH	9
	3.2 DESCRIPTION OF THE POSSIBLE TO-BE SCENARIO	10
IV	METHODOLOGY AND APPROACH	11
	4.1 INTRODUCTION	11
	4.2 PROJECT PHASES.....	12
	4.3 PHASE 1 – PREPARATORY ANALYSIS AND PILOTING	12
	4.3.1 Step 1 – Detailed description of the to-be VAT policy.....	12
	4.3.2 Step 2 – Administrative costs: Identification of the Information Obligations and Activities - Approach for the gathering of cost data.....	13
	4.3.2.1 <i>Information Obligations</i>	13
	4.3.2.2 <i>Administrative activities</i>	13
	4.3.2.3 <i>Cost parameters</i>	14
	4.3.3 Step 3 – Qualitative questions: derive interview questions from qualitative exploratory research questions	14
	4.3.4 Step 4 – Identification of the countries, business segments and businesses to be contacted	15
	4.3.5 Step 5 – Preparation of Interview Guide	17
	4.3.6 Step 6 – Piloting.....	17
	4.4 PHASE 2 – DATA CAPTURE AND STANDARDISATION	17
	4.4.1 Step 7 – Business interviews.....	17
	4.4.2 Step 8 – Completion and standardisation of data collected	18
	4.5 PHASE 3 – CALCULATION AND REPORTS.....	18
	4.5.1 Step 9 – Reporting and transfer of data.....	18
V	IMPACT ON BUSINESSES.....	19
	5.1 ADMINISTRATIVE COST	19
	5.1.1 One-time cost	20
	5.1.1.1 <i>General</i>	20
	5.1.1.2 <i>Large companies</i>	21
	5.1.1.3 <i>Small and medium sized companies</i>	22
	5.1.2 Recurring cost.....	22
	5.1.2.1 <i>General</i>	22
	5.1.2.2 <i>Large companies</i>	23
	5.1.2.3 <i>Small and medium sized companies</i>	24
	5.2 QUALITATIVE FINDINGS.....	25
	5.2.1 Importance of intra-Community transactions	25
	5.2.2 Level of automation in recapitulative statement submission	25
	5.2.3 Data quality.....	26
	5.2.4 Tax authority.....	26

5.2.5 Harmonisation of tax statements 27
5.2.6 Administrative burden 28
VI CONCLUSION 29

APPENDICES:

Appendix 1 - Interview Guideline

Appendix 2 - Data-model

Appendix 3 - Tables and sources of external data used

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 exchanges of information. In that respect, the European Commission has decided to explore the impact of the introduction of more-detailed 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 an increased level of detail on administrative costs (one-time and recurring costs);
- other qualitative feedback.

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

For assessing the impact of more-detailed recapitulative statements on 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 more-detailed recapitulative statements leads to 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	123.637€	4.499€	6,55	0,26
Min	5€	0€	0,00	0,00
Max	610.000€	16.625€	26,52	1,14
Small and medium sized – 7 observations				
Average	687€	8€	5,10	0,09
Min	0€	0€	0,00	0,00
Max	2.362€	36€	17,59	0,51
Total Sample – 14 observations				
Average	62.162€	2.254€	5,82	0,18
Min	0€	0€	0,00	0,00
Max	610.000€	16.625€	26,52	1,14

	Large companies	SME companies
Total	7	7
One-time cost in EUR		
EUR 0	0	1
Between EUR 1 and EUR 500	2	3
Between EUR 500 and EUR 5.000	1	3
Between EUR 5.000 and EUR 50.000	1	0
Between EUR 50.000 and EUR 150.000	2	0
One outlier of EUR 610.000	1	0
Additional annual recurring cost in EUR		
EUR 0	2	5
Between EUR 1 and EUR 50	0	2
Between EUR 50 and EUR 500	0	0
Between EUR 500 and EUR 1.000	1	0
Between EUR 1.000 and EUR 10.000	2	0
Between EUR 10.000 and EUR 20.000	2	0

The interviews revealed that the one-time cost is mainly determined by the level of automation 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 recurring costs are the frequency of submission, the number of transactions to be reported and the tools made available by the tax authorities for submitting recapitulative statements.

b) Qualitative feedback

The qualitative feedback revealed that an increase in the number of data elements may lead to reduced accuracy for non-automated companies.

Furthermore, most case-study companies fear that the introduction of an increased number of details into recapitulative statements would lead to more tax audits by the authorities and hence a larger administrative burden.

There is also a clear request for more harmonisation in implementing such measures and control thereof by the tax authorities.

It should also be noted that nearly all interviewed companies perceive the proposed change to recapitulative statements as an additional burden (cost) for their business, which in their view would not have any clear advantage in return.

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 European 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 more-frequent submission of recapitulative statements and/or more detailed requirements relating to recapitulative statements.

In this respect, PricewaterhouseCoopers has been engaged to research some of the potential impacts that more-detailed 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 the recurring and one-off costs caused by the requirement for more-detailed information in recapitulative statements.

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 administrative 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 administrative costs between the current situation and the possible 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 more-detailed information be required in relation to recapitulative statements.

III Recapitulative statements

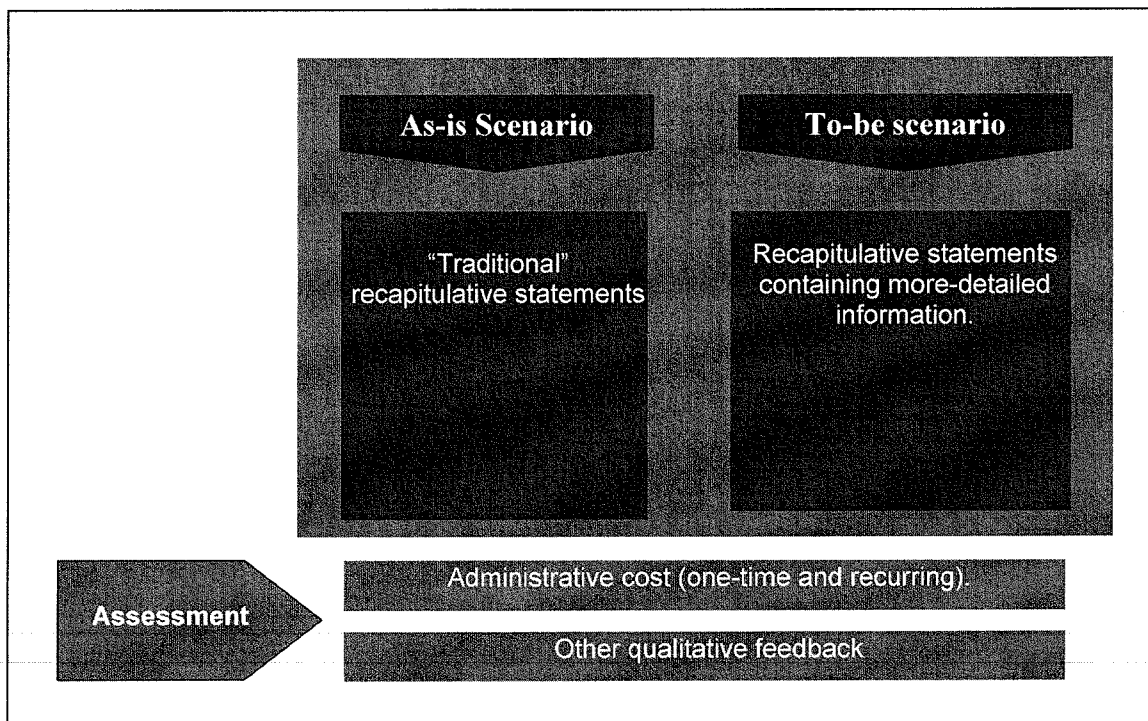
3.1 Scope of the exploratory research

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 require more-detailed information to be reported on recapitulative statements.

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

As presented in the diagram below, we have 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 re 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 requiring more detailed-information to be reported in recapitulative statements.

According to article 264(1) of Directive 2006/112/EC, a recapitulative statement must set out the following information:

- the VAT identification number of the taxable person in the Member State in which the recapitulative statement must be submitted and under which he has carried out the supply of goods in accordance with the conditions specified in article 138(1);
- the VAT identification number of the person acquiring the goods in a Member State other than that in which the recapitulative statement must be submitted and under which the goods were supplied to him;
- the VAT identification number of the taxable person in the Member State in which the recapitulative statement must be submitted and under which he has carried out a transfer to another Member State, as referred to in article 138(2)(c), and the number by means of which he is identified in the Member State in which the dispatch or transport ended;
- for each person who acquired goods, the total value of the supplies of goods carried out by the taxable person;
- in respect of supplies of goods consisting in transfers to another Member State, as referred to in article 138(2)(c), the total value of the supplies, determined in accordance with article 76;
- the amounts of adjustments made pursuant to article 90.

By way of derogation from these requirements, and in line with the current article 266 of Directive 2006/112/EC, Member States may already require that additional information is to be given in recapitulative statements.

Under the possible to-be scenario, additional information on the recapitulative statement will become mandatory, meaning that it is envisaged to require the following additional information to be included in the recapitulative statements:

- the detail of the total value of supplies of goods;
- the detail by invoice for each person who acquired goods;
- the date of the invoice;
- the invoice number;
- the total amount of the invoice.

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 EU Commission in October 2005 as a common EU methodology for measuring the administrative costs of legislation on citizens or businesses.² Since then, it has been further elaborated, described and refined by the SCM Network.³

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” to 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 the 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 and 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 need to be undertaken for the “File recapitulative statements” information obligation were split into two categories:

- one-off activities; and
- 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 that 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 and 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% overheads.⁵

“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 are 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.

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.

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)?
- Do you think that, in view of your current experience, providing more-detailed information might possibly affect the number of demands/checks by tax authorities relative to recapitulative statements or the speed of tax credit repayments?
- 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 re 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 “small” 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 “Small and Medium-Sized 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 to the purpose of the study. 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 to 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. Based on the feedback from the pilot case, the interview documents were updated in order to continue with 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 face-to-face interviews, action for completion was agreed. This was followed up by the project team 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 cost are presented. The results are described for one-off activities and for recurring activities (on a yearly basis). A division has been made between Large case-study companies and Small and Medium Sized case-study companies.

Next the qualitative findings are presented. The qualitative findings are grouped by subject area and, as mentioned above, aim at understanding the businesses' 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 in the requirements re recapitulative statements. In the first part of this Chapter the administrative cost related to a change in 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 statement as required.

The second part of this Chapter presents the qualitative feedback that was gathered during the interviews. In this Chapter we look at the businesses' point of view on the introduction of a change in the requirements re recapitulative statements and the opinions 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 requiring the following level of detail for the recapitulative statements (on top of the current level of detail):

- the detail of the total value of the supplies of goods;
- the detail by invoice for each person who acquired the goods;
- the date of the invoice;
- the invoice number;
- the total amount of the invoice

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	123.637€	4.499€	6,55	0,26
Min	5€	0€	0,00	0,00
Max	610.000€	16.625€	26,52	1,14
Small and medium sized – 7 observations				
Average	687€	8€	5,10	0,09
Min	0€	0€	0,00	0,00
Max	2.362€	36€	17,59	0,51
Total Sample – 14 observations				
Average	62.162€	2.254€	5,82	0,18
Min	0€	0€	0,00	0,00
Max	610.000€	16.625€	26,52	1,14

The table below summarises the identical quantitative data in a different format. The data are presented by use of 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	0	1
Between EUR 1 and EUR 500	2	3
Between EUR 500 and EUR 5.000	1	3
Between EUR 5.000 and EUR 50.000	1	0
Between EUR 50.000 and EUR 150.000	2	0
One outlier of EUR 610.000	1	0
Additional annual recurring cost in EUR		
EUR 0	2	5
Between EUR 1 and EUR 50	0	2
Between EUR 50 and EUR 500	0	0
Between EUR 500 and EUR 1.000	1	0
Between EUR 1.000 and EUR 10.000	2	0
Between EUR 10.000 and EUR 20.000	2	0

5.1.1 One-time cost

5.1.1.1 GENERAL

The average one-time administration cost of the total sample of 14 case-study companies is EUR 62.162. The minimum cost of EUR 0 and the maximum cost of EUR 610.000 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 existing level of automation in creating and submitting the recapitulative statements, the maintenance contracts with the IT supplier and the format of submission of 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. This includes also changes to the legal requirements that have to be provided for by the software vendor 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 for the business is the testing and training that should be carried out within the organisation.

The flexibility of the tax authorities in the way the recapitulative statements can be submitted is another determinant of the one-time cost. When the recapitulative statements have to be submitted with a higher level of detail requiring more lines to be reported, the majority of the interviewed companies argue that they would need to further automate their processes. The final step of this process, the transfer or submission of the recapitulative statement is for some companies a bottleneck due to the limited flexibility of the tax authorities.

As tax authorities of certain Member States do not allow submitting the recapitulative statement via electronic file exchange, a lot of manual work is required. In this aspect it is worth mentioning that a web portal allowing to type manually in the values of the recapitulative statement 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 administration cost is EUR 123.637. Some case-study companies anticipate very limited one-time cost as they already have a report that contains the required information (Minimum of EUR 5).

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 those Large case-study companies that did not conclude such a maintenance contract, the one-time cost of changing the IT

system can be substantial. This explains the maximum value (EUR 610.000) of the estimated one-time cost for the Large case-study companies.

Several Large case-study companies mentioned that submitting more detailed recapitulative statements would only be manageable when they would have a more user-friendly option to submit the recapitulative statements to the tax authority using electronic data interchange. The setup of such an electronic data interchange would be another additional one-time cost.

5.1.1.3 SMALL AND MEDIUM SIZED COMPANIES

The average one-time cost for the Small and Medium Sized case-study companies is EUR 687. Small and Medium Sized case-study companies which have a limited number of transactions and a manual process do not see the need to make a one-time investment (Minimum of EUR 0).

All SME case-study companies which have an automated or semi-automated process for creating the recapitulative statements would need to change their information systems. The majority of the SME case-study companies, contrary to the Large case-study companies, do not have maintenance contracts that include updates for regulatory changes.

The companies with a manual process show a more open-minded attitude to the proposed changes. It is important to mention that this flexibility would only be guaranteed when their number of intra-Community sales remains at a low level.

Small and Medium Sized case-study companies with a high number of transactions in their recapitulative statements also mentioned that submitting more detailed recapitulative statements is only manageable when they have a more user-friendly option to submit the recapitulative statements via electronic data interchange to the tax authority. The setup of this kind of electronic data interchange would represent another additional one-time cost. As the level of the cost is very specific to the individual circumstances of each case-study company, it has not been quantified.

5.1.2 Recurring cost

5.1.2.1 GENERAL

The average annual recurring administration cost of the total sample of 14 companies is EUR 2.254. The lowest value is a cost of EUR 0 and the maximum value is a cost of EUR 16.625.

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.

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

Secondly, the number of intra-Community transactions to be reported plays an important role when determining the recurring cost. In the case of a manual or semi-automated process, the number of transactions to be reported is a very important determinant. An example mentioned in the next section demonstrates this.

A last determinant of the recurring cost is the flexibility 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 provided by 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 recurring administration cost for the Large case-study companies is EUR 4.499. The minimum of the observations is EUR 0 and the maximum is EUR 16.625.

Large case-study companies that anticipate no additional recurring costs are companies that have a fully-automated process. After a one-time investment of adding more detail to the electronic file, this file is electronically exchanged with the tax authority and therefore does not affect the recurring cost.

When an electronic file exchange with the tax authority is not an option, the impact on the recurring costs can be considerable (maximum of EUR 16.625). One of the interviewed Large companies showed this with the following example:

The interviewee assumed that they would continue to submit the recapitulative statements via manual input in the web portal in accordance with the law of the respective Member States. The

interviewee had already two reports at disposal: a summary report and a more detailed report. This made it possible to make the following comparison:

Current situation:

- *Summary report with 45 lines*
- *Approximately 3 data elements per line*
- *Total data items to type over in the web portal: 135*

New situation:

- *Detailed report with 2750 lines*
- *Approximately 5 data elements per line*
- *Total data items to type over in the web portal: 13.750*

Estimated impact: time to be invested multiplied by 103

The recurring cost is also affected by the fact that some Large case-study companies have to submit recapitulative statements in multiple Member States of the European Union. As every Member State has a specific format for filing, multiple formats have to be generated by these Large case-study companies.

Finally, a lot of Large companies transfer goods from one Member State to another (deemed intra-Community supplies of goods) that need to be included in the recapitulative statements. The difficulty that companies already have today to extract the correct data with respect to these transactions from their IT systems, would increase by the introduction of more detailed recapitulative statements thereby resulting in higher costs. Some Large companies argue that in this case additional time would need to be invested in the review of the listing and would inevitably have a negative impact on the data quality of the recapitulative statements.

5.1.2.3 SMALL AND MEDIUM SIZED COMPANIES

The average recurring cost for the Small and Medium Sized case-study companies is EUR 8. The minimum of EUR 0 can be explained as most SME case-study companies argued that because they have limited intra-Community transactions, there would be no extra recurring cost.

The majority of Small and Medium Sized case-study companies do not have to submit recapitulative statements in multiple Member States and do not make deemed intra-Community supplies of goods. This lower level of complexity together with the low number of transactions that have to be included in the recapitulative statements result in a recurring cost as a percentage of turnover that is lower than the recurring cost as a percentage of turnover of the Large companies.

5.2 Qualitative findings

5.2.1 Importance of intra-Community transactions

The table below shows the importance of the intra-Community transactions as a percentage of the total transactions and as a percentage of the turnover for the different case-study companies.

The average number of intra-Community transactions as a percentage of the total number of sales transactions is 29%. The average turnover related to 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 number of sales 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 relative 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 the 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 in the way the recapitulative statements can be submitted is a determinant of the recurring cost of the case-study companies.

5.2.3 Data quality

Certain companies anticipate a negative impact on the quality of the data. Due to the fact that the number of data elements (increased complexity) to be included increases considerably, companies without a fully-automated process argue that the accuracy of the information provided will decrease.

The review of the prepared files would also be more difficult. Some of the case-study companies mentioned that it would no longer be possible to ensure the current quality of data due to the increased level of detail.

5.2.4 Tax authority

Many of the case-study companies anticipate more VAT audits and administrative burden as a consequence of providing more detailed information. One of the companies expressed this as: *“The fear exists that the more detailed listings will trigger “automatic controls” from the authorities where any abnormality in the listings will automatically be registered. This would result in a large amount of information and paper back and forward and the risk exists both sides (company & authority) would be drowned in red tape effectively reducing the potential fraud identification”.*

Another anticipated negative impact could be an increased number of delays in tax refund due to the higher number of audits.

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 organisations 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.

5.2.5 Harmonisation of tax statements

The format of the recapitulative statements is country-specific. This obliges companies with multiple VAT registrations to provide the information in multiple formats. As quoted by one of the case-study companies: *"I do not need to change only one report in my information system, I need to change seven reports as I am registered for VAT in seven Member States."*

On the other hand, one of the case-study companies expressed the hope that *"Installing such systems on a European base might simplify the VAT-related concerns that exporting companies now experience. A unified and simplified system could significantly reduce costs, both in operations as in administration, regarding the intra-company moving of goods between companies of the same group."*

The obligation to submit recapitulative statements was initiated by a European Directive and implemented by the different Member States. During the interviews the need for a harmonised approach of the recapitulative statements came up:

- In certain Member States the invoice date is used for the cut-off between the different quarters of the recapitulative statements; in other Member States the delivery date is used.
- In an extreme case, as one of the interviewees argued, authorities are blocking large payments as a result of administrative imperfections.
- Another company mentioned that fines for not filing the correct information are so low that many companies do not, or not accurately, comply with their compliance obligations. The fear therefore exists in general that increased focus and control will turn out to be a disadvantage for those companies that do comply as they are the easier targets to control.

These examples demonstrate the need for a more harmonised implementation (format and content) and control (including fines) by the tax authorities.

5.2.6 Administrative burden

It should be noted that nearly all interviewed companies perceive the proposed change in the recapitulative statement as an additional burden (cost) for businesses. Since this increase in their view would not have any clear advantage in return, this extra cost is regarded as non-business-friendly and therefore could not be well received by the interviewed companies.

VI Conclusion

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

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

Additional administrative costs will occur when increasing the level of details to be reported on the recapitulative statements. These additional administrative costs are one-time costs to set up the systems and train the people involved as well as recurring costs which would be incurred while the recapitulative statements actually need to be prepared and reviewed.

The average one-time administration cost of the total sample of the 14 interviewed companies is EUR 62.162. The majority of these one-time costs are affected by:

- the level of automation in creating and submitting the recapitulative statements;
- the maintenance contracts with the IT supplier; and
- the flexibility of the tax authorities in allowing different formats of recapitulative statements.

The case-study companies with a manual process expressed a big flexibility to the proposed changes. It is important to mention that this flexibility would only be guaranteed when their number of intra-Community sales remains at a low level.

For the majority of the interviewed Large companies it is common that the maintenance contracts with their IT suppliers cover updates in regulatory requirements. In this case the cost is supported by the IT supplier and thus not included in the cost estimate for the businesses.

Several companies mentioned that submitting more detailed recapitulative statements would only be manageable when they would have the option to submit the recapitulative statements via electronic data interchange to the tax authorities.

The average of the estimated additional annual recurring administration cost of the total sample of the 14 interviewed companies is EUR 2.254. The majority of these recurring costs are determined by:

- the number of recapitulative statements that the company has to submit;
- the number of intra-Community transactions; and
- the flexibility of the tax authorities to receive and process the recapitulative statement in different formats.

Large case-study companies that anticipate no additional recurring costs are companies that have a fully-automated process. When an electronic file exchange with the tax authorities is not an option, the impact on the recurring costs however can be considerable.

The majority of Small and Medium Sized case-study companies do not have to submit recapitulative statements in multiple Member States. This lower level of complexity together with the low number of transactions that have to be included in the recapitulative statements result in a recurring cost as a percentage of turnover that is lower than the recurring cost as a percentage of turnover of the Large case-study companies.

The 14 case-study companies also provided their point of view on the introduction of a change in the recapitulative statements by answering the qualitative questions. A negative impact on the data quality of the provided information is the first subject area. The increased level of detail to be reported and consequently the increased complexity will cause a risk for companies without a fully-automated process.

The concern of increased VAT audits and increased administrative burden together with the question whether or not the authority is capable of dealing with this extra information were mentioned in the subject area of the tax authorities.

A lot of the qualitative feedback demonstrated the need for a more harmonised way of implementing the new requirements re recapitulative statements.

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

APPENDICES

Appendix 1 - Interview Guideline

IDENTIFICATION:

Company Name: _____

Country: _____

Interviewees: Name: _____
 Position: _____
 Contact details: _____

Interviewees: Name: _____
 Position: _____
 Contact details: _____

Interviewees: Name: _____
 Position: _____
 Contact details: _____

COMPANY DETAILS:

Activities of the company (products/services):

...

Headcount: _____

ANNUAL TURNOVER: _____

ANNUAL BALANCE SHEET TOTAL: _____

QUALIFYING AS: Large Company
 Small or Medium-Sized Company

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

- Staff headcount of less than 250, and

- Annual turnover not more than EUR 50 million, or
Annual balance sheet total not more than EUR 43 million.

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 software is used for accounting purposes?

A1.1:

Q1.2: How is the VAT department organised within your organisation (in-house, shared service centre, 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 an IC Sales listing?)

A1.3:

- Monthly
- Quarterly
- Other (specify) _____

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

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 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 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 to 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 experience, providing more-detailed information might possibly affect the number of demands/checks from the tax authorities relative to recapitulative statements or the speed of tax credit repayments?

A3.7:

Q3.8: Are there any other positive or negative effects of such a change in 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 by “companies receive “preferred access” to the results”?

The company can be given access to the final report as soon as the Commission has accepted it. It will not need to wait for 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. (MORE COMPLETE)

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

The Commission is not requiring or intending to require 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 fraud, with a view to collecting more information for their risk analysis systems. However, this measure could only come into effect if it were 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 if only IC sales listings are to 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 that want to collect detailed information (even at invoice level) on IC acquisitions can 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 introduce a uniform requirement in all Member States that detailed information on IC acquisitions should be collected, though we cannot rule out some Member States introducing this nationally.

Appendix 2 - Data model

Process Step	Process Sub Steps	One-time ?	Recurrent ?	Activity Nr.	Activities	Time-based Cost				Acquisition costs (€)		Description of cost.
						Type of Resource (company specific)	Type of Resource (select from list - see sheet input staff)	Time spent /	Unit responsible for measuring	Number of units	Acquisition costs (€)	
					1. Comply with VAT obligations							
					1.1 File VAT recapitulative statements (Intra Community Sales listing)							
					OT 1.1.1 Analyse new/changed requirements.					m		3
					OT 1.1.2 Create/change reports in system.					m		3
					OT 1.1.3 Perform user-tests on system changes.					m		3
					OT 1.1.4 Update procedure manuals.					m		3
					OT 1.1.5 Give special training.					m		3
					R 1.1.6 Gather necessary information to create IC sales listing.					m		3
					R 1.1.7 Create IC sales listing.					m		3
					R 1.1.8 Submit IC sales listing for validation.					m		3
					R 1.1.9 Validate IC sales listing.					m		3
					R 1.1.10 Submit IC sales listing.					m		3
					R 1.1.11 Give recurring training.					m		3

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 and material and overhead costs. Overheads are those costs that relate to fixed administration, such as expenses for premises (rent or building depreciation), telephone, heating, electricity, IT equipment, etc. They 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 the acquisition cost.

1. Belgium

Category	Wage rate (€ per hour)
Support administrative personnel	27
Executive administrative personnel	32
Management	59

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

2. Hungary.

Category	Wage rate (HUF per hour)*
Support administrative personnel	1521
Executive administrative personnel	2305
Management	3066

** Based on monthly growth wage of HUF 253,559, 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)*
Support administrative personnel	26
Executive 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 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.