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Expert study on the issues arising from a reduced time frame and the options allowed for submitting recapitulative statements

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Application of Article 263(1) of Directive 2006/112/EC (amended by Directive 2008/117/EC)

Specific Contract No. 7,
TAXUD/2011/DE/310

Final report

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Preface

This document constitutes the final report in the framework of the Study on the issues arising from a reduced time frame and the options allowed for submitting recapitulative statements.

In a first Phase, we developed on the one hand a template for collecting VAT data and information to verify the transposition of article 263(1) of Directive 2006/112/EC in the VAT legislation of the 27 Member States and to review the practical implementation thereof. The VAT data gathering was done by PwC[1] in the 27 Member States. On the other hand we developed a template for collecting economic data and information to verify the potential administrative burden and compliance costs of article 263(1) of Directive 2006/112/EC for businesses.

Further to the VAT data collection, a summarizing table of the transposed legislation was delivered and a high-level assessment of the options provided for in the VAT legislations of the 27 Member States. Based on the table, four contemplated groups of Member States with similar characteristics in terms of implementation of article 263(1) of Directive 2006/112/EC in the local VAT legislation of the 27 Member States were selected.[2]

In the four contemplated groups, 23 case-study companies were selected in 10 Member States to complete the economic questionnaire and a follow-up interview.

In a second Phase, an analysis of the economic data collected was performed, to specifically:

- pinpoint the issues for businesses, if any, that may have been caused by the options provided in article 263(1a) to (1c) (thresholds and derogations) applied by the 27 Member States, describing their nature and assessing their impact;
- assess whether the problems arise both for larger companies (multinationals) and for SMEs[3] carrying out intra-Community supplies and having to submit recapitulative statements;
- estimate the additional administrative burden and (compliance) costs that businesses may incur due to the possible options for Member States as set down in article 263;

[1] 'PwC' is the brand under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together, these member firms form the PwC network. Each member firm in the network is a separate and independent legal entity and does not act as an agent for PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms, nor can it control the exercise of their professional judgment or bind them in any way.

[2] Note that the new VAT rules were implemented in Denmark on 1 July 2011 and therefore no conclusions have been drawn with respect to Denmark.

[3] Undertakings employing fewer than 250 persons and that have annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million: Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

- estimate the potential impact of a more harmonised situation where Member States apply the same time frame without derogations and thresholds as currently set forth in article 263(1a) to (1c).

The analysis also includes conclusions on the impact of the timeframe for submitting recapitulative statements and of the option mechanisms on businesses on which the Commission can build its proposals.

The assessment in the second Phase of the economic impact on business of implementation of article 263(1)of Directive 2006/112/EC has been carried out on the basis of the 'Standard Cost Model' (SCM) methodology.[4]

A Study of this size requires an expertise in multiple disciplines. In order to deliver this Study, we worked with two groups of experts, a Delivery Team with VAT experts and economic impact specialists and a Quality Team.

The Delivery Team consisted of Ine Lejeune, who acted as the Project Leader and of Wim De Clercq and Katrijn De Naeyer, who acted as experts in VAT, and Michael Wagemans and Caroline Cleppert, who acted as economic impact specialists. Wim De Clercq also acted as the project manager for this Study.

The Quality team provided input in each Phase of the Study. Throughout the Study, the Quality Team assured the robustness of the methodology, data collection, assumptions, conclusions and recommendations. The Experts involved in this Study are Stephen Dale and Floris Ampe.

In addition to these two groups of experts, we also relied on the PwC Indirect Tax Network.

Equally so a Commission Steering Group was appointed. This Steering Group provided input and challenged findings where needed on a periodical basis.

This Study provides general guidance only. It does not constitute professional advice. You should not act upon the information contained in this report without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this review, and, to the extent permitted by law, PwC[5], its employees and agents accept no liability, and disclaim all responsibility, for the consequence of you or anyone else acting, or refraining to act, in reliance on the information contained in this review or for any decision based on it.

Ine Lejeune

Global Leader Indirect Taxes

PwC

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[4] International Standard Cost Model Manual, SCM Network, http://www.oecd.org/dataoecd/32/54/34227698.pdf.

[5] Cf. footnote 1.

Executive summary

1 On 1 January 2010, article 263(1) of Directive 2006/112/EC (amended by Directive 2008/117/EC) was implemented with the aim of ensuring that information on intra-Community supplies of goods, including deemed supplies, and services is collected and exchanged between Member States more quickly, so as to enable quicker detection of fraud, in particular 'VAT carousels'.

2 The main objective of this study is to provide the Commission with input for its report on assessing the impact of article 263(1), in particular as regards the impact on businesses of, first, a reduction in the time frame to file recapitulative statements from a quarterly basis to a monthly basis and, second, the usefulness of the options provided in article 263(1a) to (1c) from businesses' point of view. More specifically, the following questions need to be answered:

- provide a short description of the tax treatment currently applied by the Member States to implement the provisions of the new article 263 of Directive 2006/112/EC;
- pinpoint the issues for businesses, if any, that may have been caused by the options provided in article 263(1a) to (1c) (thresholds and derogations) applied by the 27 Member States, describing their nature and assessing their impact;
- estimate the additional administrative burden and (compliance) costs that businesses may incur due to the possible options for Member States as set down in article 263;
- assess whether the problems arise both for larger companies (multinationals) and for SMEs[6] carrying out intra-Community supplies and having to submit recapitulative statements;
- estimate the potential impact of a more harmonised situation where Member States apply the same time frame without derogations and thresholds as currently set forth in article 263(1a) to (1c).

3 These questions have been investigated using desk research and by collecting and analysing VAT data in the different Member States, provided by PwC[7], and qualitative and quantitative economic data from stakeholders.

[6] Undertakings employing fewer than 250 persons and that have annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million: Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

[7] 'PwC' is the brand under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together, these member firms form the PwC network. Each member firm in the network is a separate and independent legal entity and does not act as an agent for PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms, nor can it control the exercise of their professional judgment or bind them in any way.

VAT Data

Provide a short description of the tax treatment currently applied by the Member States to implement the provisions of the new article 263 of Directive 2006/112/EC

4 The VAT analysis shows that the (practical) implementation of article 263(1) of Directive 2006/112/EC, and especially the options laid down, is not uniform. For instance:

- 17 Member States have implemented the derogation to file recapitulative statements on a quarterly basis and 10 Member States have not implemented the derogation;
- 5 Member States have made the application of the derogation mandatory and 12 have made it optional;
- 2 Member States have a separate recapitulative statement for goods and services and others (25 Member States) have a combined recapitulative statement. In 4 Member States, there may be differences in the periods covered by recapitulative statements for intra-Community supplies of goods, including deemed supplies, on the one hand, and services on the other hand;
- 22 Member States require electronic filing (in 10 Member States exceptions however apply) and 5 others provide for optional electronic filing.

Impact for businesses

5 For the economic data collection, 23 case-study companies were selected in various Member States (the initial scope, a relevant sample of 12 to 16 businesses, was expanded). For the quantitative assessment, the sample contains 21 case-study companies because one Belgian case-study company and one Luxembourg SME did not complete part III of the questionnaire.The case-study companies selected are established in the following countries: Belgium, the Czech Republic, Finland, Germany, Hungary, Italy, Ireland, Latvia, Luxembourg and Portugal. They were selected according to various criteria, such as size (large companies and SMEs), type of business (goods, services or both) and sector of operation.

6 Due to the implementation of the VAT Package at the same time as the implementation of article 263(1), and because companies exclusively supplying goods are the exception – bundling supplies of goods with services transactions is common business practice – it is hard, and for some companies impossible, to separate the costs linked to the increase of the periodicity of the recapitulative statement for intra-Community supplies of goods, including deemed supplies, on the one hand, and including the intra-Community supplies of services in the recapitulative statement (and other costs linked to the VAT Package implementation) on the other hand. Consequently, the quantitative results of the study have an indicative character and should be treated with caution.

Pinpoint the issues for businesses, if any, that may have been caused by the options provided in article 263(1a) to (1c) (thresholds and derogations) applied by the 27 Member States, describing their nature and assessing their impact

7 The impact of the options foreseen in article 263(1a) to (1c), could not be assessed as none of the sample case study companies were affected by the options. This because the threshold, foreseen in article 263(1a), was exceeded or they had chosen not to make use of the option. Companies that might be impacted by or confronted with the options foreseen in the 27 Member States, if applicable, are companies with a limited amount of intra-Community supplies of goods and/or deemed supplies in multiple Member States, not exceeding the threshold in those Member States (if applicable). However, no such companies were identified in the sample case study companies.

8 One of the case-study companies interviewed indicated that it opts for the monthly filing even if it had the opportunity to file its recapitulative statement on a quarterly basis. This however does not imply that the utility of the option is challenged on a general basis. Indeed, only one case study company indicated this and could be an exception.

Estimate the additional administrative burden and (compliance) costs that businesses may incur due to the possible options for Member States as set down in article 263, and assess whether the problems arise both for larger companies (multinationals) and for SMEs carrying out intra-Community supplies and having to submit recapitulative statements

9 The economic data collection contained questions towards the case study companies in order to understand :

- the impact of more frequent submissions on businesses' administrative costs (one-time and recurring costs) from a quantitative point of view;
- the opinions of business on the regulatory changes from a qualitative point of view.

Impact on administrative costs

10 Our economic research shows that:

Introducing the requirement to submit recapitulative statements more frequently leads to additional costs, both one-time and recurring. The results of the cost estimates made by the 21[8] case-study companies are listed in the tables below. Given the small size of the sample, these numbers can not be used to extrapolate for estimating the costs to all businesses required to comply with the obligations foreseen in article 263(1) of Directive 2006/112/EC. Please also note that recurring costs represent the total annual cost incurred by the case-study companies. For the sake of readability, costs as a percentage of turnover are multiplied by 100,000 in the table.

[8] As two case-study companies did not fully complete part III of the interview guidelines, only its qualitative feedback provided is taken into account. This reduces the sample for the assessment of the impact on administrative costs to 21 case-study companies instead of 23.

	One-time cost (EUR)	Annual recurring cost[9] (EUR)	One-time cost divided by turnover multiplied by 100,000	Annual recurring costs divided by turnover multiplied by 100,000
Large companies – 16 case-study companies				
Average	5,539	9,603	0.50	1.90
Minimum	0	109	0	0
Maximum	30,300	33,229	3.25	10.45
SME – 5 case-study companies				
Average	1,841	8,063	0.49*	3.04*
Minimum	0	446	0	1.11
Maximum	7,864	34,077	1.66	3.76
Total sample – 21 case-study companies				
Average	4,891	9,237	0.49*	2.03*
Minimum	0	109	0	0
Maximum	30,300	34,077	3.25	10.45

* excluding a Latvian case-study company (SME) with significant administrative costs compared to its turnover. The relative figure for the one-time cost is 324.31 and 1,472.63 for the annual recurring cost which are out of line with the figures for the 20 other case-study companies.

11 On the basis of the sample of 21 case-study companies, the average one-time costs are EUR 4,891 and the average annual recurring costs are EUR 9,237.

12 There is no significant difference between large companies and SMEs in terms of one-time costs compared to turnover. In terms of annual recurring cost, SMEs incurred a higher cost than large companies in the sample. Indeed the recurring costs compared to turnover are 62% higher than the recurring costs for the large companies. Our sample indicates that the annual recurring cost is considerably higher than the one-time cost.

[9] One company reported training time of more than eight days each month. In reference to the figures reported by the other companies, we thought this excessive. We have therefore eliminated the data related to recurring training for this particular company from the analysis.

	Large companies	SMEs
Total	16	5
One-time cost		
EUR 0	4	2
Between EUR 1 and EUR 500	3	1
Between EUR 501 and EUR 4,000	3	1
Between EUR 4,001 and EUR 6,000	2	1
Between EUR 6,001 and EUR 8,000	1	0
Between EUR 8,001 and EUR 10,000	1	0
Above EUR 10,000	2	0
Annual recurring cost		
Between EUR 1 and EUR 1,000	3	2
Between EUR 1,001 and EUR 5,000	3	2
Between EUR 5,001 and EUR 10,000	4	0
Between EUR 10,001 and EUR 15,000	2	0
Between EUR 15,001 and EUR 20,000	1	0
Between EUR 20,001 and EUR 25,000	1	0
Above EUR 25,000	1	1

13 The majority of the large case-study companies indicate a one-time cost of between EUR 0 and EUR 4,000. This is also the case for SMEs. In terms of annual recurring costs, the majority of large companies incur a cost of between EUR 1 and EUR 10,000, whereas the numbers range between EUR 1 and 5,000 for SMEs, with one exception.

14 Six case-study companies indicated a one-time cost of zero. Four of these five companies are large companies. One of the four large case-study companies mentioned that "*the amount of the one-time cost incurred is not significant and, in fact, can be considered zero*". For the three other large case-study companies, the zero cost can be explained by an absence of change in the frequency for filing recapitulative statements, implying the compliance process was not impacted. Moreover, one of these three large case-study companies decided to outsource the one-time activities linked to the new legislation both for recapitulative statements and the VAT Package. As the case-study company is not able to identify the cost strictly linked to recapitulative statements on the one hand and the VAT Package on the other hand, the one-time cost for this case-study company is considered zero.

15 The SMEs which indicated a zero one-time cost were not able to identify the one-time cost exclusively related to the recapitulative statement. Consequently, their one-time cost is considered zero.

16 The majority of one-time costs are determined by:

- the difference in level of detail in terms of the information required by tax authorities: as there currently is no harmonisation in the EU, companies with filing obligations in different Member States must adjust their systems in accordance with the requirements of different tax administrations;
- the level of automation in the compliance process: the case-study companies that already employed electronic filing before 2010 or that have a maintenance contract with an IT supplier, in general, incur lower one-time costs;
- the organisation and specialisation of the accounting/tax department: some companies have organised their accounting/tax departments in a shared service centre or manned them with a number of specialists. Therefore, they depend less on external providers to analyse the changes in the new legislation or provide training. The same holds for those companies that are able to update their systems with the help of their own IT specialists.

17 The major factor causing one-time cost for large companies was creating or changing reports in the system whereas the SMEs indicated that analysing new/changed requirements was the higher one-time cost. This can be partially explained by the fact that the majority of the large companies are using SAP or equivalent system for preparing their recapitulative statements. The updates necessary were done by an external service provider or internal IT specialists who represent an important cost. With respect to the SMEs in the sample, it appears that one SME incurred a high cost for analysing new/changed legislation because an external consultancy firm was hired; as the sample of SMEs was relatively small, this had a direct effect on the averages. At the same time, a number of case-study companies said they had difficulty in estimating the real time spent on this activity for recapitulative statements due to the overlap in timeframes between the implementation of article 263(1) of the Directive and the VAT Package. The one-time cost reported could therefore be overestimated.

18 In terms of annual recurring costs, whereas recapitulative statements previously had to be filed only 4 times a year, they are required to be filed 12 times a year as from 1 January 2010. The higher frequency with which recapitulative statements have to be submitted has of itself increased the annual recurring costs incurred by the case-study companies: going through the procedures 12 times a year rather than 4 times a year leads to higher recurring costs.

19 Two activities are considered by the case-study companies as particularly burdensome:

- reconciling the recapitulative statement data with the VAT returns, accounting and Intrastat records: the manual corrections required to reconcile the data are seen as time-consuming by case-study companies;
- gathering the information necessary to create the recapitulative statements.

20 Although both activities are a cost burden for large companies as well as for SMEs, the latter expressed a higher recurring cost for gathering information whereas the large companies indicated the reconciliation activity as the major source of recurring cost.

21 Where different deadlines apply for submitting VAT returns and recapitulative statements, this aggravates the situation, as case-study companies need to put in place additional controls to reconcile information and need to keep track of the different deadlines in each Member State.

22 Even though verifying VAT numbers is not a new requirement under the legislative changes, the case-study companies report that they currently spend more time on verifying those numbers than before 1 January 2010.

23 The additional administrative burden and (compliance) costs that businesses incur due to the possible options for Member States as set down in article 263 vary. Nine case-study companies (i.e. 5 large companies and 4 SMEs) have provided data on the recurring cost incurred in 2009[10] or have provided a percentage of annual recurring cost increase between 2009 and 2011[11]. Based on the information provided by the case-study companies, a multiplication factor has been calculated and represents how many times the recurring costs incurred in 2011 by the case-study companies have been multiplied compared to the recurring costs in 2009. For the majority of the case-study companies, the recurring annual costs have increased by a multiplication factor ranging between 0,5 and 5. The increase is mainly linked to the addition of services in the listing. The decrease in the annual recurring cost indicated by one of the SMEs is linked to an automation of the majority of the processes due to the implementation of the VAT package. Overall, it should be noted that the case-study companies find it difficult to separate the effect of the inclusion of services from the increase of frequency. The below table presents the data collected.

Country	Size	Main activities	Multiplication factor	Comments
Belgium	Large	Healthcare	*3	Major impact due to the inclusion of services in the recapitulative statement
Belgium	SME	Manufacturing	*0,5	Automation of the majority of the processes due to the implementation of the VAT package
Hungary	Large	Automotive	* 10	Major impact due to the inclusion of services in the recapitulative statement
Hungary	Large	Manufacturing and distribution	*5	Major impact due to the inclusion of services in the recapitulative

[10] The case-study companies have completed part III of the questionnaire with their recurring costs in 2009. The time spent for each recurring activity has been multiplied by the hourly cost level indicated for each activity. Then the total quarterly cost has been multiplied by 1,25 (in order to consider the overhead cost) and by 4 (in order to have the annual recurring costs). The current annual recurring cost divided by the 2009 annual recurring cost gives the multiplication factor indicated in the table.

[11] When the case-study companies interviewed did not have the real value of the recurring costs incurred in 2009, they provided an estimated percentage of increase. This concerns only one case-study company, a Latvian SME which indicated an increase of 10% of its annual recurring costs between 2009 and 2011.

Country	Size	Main activities	Multiplication factor	Comments
		of lighting products		statement
Ireland	SME	Manufacturing and distribution of lighting products	*4	Major impact due to the inclusion of services in the recapitulative statement
Latvia	SME	Logistics – Transport	*3	Major impact due to the inclusion of services in the recapitulative statement
Latvia	SME	Logistics – Transport	*1.1	Major impact due to the inclusion of services in the recapitulative statement
Luxembourg	Large	Logistics – Transport	*18	Major impact due to the inclusion of services in the recapitulative statement
Portugal	Large	Manufacturing	*4	Insourcing of activities related to recapitulative statement

Qualitative findings

24 The qualitative feedback reveals that there is a trade-off between administrative burdens and quality of data. Although the administrative costs have increased due to the statements being submitted more frequently, the majority of companies in this study state that there has been a positive impact on the quality of the data. They point to improved internal controls and a monthly reconciliation effort, which allows them to identify potential issues more quickly.

25 The level of automation has a big impact on perceived complexity and on administrative costs. Introducing automated internal processes involves an important one-time cost for companies because they have to change/update their systems and manage the internal changes. At the same time, companies appreciate that this will result in lower recurring costs over time.

26 The absence of harmonisation within the EU in terms of submission periods, format and level of data required negatively impact large companies that operate in different Member States.

27 Companies supplying both intra-Community goods and services or only intra-Community services experience difficulties in gathering complete information to create the recapitulative statements. Especially the addition of services is viewed as a higher level of detail to be provided as compared to before 1 January 2010.

28 Finally, the case-study companies indicate that communications with tax authorities have increased. As more supplies (intra-Community supplies of services) need to be included in more frequent recapitulative statements and corrections are also made more frequently, tax authorities tend to have more questions requiring follow-up by companies than before the implementation of the new legislation.

29 Summarising the sentiments expressed by the case-study companies, three strands can be identified:

- some businesses tend to perceive the regulatory changes as having a neutral impact on operations, with the notable exception of one-time costs related to updating/changing their system, which are considered a significant cost element;
- other companies indicate a strong preference for the situation as it existed before the implementation of article 263(1) of Directive 2006/112/EC, suggesting it has led to important new cost factors;
- a number of companies see the advantages the new situation has had/will have in the future, pointing *inter alia* to enhanced data quality and fewer incidents of tax fraud.

Estimate the potential impact of a more harmonised situation where Member States apply the same time frame without derogations and thresholds as currently set forth in article 263(1a) to (1c)

30 The potential impact of a more harmonised situation can be estimated to be positive from a qualitative point of view. Indeed companies indicated that they expect harmonisation across European Member States to lower the costs incurred. They also suggest that harmonising the time frames should be accompanied by harmonising the filing procedure – i.e. a move towards mandatory electronic filing in all Member States and, mainly, a simple, user-friendly interface making monthly filing as easy as possible (e.g. a single interface for all Member States, XML files that are accepted in the same format across all Member States).

Ex-ante study

31 The comparison of the results of the ex-ante study in 2007 with the results of the current study is only valuable from a qualitative point of view.

32 The drivers for the one-time costs identified in 2007 still apply to this study (i.e. IT systems, maintenance contracts with external providers and the format of submissions).

33 In 2007, the proposed regulatory changes were considered as a business-unfriendly measure. In 2011, the case-study companies' opinions are more moderate. Even though they reported higher administrative costs, they also see the positive impact the changes have had on data quality.

34 The quantitative results of the ex-ante study and those indicated in the present study are not comparable for two main reasons.

35 First, in 2007, the VAT Package was not yet implemented and there was no obligation yet to include the intra-Community services into the recapitulative statement. The estimated costs stated for 2007 therefore only related to the increase of the periodicity of the recapitulative statement for intra-Community supplies of goods including deemed supplies. For the current study, as both the reduction of the time frame to file the recapitulative statement and the implementation of the VAT Package became effective as from 1 January 2010, it is difficult to separate the costs inherent to one of the changes implemented at that time. As no separate costs are available related to the reduction of the time frame to file the recapitulative statement, a comparison with the results of the ex-ante study is not useful.

Secondly, note that no comparison can be made between the annual recurring costs evaluated in 2007 and those presented in this study because the data for the 2007 study refers to incremental costs whereas the annual recurring costs in this study are total costs.

Recommendations and next steps

36 The Study performed by PwC[12], according to the agreed scope, aimed at analysing the impact of the implementation of article 263(1) for businesses. Based on the results of the Study, it is clear that there is an increase in the one time cost and the recurring cost for businesses due to the new VAT legislation.

37 Further analysis is required to weigh these additional costs against the aim and benefits of the new VAT legislation, namely the reduction of the VAT gap through the quicker detection of fraud and decreasing the risk on VAT carrousels.

38 Those benefits, if identified, which we have not analysed in the Study because it was not in scope, will mainly be for the tax authorities (in terms of a reduction of the VAT gap), but also for the businesses due to a reduced risk to be unwillingly involved in and to be held liable for VAT fraud. As such it may also help to reduce VAT fraud and unfair competition by fraudulent companies.

39 As the reduction in the time frame of the recapitulative statement is one element from a total to combat fraud, also the other measures to reduce the VAT gap need to be taken up in the analysis to see the aggregated effect on the costs for businesses and to verify whether the measures have an impact on the VAT gap.

40 Calculating the costs and benefits related to all the measures gives a relevant insight whether the measures are, from a macro-economic point of view, justified.

41 Further analysis can be done on how the recurring cost can be decreased by e.g. harmonising the filing procedure through a single, user friendly interface for all Member States and/or through accepting XML files to be uploaded in the same format across all Member States.

[12] Cf. footnote 7

1 Introduction and background

42 On 31 May 2006, the European Commission launched a debate with all parties concerned on a strategy to combat tax fraud in the EU. The Council concluded that tax fraud, especially in the field of indirect tax, must be tackled effectively.[13]

43 In this respect, the Member States asked the European Commission to strengthen the VAT system and to assist them in their efforts to fight VAT fraud.

44 The adoption of Directive 2008/117/EC constitutes an initial response to the request from the Member States. The provision allows for a reduction in the statutory time limits for the declaration of cross-border transactions for VAT purposes, together with a reduction in the time limits for the exchange of such information between Member States.

45 In this respect, PwC[14] performed an expert study in 2007 on the impact, on businesses, of a reduction in the time frame for submitting recapitulative statements and of the obligation to provide more-detailed information in those statements.[15]

46 On 1 January 2010, article 263(1) of Directive 2006/112/EC (amended by Directive 2008/117/EC) was implemented with the aim of ensuring that information on cross-border transactions is collected and exchanged between Member States more quickly, so as to enable quicker detection of fraud, in particular 'VAT carousels'. The article requires that:

- As a general rule, as from 1 January 2010, cross-border transactions for VAT purposes will be declared on a monthly basis;
- Member States will nevertheless be able to authorise operators with turnover of less than EUR 50,000 (excluding VAT) a quarter for cross-border supplies of goods (optionally, EUR 100,000 up to 31 December 2011) and all service providers to continue to submit recapitulative statements on a quarterly basis.

47 In accordance with article 2 of Council Directive 2008/117/EC of 16 December 2008, the Commission should, on the basis of the information provided by the Member States, present a report assessing the impact of article 263(1) of Directive 2006/112/EC on Member States' ability to fight VAT fraud connected with intra-Community supplies of goods and services as well as the usefulness of the options provided for in article 263(1a) to (1c), plus appropriate proposals depending on the conclusions of the report.

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

[14] Cf. footnote 7.

[15] Order no. TAXUD/2006/CC/087.

48 The Commission's report should cover the following major questions:

- To what extent is speeding up the exchange of information improving the Member States' ability to combat VAT fraud (for instance, has it resulted in quicker detection of missing traders, or improved the national risk management system?)?
- Have the option mechanisms set forth in article 263 of Directive 2006/112/EC had any impact on the objective of improving the Member States' ability to combat VAT fraud?
- What is the impact of reducing the time frame for submitting recapitulative statements and of the option mechanisms on businesses, considering that the Lisbon Agenda aims to minimise the administrative burdens on businesses?

49 The first two questions will be assessed by the Commission on the basis of substantial input from the Member States. For the third question, the Commission considers that a study covering the relevant position of the businesses is the best way forward and has assigned PwC to perform that expert study.

2 Scope, methodology and approach of the study

2.1 Scope

50 The main objective of the study is to provide the Commission with input for its report on assessing the impact of article 263(1), in particular as regards the impact on businesses of, first, reducing the time frame to one month and, second, the usefulness of the options provided in article 263(1a) to (1c) from a business point of view.

51 Furthermore, this study should establish conclusions on which the Commission can build proposals if necessary.

52 The study should:

- provide a short description of the tax treatment currently applied by the Member States to implement the provisions of the new article 263 of Directive 2006/112/EC;
- pinpoint the issues for businesses, if any, that may have been caused by the options provided in article 263(1a) to (1c) (thresholds and derogations) applied by the 27 Member States, describing their nature and assessing their impact;
- assess whether the problems arise both for larger companies (multinationals) and for SMEs[16] carrying out intra-Community supplies and having to submit recapitulative statements;
- estimate the additional administrative burden and (compliance) costs that businesses may incur due to the possible options for Member States as set down in article 263;
- estimate the potential impact of a more harmonised situation where Member States apply the same time frame without derogations and thresholds as currently set forth in article 263(1a) to (1c).

[16] Undertakings employing fewer than 250 persons and that have annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million: Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises.

2.2 Methodology and approach

53 The study consists of two Phases:

- Phase 1 – 'Data Collection', in which relevant VAT and economic data is collected;
- Phase 2 – 'Analysis of the data collected', in which the data collected is analysed and conclusions provided as to the impact of article 263(1) (as amended by Directive 2008/117/EC) on large businesses and SMEs.

54 The results of Phase 1 and Phase 2 are described below.

2.2.1 VAT data collection

55 In Phase 1, we developed a questionnaire for collecting a set of relevant VAT data regarding the current implementation (in law and practice) of article 263(1) in the 27 Member States, in particular the options and thresholds (or other specific conditions/limits) that derogate from the general principle regarding recapitulative statements.

56 This questionnaire was completed by the network of VAT experts of PwC[17] in the 27 Member States based on the local VAT legislation as applicable on 6 April 2011.

57 The questionnaire and the summary overviews of the VAT data collected are attached to the report (Appendix 1 –VAT legislation in the 27 Member States and administrative guidelines implementing Article 263(1); Appendix 2 – Summary of the VAT data collected). Under heading 3, 'VAT data collection', we describe the main findings relating to the VAT data collected.

2.2.2 Economic data collection

2.2.2.1 Introduction

58 We developed a questionnaire (see Appendix 3) specifically aimed at collecting the economic data – that is, information pertaining to the costs incurred by businesses in complying with current statutory information obligations arising from the implementation of article 263(1).

[17] Cf. footnote 7.

59 We drew up the questionnaire on the basis of the 'Standard Cost Model' (SCM) methodology.[18] This methodology was first developed by the Netherlands and later adopted by the European Commission as a common EU methodology for measuring the administrative costs of legislation on citizens and/or businesses. Since then, it has been further developed, described and refined by the SCM Network.

60 According to the SCM Network, the SCM[19]

- *'is a method for determining the administrative burdens for businesses imposed by regulation. It is a quantitative methodology that can be applied in all countries and at different levels. The method can be used to measure a single law, selected areas of legislation or to perform a baseline measurement of all legislation in a country. Furthermore the SCM is also suitable for measuring simplification proposals as well as the administrative consequences of a new legislative proposal.'*

61 Below, we describe the process underpinning the collection of economic data in further detail.

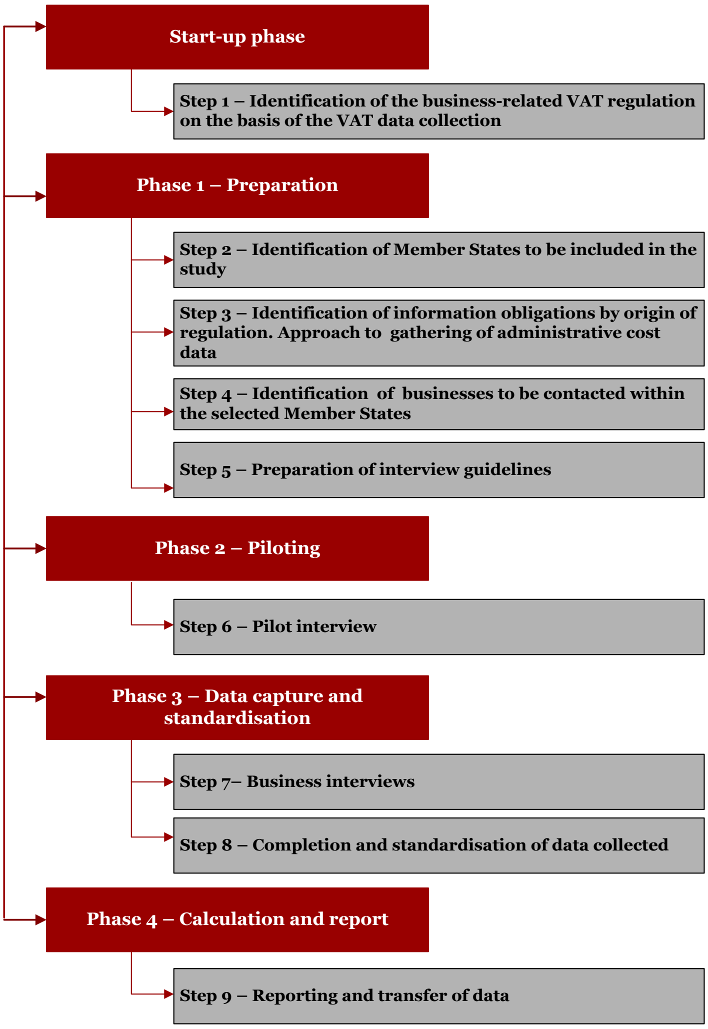
2.2.2.2 Process of economic data collection

62 The economic data was collected in four phases, sub-divided into nine steps as described in the figure below:

[18] International Standard Cost Model Manual, SCM Network, http://www.oecd.org/dataoecd/32/54/34227698.pdf.

[19] International Standard Cost Model Manual, SCM Network, p. 2. http://www.oecd.org/dataoecd/32/54/34227698.pdf.

Figure 1: Economic data collection process



2.3 Project steps for economic data collection

2.3.1 Start-up phase

2.3.1.1 Step 1 – Identification of the business-related VAT regulation on the basis of the VAT data collection

63 We refer to chapter 3.1, where the purpose and scope of the study are explained.

2.3.2 Phase 1 – Preparation

2.3.2.1 Step 2 – Identification of Member States to be included in the study

64 The VAT data collection exercise (see par. 116) provided data on the current implementation (in law and practice) of article 263(1) in the 27 Member States. The four main groups of countries identified show that, inside any particular group, the issues arising from the application of article 263(1) are basically similar. Thus, at a meeting with the Commission on 26 April 2011, we agreed to select a limited number of countries within each group: Belgium, the Czech Republic, Finland, Germany, Hungary, Italy, Ireland, Latvia, Luxembourg and Portugal.

2.3.2.2 Step 3 – Identification of information obligations by origin of regulation. Approach to gathering administrative cost data

Information obligations

65 The SCM breaks down regulations into a range of manageable components that require businesses to make information available to public authorities or third parties. These textual parts are called 'information obligations' (IOs). This concept is defined by the SCM Manual as '*the obligations arising from regulation to provide information and data to the public sector or third parties*'.

66 The only IO identified for the purpose of article 263(1) is *'file recapitulative statements'*. This IO entails data requirements classified in category B[20] as they are a consequence of European legislation allowing of some flexibility in implementation at national level.

[20] In order to provide an overview of the origin of the administrative costs faced by businesses, each data requirement has to be classified into one of three main categories (A, B or C) defined in the SCM. A-regulations correspond to data requirements that are exclusively and completely a consequence of EU rules and other international obligations. B-regulations correspond to data requirements that are a consequence of EU rules and other international obligations. The purpose is formulated in the international rules, while implementation is left to the Member States. Data requirements that are exclusively a consequence of rules formulated at national

Administrative activities

67 To fulfil the required information obligations – or rather, to produce the requested information – businesses affected by a measure normally have to undertake additional administrative work. The costs of such additional activities can be attributed to cost parameters related to work done internally and/or to cost parameters related to work done by external advisers (e.g. fees for external experts, outsourcing costs, and cost of acquisitions).[21] Therefore, the administrative costs of any given piece of legislation are defined as the costs of carrying out the various activities required by regulation.

68 The activities required to provide the information for the 'file recapitulative statement' information obligation subdivide into two categories:

- one-time (or start-up) activities are those that have to be performed once only in order to meet the information obligation;
- recurring activities are those that the company has to perform on a periodic basis in order to meet the information obligation.

69 The figure below presents the list of activities considered in the study.

Figure 2: Activities considered in the study

One-time activities
1. Analyse new/changed requirements
2. Create or change reports in system(s)
3. Perform user-tests on system changes
4. Update procedure manuals
5. Provide special training
6. Set up VAT number of customers
Recurring activities
1. Gather necessary information to create recapitulative statements
2. Check customers' VAT number
3. Create recapitulative statements
4. Reconcile recapitulative statement data with the VAT returns, accounting and Intrastat
5. Submit recapitulative statements for validation
6. Validate (i.e. review) recapitulative statements
7. File recapitulative statements
8. Provide recurring training

level are included in a category C. See International Standard Cost Model Manual, p. 12 (http://www.oecd.org/dataoecd/32/54/34227698.pdf).

[21] See International Standard Cost Model Manual, p. 34 (http://www.oecd.org/dataoecd/32/54/34227698.pdf).

Cost parameters

70 Applying the SCM involves deploying the principles of 'activity-based costing' (ABC) 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.

71 Moreover, a distinction is made between 'time-driven costs' and 'acquisition costs'. The former are one-time or recurring costs that relate to time spent by people within the case-study company and are calculated using time spent, frequency and the wage rate for each activity.

72 Time and frequency were assessed by the case-study companies. As regards wage levels, they provided us with the type of resource (administrative support personnel, administrative executive personnel or management) that performs the activity. These were then allocated to a limited list of resource types with corresponding wage levels. The hourly wages vary from EUR 20 to 45 and correspond to gross salary with social security charges added (see Appendix 3). We have also applied an overhead percentage of 25%[22] to the internal[23] hourly wages cost (including social security charges).

73 'Acquisition costs' consist of expenditure on necessary acquisitions to comply with specific information obligations and/or data requirements, such as costs incurred for external IT development or mailing costs.

74 Finally, a company can decide to outsource administrative activities to service providers. In this case, the total cost or hourly fee rate is taken into account, without applying any overhead percentage (as it is already included in the fee rates charged).

2.3.2.3 Step 4– Identification of businesses to be contacted within the selected Member States

75 In accordance with the Commission's requirements, the businesses within the selected Member States were identified taking into account the size, type of activities (goods, services or both) and sector of the companies.

76 Segmentation based on business size split the group of case-study companies into two: 'large' vs. 'small and medium-sized' (SME) case-study companies.[24]

[22] The SCM Manual describes different overhead percentages for specific countries and/or sectors. They vary from 25 to 50%. For the purpose of this study and in accordance with SCM recommendations, we decided to use the lower limit, i.e. 25%, as overhead. This working assumption allows us to guarantee uniformity for all companies and countries.

[23] This corresponds to the wage paid by the company for one or more of its own employees. The overhead percentage does not apply if the company has engaged an external service provider to carry out the activity.

[24] To do this classification, we refer to the Commission Recommendation of 6 May 2003 concerning the definitions of micro, small and medium-sized enterprises. Enterprises employing fewer than 250 persons and having 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.

77 As the implementation of article 263(1) has also rendered the submission of recapitulative statements mandatory for services and not only for goods, definition of the case-study company sample needed to reflect the type of activities, i.e. provision of services, sale of goods or a mix of both, performed by them. Thus, a case-study company with more than 70% of intra-Community supplies of goods, including deemed supplies, is considered as a "goods" company for the purpose of this study. In the same sense, a case-study company with more than 70% of intra-Community supplies of services is considered as a "services" company. Any company with a percentage of intra-Community supplies of goods, including deemed supplies, or services equal to 70% or less is considered a mixed company. This is important because the type of activity influences the extent to which a company is impacted by the new legislation.

78 Finally, we wanted our selection to represent companies from various sectors (including, but not limited to, financial services, consumer goods and supply chain/logistics).

79 In the figure below, we present the case-study companies that completed the questionnaire and with which we conducted interviews. The final sample contains 23 case-study companies, meaning that the initial scope (i.e. 12 to 16 businesses) was expanded.

80 21 case-study companies are considered for the calculation of the administrative costs because one large Belgian case-study company and the Luxembourg SME did not fully complete the part III of the interview guidelines and therefore only the qualitative feedback is taken into account for the analysis of the results.

Figure 3: Overview of case-study companies

Country	Size	Main activities	Sector
Belgium	Large	Goods	Air-conditioning and heating equipments
Belgium	Large	Goods	Agribusiness
Belgium	Large	Services	Banking
Belgium	Large	Goods and services	Healthcare
Belgium	SME	Goods	Manufacturing
Czech Republic	Large	Goods	Automotive
Finland	Large	Goods	Telecommunication
Germany	Large	Goods	Agricultural products
Hungary	Large	Goods and services	Industrial technology, consumer goods and building technology
Hungary	Large	Goods	Automotive
Hungary	Large	Goods	Manufacturing and distribution of lighting products
Hungary	SME	Goods and services	Cosmetics and food supplement
Ireland	SME	Goods	Manufacturing and distribution of lighting products
Italy	Large	Services	Telecommunications
Italy	Large	Goods and services	Multimedia
Latvia	SME	Services	Logistics – Transport
Latvia	SME	Goods	Retailer
Latvia	Large	Services	Electronic systems
Luxembourg	Large	Services	Logistics – Transport
Luxembourg	Large	Goods	Manufacturing
Luxembourg	SME	Goods	Retailer
Portugal	Large	Goods	Manufacturing
Portugal	Large	Services	Car rentals

2.3.2.4 Step 5 – Preparation of interview guidelines

81 In order to standardise how the companies' responses were gathered, a document was prepared entitled 'Interview Guidelines' (see Appendix 3). It reflects the questionnaire and consists of four parts:

- Part I – Company identification: identifies the respondents and helps us understand how far the company is involved in intra-Community supplies of goods and/or services.
- Part II – Understanding of the company situation: reveals information as to how the company deals with its VAT obligations day to day and on the organisation of its finance/tax department.
- Part III – Quantitative assessment: gives a cost estimate of the administrative burden associated with the implementation of the recapitulative statement provision of Directive 2006/112/EC.
- Part IV – Qualitative assessment: explores more generally the companies' experience including the potential impact of harmonisation across Member States in terms of the time frame for submitting recapitulative statements for goods and services.

82 A brief introductory note is also included in the interview guidelines to explain the purpose of the study.

83 The interview guidelines were designed to be addressed to the head of the accounting/tax department. Ultimately, that person was free to decide the most appropriate person within the department to complete the questionnaire and have the interview with PwC.

84 An internal quality validation of the interview guidelines was carried out.

2.3.3 *Phase 2 – Piloting*

2.3.3.1 Step 6 – Pilot interview

85 The questionnaire was tested in a pilot interview with a view to highlighting problems and identifying potential areas of misunderstanding. Specifically, the pilot enabled us to assess (non-exhaustive list):

- whether the questions were capable of eliciting the required response (i.e. were 'open' and not 'closed');
- whether the questions were in the appropriate order;
- whether the questions were understood by the respondent;
- whether additional questions were required or any questions could be deleted;
- whether the instructions provided in the introductory note were adequate.

86 The pilot interview was set up and executed based on the documents as described in the previous steps. During the pilot interview, no major problems were identified. The pilot interview suggested that the time required to complete the questionnaire was about two hours, whereas the follow-up interview lasted 45 minutes to one hour.

2.3.4 *Phase 3 – Data capture and standardisation*

2.3.4.1 Step 7 – Business interviews

87 The questionnaire was distributed to respondents within the case-study companies by e-mail. In order to make it easier to complete, the questionnaire was sent in three different formats (Excel, Word and PDF). Enclosed with the e-mail was the letter from the European Commission authorising us to undertake the study.

88 Upon submission of the completed questionnaire, we conducted a follow-up interview by telephone to further discuss and confirm the answers to the questions. Typically, two members of the project team actually conducted the interviews. In certain cases, they were assisted by a PwC professional with specific language skills or sector knowledge.

89 Our follow-up interviewee was typically the same person as had completed the questionnaire. The positions held by our interviewees varied from responsibility for tax/financial affairs to executive management in the finance department.

90 Whenever the interviewee was not able to provide all the data required at the interview, necessary action was agreed and the project team contacted the interviewee by telephone or e-mail over the next few days.

2.3.4.2 Step 8 – Completion and standardisation of data collected

91 All quantitative data was grouped into one data-sheet and standardised in terms of currency and resource costs. In order to ensure consistent data input and tabulation, one supervised PwC professional was dedicated to this task.

2.3.5 *Phase 4 – Reporting*

2.3.5.1 Step 9 – Reporting and transfer of data

92 Analysis of the qualitative and quantitative data is the last step. Chapter IV details the results.

93 The first section presents the results from a quantitative point of view. The administrative costs incurred by the case-study companies are described and analysed in terms of the one-time activities and the recurring activities.

94 Finally, the qualitative results are presented in the second section. The qualitative findings are presented by subject area according to the response provided by the various case-study companies.

3 VAT data collection

3.1 VAT legislation on the implementation of article 263(1) in the 27 Member States

3.1.1 General rule under article 263(1)

95 Until 1 January 2010, article 263(1) of Directive 2006/112/EC required every taxable person identified for VAT purposes, in principle on a *quarterly* basis, to submit a recapitulative statement of the acquirers identified for VAT purposes to whom he 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).

96 This general rule was changed by Directive 2008/117/EC. The submission frequency and the level of detail for recapitulative statements were raised.

97 Under the new article 263(1) of Directive 2006/112/EC as from 1 January 2010, the general rule is that recapitulative statements for intra-Community supplies of goods, including deemed supplies, and services have to be drawn up for each calendar month within a period not exceeding one month and in accordance with procedures to be set by the Member States.

3.1.2 Derogation from the general rule under article 263(1a)

98 Until 1 January 2010, Member States could derogate from the general rule that recapitulative statements – which relates to goods – had to be submitted quarterly. Member States were able to allow them to be submitted on a *monthly basis*.

99 Since 1 January 2010, the derogation provided for under article 263(1a) of Directive 2006/112/EC means that Member States may, in accordance with such conditions and limits as they might lay down, allow taxable persons to submit recapitulative statements for each *calendar quarter* within a time limit not exceeding one month from the end of the quarter where the total quarterly amount, excluding VAT, of the supplies of goods as referred to in articles 264(1)(d) and 265(1)(c) does not exceed either in respect of the quarter concerned or in respect of any of the previous four quarters the sum of EUR 50,000 or its equivalent in national currency (optionally EUR 100,000 up to 31 December 2011).

3.1.3 Derogation from the general rule under article 263(1c)

100 Until 1 January 2010, no information on intra-Community supplies of services requires to be mentioned in recapitulative statements.

101 Since 1 January 2010, supplies of services have had to be included in recapitulative statements.

102 However, in the case of supplies of services referred to in article 264(1)(d), Member States may, in accordance with such conditions and limits as they lay down, allow taxable persons to submit recapitulative statements for each calendar *quarter* within a time limit not exceeding one month from the end of the quarter if they supply only intra-Community services. In this case, no threshold has been set in Directive 2006/112/EC as amended.

103 Member States may in particular require taxable persons who carry out both intra-Community supplies of goods, including deemed supplies, and services to submit recapitulative statements in accordance with the relevant deadline for intra-Community supplies of goods.

3.1.4 Electronic file transfer under article 263(2)

104 Member States have to allow taxable persons to submit recapitulative statements by electronic file transfer in accordance with conditions they lay down, and may require them to do so.

3.2 Practical implementation in local VAT legislation in the 27 Member States – VAT findings

105 Below, we summarise the VAT data provided by the experts of the PwC[25] network in the 27 Member States.

3.2.1 Preliminary remark

106 Note that the expert study shows that two of the 27 Member States, Estonia and Denmark, failed to implement article 263(1) of Directive 2006/112/EC (as amended by Directive 2008/117/EC) in a timely manner.[26]

107 The questionnaire and summary report for Denmark was completed on the basis of draft provisions.[27]

[25] Cf. footnote 7.

[26] Estonia (implementation of article 263(1) on 1 January 2011) and Denmark (expected implementation of Article 263(1) on 1 July 2011).

[27] BEK no. 274 of 23/03/2011 Gældende, Offentliggørelsesdato: 05-04-201 L, Skatteministeriet.

3.2.2 *Application of the options provided for*

108 Based on the available data on the options provided for:

- 10 Member States have not implemented the options provided for in article 263(1a) to (1c). In those Member States, all operators performing intra-Community supplies of goods, including deemed supplies, and services are required to submit a monthly recapitulative statement as from 1 January 2010.
- in 6 Member States (Austria, Bulgaria, France, Ireland, Italy and Portugal), there have been no changes as to the time frame for submitting recapitulative statements. In the local legislation of these Member States, monthly submission of recapitulative statements had already been the rule before 1 January 2010. From 1 January 2010, 4 of these Member States provided the options, meaning that for relevant taxable persons can now also submit quarterly in addition to monthly recapitulative statements.
- 5 Member States that provide for the options in article 263(1a) to (1c) have made the derogation mandatory for qualifying taxable persons.

Figure 4: Application of the options

1. No derogation from the monthly recapitulative statement		2. Derogation from the monthly recapitulative statement			
		2a. Derogation optional		2b. Derogation mandatory	
Before[1] and as from 1 January 2010	As from 1 January 2010	Before[1] and as from 1 January 2010	As from 1 January 2010	Before[1] and as from 1 January 2010	As from 1 January 2010
Bulgaria France	Cyprus Estonia Finland Greece Latvia Lithuania Romania Slovenia	Austria Ireland Italy	Belgium Denmark Germany Luxembourg Malta Poland Sweden The Netherlands United Kingdom	Portugal	Czech Republic Hungary Slovakia Spain

[1] Only for goods.

3.2.3 *Filing procedure for recapitulative statements*

3.2.3.1 Separate and combined recapitulative statements

109 From the available data on the format of recapitulative statements, we have found that:

- 2 Member States have separate recapitulative statements for goods and services;
- 25 Member States have a combined recapitulative statement for goods and services;
- of these 25 Member States that have a combined recapitulative statement, 4 indicated that the period covered for the information to be provided on intra-Community services can differ from the period covered for the information to be provided on intra-Community supplies of goods, including deemed supplies. In Germany, Ireland and the United Kingdom, services can be included in the recapitulative statement on a quarterly basis, i.e. for each quarter, whilst intra-Community supplies of goods, including deemed supplies, require to be reported on a monthly basis. In the Netherlands, taxable persons can submit a monthly recapitulative statement for supplies of goods and at the end of the quarter a separate quarterly recapitulative statement for intra-Community supplies of services provided during the three-month period. In principle, this can be interpreted as meaning that separate recapitulative statements can be filed for intra-Community supplies of goods, including deemed supplies, and services. Alternatively, in the Netherlands, the data regarding intra-Community services can also be submitted in the recapitulative statement on a monthly basis together with the data for intra-Community supplies of goods, including deemed supplies.

Figure 5: Separate and combined recapitulative statements

1. Separate recapitulative statement	2. Combined recapitulative statement		
	2a. Periodicity aligned		2b. Different periodicity
France Luxembourg	Austria Belgium Bulgaria Cyprus Czech Republic Denmark Estonia Finland Greece Hungary	Italy Latvia Lithuania Malta Poland Portugal Romania Slovakia Slovenia Spain Sweden	Germany Ireland The Netherlands United Kingdom

3.2.3.2 Paper and/or electronic filing of recapitulative statements

110 According to article 263(2) of Directive 2006/112/EC, Member States must allow and may require recapitulative statements to be submitted electronically. All 27 Member States now allow them to be filed electronically.

111 From the available data on the paper or electronic filing of recapitulative statements, we find that:

- 12 Member States require recapitulative statements to be filed electronically;
- 10 Member States allow certain taxable persons to submit recapitulative statements on paper;
- the 5 remaining Member States have made electronic filing of recapitulative statements optional.

Figure 6: Paper and/or electronic filing of recapitulative statements

Electronic filing				
1. Mandatory		2. Mandatory but exceptions apply		3. Optional
1a. Before and as from 1 January 2010	1b. As from 1 January 2010 onwards	2a. Before and as from 1 January 2010	2b. As from 1 January 2010 onwards	
Bulgaria Portugal Slovenia Spain	Cyprus[1] Czech Republic Denmark[1] Hungary Italy Latvia[2] Malta Slovakia	Austria Belgium France Germany Greece Ireland The Netherlands	Finland Luxembourg Romania	Estonia Lithuania Poland Sweden United Kingdom

[1] Corrective statements can be submitted on paper.
[2] On and after 1 January 2011.

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3.2.3.3 Alignment of the periodicity of the recapitulative statement with the VAT return

112 In the table below, a distinction is drawn between Member States where the periods covered by recapitulative statements and VAT returns are aligned in ***all*** cases (section 1) and those that do not ensure alignment in all cases (section 2). Note that, in the Member States listed in section 2, in the majority of the cases, periodicity is aligned.

113 Consequently, from the available data on whether the periods covered by recapitulative statements and VAT returns are aligned:

- the periodicity of VAT returns and recapitulative statements is aligned in a total of 4 Member States – in 2 , it has been aligned since 1 January 2010;
- 2 Member States in which the periods covered by VAT returns and recapitulative statements were aligned before article 263(1) was amended, alignment was abandoned as of 1 January 2010. In these Member States, before 1 January 2010, the taxable person was required to file monthly recapitulative statements and monthly VAT returns when the threshold for filing monthly VAT returns was reached. As from 1 January 2010 the threshold to file monthly recapitulative statements differs from the threshold for filing monthly VAT returns.

Figure 7: Alignment of the periodicity of the recapitulative statement with the VAT return

1. Aligned periodicity of VAT return and recapitulative statements		2. Periodicity of VAT return and recapitulative statement not aligned	
Before and as from 1 January 2010	As from 1 January 2010 onwards	Before and as from 1 January 2010	Aligned until 31 December 2009
Bulgaria Hungary	Estonia Slovenia	Belgium Cyprus Czech Republic Denmark Finland France Germany Greece Ireland Italy Latvia Lithuania Luxembourg Malta Poland Romania Slovakia Spain Sweden The Netherlands United Kingdom	Austria Portugal

3.2.3.4 Filing deadline for recapitulative statements

114 Compared to pre-1 January 2010:

- 6 Member States now allow more time for submitting recapitulative statements within the deadline of one month from the end of the reporting period; Luxembourg and Sweden allow a longer deadline for electronic submission of recapitulative statements compared to before 1 January 2010.
- 13 Member States have maintained their deadline for submitting recapitulative statements; Poland has maintained the same submission deadline for electronic filing of recapitulative statement as before 1 January 2010. Luxembourg and Sweden have maintained the same submission deadline for paper filing of recapitulative statements as before 1 January 2010.

- 11 Member States have set a tighter deadline for submitting recapitulative statements since 1 January 2010. Poland is the only country that has set a tighter deadline for paper filing than before 1 January 2010. Even though the tighter deadline is intended to discourage paper filing of recapitulative statements, based on the experience of PwC Poland, paper filing remains the filing method preferred by Polish taxable persons.

Figure 8: Filing deadline for recapitulative statements

1. Longer deadline than before 1 January 2010	2. Same deadline as before 1 January 2010	3. Tighter deadline than before 1 January 2010
Germany Italy Latvia Slovenia *Luxembourg*[1] *Sweden*[1]	Belgium Bulgaria Czech Republic Estonia France Greece Hungary Lithuania Spain The Netherlands *Luxembourg*[2] *Sweden*[2] *Poland*[1]	Austria Cyprus Denmark Finland Ireland Malta Portugal Romania Slovakia United Kingdom *Poland*[2]

[1] Electronic file transfer.
[2] Paper file transfer.

115 If a comparison is made between the deadlines set for paper and electronic filing:

- 4 Member States have set a longer deadline for electronic filing than for paper filing;
- the extension varies among five days (Sweden), seven days (United Kingdom) and ten days (Luxembourg and Poland);
- the other 23 Member States do not differentiate between the deadlines set for paper and electronic filing, i.e. the deadline is the same for paper and electronic filing.

Figure 9: Differences in deadline between paper and electronic filing

Difference in deadline between paper and electronic filing		
	Deadline for paper filing	Deadline for electronic filing
Luxembourg	15 days following the reporting period	25 days following the reporting period
Poland	15 days following the reporting period	25 days following the reporting period
Sweden	20 days following the reporting period	25 days following the reporting period
United Kingdom	14 days following the reporting period	21 days following the reporting period

3.2.4 *Groups of countries identified based on the VAT data collected*

116 Based on the above findings regarding the current implementation (in law and practice) of article 263(1) in the 27 Member States, we identified four main groups of countries:

- **Group 1**: Member States where, before and as from 1 January 2010, the general rule was and is monthly submission of recapitulative statements;
- **Group 2**: Member States that have not introduced any derogation from the general rule of monthly submission;
- **Group 3**: Member States that have introduced a derogation from the general rule of monthly submission;
- **Group 4**: Member States that have introduced a separate statement for goods and services or that have a different periodicity for submitting statements for goods and for services.

117 These four logical groups formed a basis for the collection of economic data (see par. 64).

118 The figure below presents the four logical groups of countries.

Figure 10: Logical groups of countries

1. Monthly recapitulative statement before 1 January 2010	2. No derogation from monthly recapitulative statement	3. Derogation from monthly recapitulative statement	4. Differences between recapitulative statements for goods and services
Austria Bulgaria Italy Portugal	Cyprus Estonia Finland Greece Latvia Lithuania Romania Slovenia	Belgium Czech Republic Denmark Hungary Malta Poland Slovakia Spain Sweden	4a. Separate recapitulative statement for goods and services France Luxembourg 4b. Different periodicity for recapitulative statement for goods and services Germany Ireland The Netherlands United Kingdom

3.3 Other issues and particularities

119 Based on our experience and the experience of the VAT experts of the PwC[28] network in the 27 Member States, we have pinpointed practical issues taxable persons are generally confronted with in preparing and submitting recapitulative statements.

120 These practical issues and difficulties generally relate to:

- the difference between the deadline for recapitulative statements and that for VAT returns;
- the checks to verify the validity of customers' VAT numbers and that they correspond to the customer's name and address;[29]
- the assessment of transactions in the Member State of establishment of the recipient (as some services are not to be included in the recapitulative statement);

[28] Cf. footnote 7.

[29] With the introduction of the VAT package on 1 January 2011, the checks needed have increased, mainly due to the intra-Community supplies of services that need to be included in recapitulative statements.

- in Slovakia and Luxembourg, companies require to print and provide certain documents on paper whereas they require, or have at least the option, to file their recapitulative statements electronically;
- reconciliation between recapitulative statements, accounting records and VAT returns.

121 Furthermore, in some Member States, non-established taxable persons have more difficulties than established taxable persons in completing and filing recapitulative statements:

- Germany in particular raises the issue that recapitulative statements have to be filed electronically on a website, which is only available in German;
- in Finland and Malta, foreign taxable persons require to obtain tax authority authorisation to file recapitulative statements electronically;

4 Impact on businesses

122 This chapter presents the impact in terms of administrative costs and qualitative findings that businesses may experience owing to the implementation of Article 263(1) of Directive 2006/112/EC, which entails intra-Community supplies of goods, including deemed supplies, and services having to be declared more frequently.

123 The first section describes the importance of intra-Community supplies of goods, including deemed supplies, and services for the case-study companies plus some considerations underpinning the research.

124 The second section discusses the administrative cost of the requirements for recapitulative statements. On the one hand, this cost contains one-time costs borne by businesses in coping with the requirements. On the other hand, it includes the recurring costs effectively incurred by businesses in preparing, reviewing and submitting recapitulative statements under the new rules.

125 In the third section of this chapter, the qualitative findings gathered during the interviews are detailed. The case-study companies' views on implementation of the new legislation on recapitulative statements are presented as are their opinions on harmonisation.

126 Finally, the results of the ex-ante study performed by PwC in 2007[30] are briefly discussed.

4.1 Introduction

4.1.1 Importance of intra-Community supplies of goods, including deemed supplies, and services

127 On average almost half of the total number of sales transactions are intra-Community supplies of goods, including deemed supplies, and services for the case-study companies interviewed.

[30] "Study in respect of introducing a change in the requirements to the recapitulative statements – increase of submission frequency", Order no. TAXUD/2006/CC/087.

Figure 11: Percentage of intra-Community supplies of goods, including deemed supplies, and services

	% of intra-Community supplies of goods, including deemed supplies, and services		
	Large companies – 16 case-study companies	**SMEs – 5 case-study companies**	**Total sample – 21 case-study companies**
Average	44%	42%	44%
Minimum	8%	8%	8%
Maximum	99%	90%	99%

128 As administrative cost, and especially recurring cost, is mainly linked to numbers of transactions, the table above represents the extent to which the case-study companies have to administer and report intra-Community supplies of goods, including deemed supplies, or services.

4.1.2 *Considerations guiding the analysis*

129 The impact assessment was done on the basis of a sample of 23 case-study companies (see Figure 3: Overview of case-study companies), of which six can be considered SMEs. Consequently, large companies constitute the majority of the case-study companies under investigation – that is 74% of the total sample (note that only 21 case-study companies are considered for the calculation of the administrative costs because two case-study companies (one large and one SME) did not fully complete the part III of the interview guidelines and therefore only the qualitative feedback is taken into account for the analysis of the results). The overall sample size affects the extent to which particular effects (e.g. the estimate of the cost of filing recapitulative statements more frequently) can be isolated. Furthermore, given the limited number of case-study companies, the results from the study cannot be seen as representative for all businesses affected required complying with the obligations foreseen in article 263(1) of Directive 2006/112/EC.

130 Some of the SMEs in the sample are part of international groups and their intra-Community supplies of goods, including deemed supplies, and/or services mainly concern transactions with their parent companies. It is safe to assume that the one-time and recurring costs of these companies cannot be fully compared with those that independent[31] SMEs incur. As one of our SME interviewees remarked:

"The reconciliation activity cannot be considered as a time-consuming activity because 90% of our sales are destined for our parent company. The recurring activities linked to the monthly recapitulative statement are routine for us."

[31] Independent SMEs are those that are not part of a larger group. Any intra-Community supplies of goods and/or services are thus to non-related entities.

131 Companies that are under an obligation to file recapitulative statements in their Member State of establishment or (some of) the Member States where they are VAT-registered, fundamentally need to monitor the thresholds,[32] conditions and limitations laid down by those Member States. The companies in our sample do not monitor the threshold either because they have sales above the threshold or because they have decided to file monthly recapitulative statements anyway.

132 In general, our interviewees were in charge of an accounting/tax department. Given their hierarchal position, they are more involved in strategic decision-making (e.g. purchases of new systems, externalisation of activities) than in the day-to-day preparation and submission of recapitulative statements.

133 Due to the implementation of the VAT Package at the same time as the implementation of article 263(1), and because companies exclusively supplying goods are the exception – bundling supplies of goods with services transactions is common business practice – it is hard, and for some companies impossible, to separate the costs linked to the increase of the periodicity of the recapitulative statement for intra-Community supplies of goods, including deemed supplies, on the one hand, and including the intra-Community supplies of services in the recapitulative statement (and other costs linked to the VAT Package implementation) on the other hand. Consequently, the quantitative results of the study have an indicative character and should be treated with caution.

134 In that respect, one-off activities such as providing training for employees or analysing the new/changed requirements cannot solely be attributed to changes in the rules on recapitulative statements. For the purpose of our research, therefore, we do not take account of cost data from case-study companies that are not able to separate the cost relating to recapitulative statements and the costs of implementing the VAT package. This concerns 5 case-study companies:

- Germany: one large case-study company reporting one-time training costs which are not specifically related to the recapitulative statement;
- Italy: one large case-study company which is unable to identify the one-time cost exclusively related to the recapitulative statement;
- Latvia: one large case-study company and one SME which are unable to identify the one-time cost exclusively related to the recapitulative statement;
- Luxembourg: one large case-study company which incurred external consultancy fees regarding the entire VAT Package legislation and provides recurring training for all tax related matters.

135 Recurring costs represent the total cost on an annual basis borne by each of the case-study companies in complying with the information obligation. Case-study companies find it difficult to precisely estimate the incremental cost for each separate activity. That said, the cost of higher frequency (four times a year versus 12 times a year) can of course be estimated by simply multiplying the monthly recurring cost by eight. The assumption here is that the number of transactions does not increase, the inclusion of services has no, or a negligible, impact on the recurring cost, the wage levels do not change and there is no overall change in the system.

[32] The threshold of EUR 50,000 set down in article 263(1a) of Directive 2006/112/EC (or EUR 100,000 up to 31 December 2011).

136 The administrative cost data gathered from the case-study companies (step 3 of the process of economic data collection – see paragraph 72) includes a wage level for each activity they perform. The difference in wages among EU countries remains significant, however, especially so when EU-15 Member States (e.g. Belgium and Luxembourg) are compared with new Member States such as Latvia[33] or the Czech Republic. Therefore, we have standardised the wage data using Eurostat figures[34] (see Appendix 4). In practice, the Belgian labour cost is used as the reference and it is set at 1 (base index value). All other labour costs are expressed in relation to this base value. Unless otherwise stated, we use standardised figures throughout the report.

137 Finally, data may be affected by how efficiently a team/department works. A lower recurring cost can be attributed to more efficient operations within certain case-study companies compared to others.

4.2 Administrative costs

138 This section of the final report discusses the findings of our research in terms of the additional administrative costs that are incurred by businesses due to the implementation of article 263(1) of Directive 2006/112/EC.

4.2.1 Overview

139 The table below summarises the relevant quantitative data collected from the case-study companies interviewed. The data are classified into three groups: total case-study companies, large case-study companies and SMEs. For each group, the average, minimum and maximum one-time and recurring costs are expressed in euro (EUR) and as a percentage. As the one-time costs and recurring costs are relatively low compared to the total turnover of the case-study companies, the costs as a percentage of turnover are multiplied by 100,000. In addition, the figures in the last two columns are the absolute values given by the case-study companies (i.e. the data has not been standardised).

[33] For example, the Latvian hourly wage rate represents 16.3% of the Belgian labour cost in 2009 (data from Eurostat).

[34] http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_costs/database. The Belgian hourly labour cost is taken as a reference and the other hourly labour costs are expressed in terms of the Belgian hourly labour cost.

Figure 12: Overview of administrative cost

	One-time cost (EUR)	Annual recurring cost[35] (EUR)	One-time cost divided by turnover multiplied by 100,000	Annual recurring cost divided by turnover multiplied by 100,000
Large companies – 16 case-study companies				
Average	5,539	9,603	0.50	1.90
Minimum	0	109	0	0
Maximum	30,300	33,229	3.25	10.45
SME – 5 case-study companies				
Average	1,841	8,063	0.49*	3.04*
Minimum	0	446	0	1.11
Maximum	7,864	34,077	1.66	3.76
Total sample – 21 case-study companies				
Average	4,891	9,237	0.49*	2.03*
Minimum	0	109	0	0
Maximum	30,300	34,077	3.25	10.45

* excluding a Latvian case-study company (SME) with significant administrative costs compared to its turnover. The relative figure for the one-time cost is 324,31 and 1 472,63 for the annual recurring cost which are out of line with the figures for the 20 other case-study companies.

140 On the basis of the sample of 21 case-study companies, the average one-time costs are EUR 4,891 and the average annual recurring costs are EUR 9,237.

141 For the quantitative assessment, the sample contains 21 case-study companies because one Belgian case-study company and one Luxembourg SME did not complete part III of the questionnaire.

142 There is no significant difference between large companies and SMEs in terms of one-time costs compared to turnover. In terms of annual recurring cost, SMEs incurred a higher cost than large companies in the sample. Indeed the recurring costs compared to turnover are 62% higher than the recurring costs for the large companies. Our sample indicates that the annual recurring cost is considerably higher than the one-time cost.

[35] One company reported training time of more than eight days each month. In reference to the figures reported by other companies, we thought this excessive. We have therefore removed the data related to recurring training for this particular company from the analysis.

143 The table below presents the results in a different format, using progressive cost categories. This sheds light on the distribution of the one-time cost and the annual recurring cost between the different cost categories for the large case-study companies and the small and medium-sized case-study companies.

Figure 13: Overview of the administrative cost by cost category

	Large companies	SMEs
Total	16	5
One-time cost		
EUR 0	4	2
Between EUR 1 and EUR 500	3	1
Between EUR 501 and EUR 4,000	3	1
Between EUR 4,001 and EUR 6,000	2	1
Between EUR 6,001 and EUR 8,000	1	0
Between EUR 8,001 and EUR 10,000	1	0
Above EUR 10,000	2	0
Annual recurring cost		
Between EUR 1 and EUR 1,000	3	2
Between EUR 1,001 and EUR 5,000	3	2
Between EUR 5,001 and EUR 10,000	4	0
Between EUR 10,001 and EUR 15,000	2	0
Between EUR 15,001 and EUR 20,000	1	0
Between EUR 20,001 and EUR 25,000	1	0
Above EUR 25,000	1	1

144 The majority of the large case-study companies indicate a one-time cost of between EUR 0 and EUR 4,000. This is also the case for SMEs. In terms of annual recurring costs, the majority of large companies incur a cost of between EUR 1 and EUR 10,000, whereas the numbers range between EUR 1 and 5,000 for SMEs, with one exception.

4.2.2 *One-time costs*

4.2.2.1 General

145 Costs in this category are the costs of:

- analysing new/changed requirements,
- creating or changing reports in system(s),
- performing user-tests on system changes,
- updating procedure manuals,
- providing special training,
- setting up customers' VAT numbers.

146 The average one-time cost of the 21 case-study companies was EUR 4,891. The minimum cost of EUR 0 and the maximum cost of EUR 30,300 demonstrate the lower and upper limits of the estimated costs.

147 The table below presents the one-time costs for all the companies in the sample. One Hungarian and Belgian company report the highest one-time costs. Even though the figures reported by these two case-study companies appear to deviate from other respondents, we do not consider them outliers, given the limited sample size (the two companies represent almost 10% of the sample).

Figure 14: One-time cost for the case-study companies

Country	Size	One-time costs incurred by the case-study companies (EUR)
Belgium*	Large	197
Belgium*	Large	27,581
Belgium*	Large	4,390
Belgium*	SME	981
Czech Republic*	Large	2,842
Finland	Large	0
Germany*	Large	314
Hungary	Large	0
Hungary*	Large	30,300
Hungary*	Large	0
Hungary*	SME	358
Ireland*	SME	0
Italy	Large	1,825
Italy	Large	0
Latvia*	SME	7,864
Latvia*	SME	0
Latvia*	Large	4,669
Luxembourg*	Large	8,601
Luxembourg	Large	3,197
Portugal*	Large	171
Portugal	Large	4,537

* Case-study companies affected by a higher frequency of the recapitulative statements

148 As mentioned in section 4.1.2 (Considerations guiding the analysis), in order to attribute the one-time cost solely to the higher frequency at which recapitulative statements have to be submitted, we can only consider companies that report a change in frequency and close to 100% of intra-Community supplies originate from supplies of goods, including deemed supplies. This concerns two case-study companies in the sample (one German and one Portuguese). For these companies, the one-time costs are evaluated at EUR 314 and EUR 171, respectively. Both of these companies are characterised by a high level of automation in their compliance processes. They also have internal departments dealing with tax matters for all group companies.

149 Considering all the case-study companies that are affected by the higher frequency with which recapitulative statements require to be filed (i.e. the case-study companies indicated with an * in Figure 14), the average one-time cost is EUR 5,885.[36]

150 The additional one-time cost that businesses may incur due to the possible options for Member States as set down in article 263 is not calculated. This is explained by the fact that the one-time costs are, by nature, incurred once and are specifically related to the change in the legislation (i.e. article 263).

Figure 15: Percentage of each activity in the total one-time cost

	Large companies	SMEs	Total sample
Analyse new/changed requirements	14%	75%	19%
Create or change reports in system(s)	56%	15%	52%
Perform user-tests on system changes	10%	0%	10%
Update procedure manuals	6%	0%	6%
Provide special training	7%	2%	6%
Set up VAT number of customer	7%	8%	7%

151 Creating or changing reports in the system is the major time-consuming activity for the case-study companies. It represents 52% of the total one-time cost.

152 The case-study companies have also experienced one-time costs in automating the process of preparing and filing recapitulative statements. As one interviewee remarked, *"The new legislation regarding the recapitulative statement adds some pressure for us to review our system."*

[36] The figure reported differs from the figure reported in Figure 12 as we only consider companies that have moved from quarterly to monthly filing, i.e. those that are impacted by the higher frequency.

- Case-study companies that file recapitulative statements semi-electronically have encountered one-time costs due to the creation of a new report or alignment of the report with the new requirements. Additionally, it is worth mentioning that the activity is typically done by employees with relatively high qualifications, which further increases the cost.

- Case-study companies that file recapitulative statements electronically are typically less affected as maintenance contracts with software providers (e.g. SAP) include a system update in the case of legislative changes. Implementation of the legislative changes (and updates under maintenance contracts) forms in any case a cost for businesses. As one interviewee mentioned, "[We need to] *verify the quality of master data in systems to ensure that the correct data is captured."*

153 Analysing new/changed legislation is the second-most-important activity in terms of one-time costs (i.e. 19%), and especially SMEs appear to be impacted (75%). In general, this activity is carried out by tax specialists or managers, thereby increasing the salary cost. At the same time, a number of case-study companies said they had difficulty in estimating the real time spent on this activity for recapitulative statements due to the overlap in timeframes between the implementation of article 263(1) of the Directive and the VAT Package. The one-time cost reported here could therefore be overestimated.

154 The new legislation has meant organisational and coordination efforts due to implementation of a new/updated system and new requirements under the legislation. One of the interviewees noted, *"… even if we use SAP, the internal coordination of our department is really time-consuming if we want to work efficiently."* It thus appears that the test period and the new internal organisation and coordination efforts required in light of the implementation of the new legislation are affecting the case-study companies. This is particularly true for companies with relatively large accounting/tax departments.

155 In summary, the majority of one-time costs are determined by:

- the level of automation in the compliance process: case-study companies that already filed electronically before 2010 or that have a maintenance contract with an IT supplier incur lower one-time costs in general;

- the organisation and the specialisation of the accounting/tax department: some companies have organised their accounting/tax department within a shared service centre or using a number of specialists. Therefore, they depend less on external providers to analyse changes in legislation or provide training. The same is true for those companies that are able to update their systems using their own IT specialists;

- lack of harmonisation: as there is not sufficient harmonisation at a EU level, companies with establishments or VAT numbers in multiple Member States must perform "country" customisations in their system in order to provide the right data to the different tax administrations.

4.2.2.2 Large companies

156 The average one-time cost for the 16 large case-study companies was EUR 5,539. The minimum cost of EUR 0 and the maximum cost of EUR 30,300 demonstrate the lower and upper limits of the estimated costs.

157 For three of the four large case-study companies with a zero one-time cost, there was in fact no change in the frequency for filing recapitulative statements, and therefore the compliance process was not impacted. It is also worthwhile to stress that the zero or low one-time costs indicated by some case-study companies may also be due to the difficult assessment of costs strictly attributable to recapitulative statements (see paragraph 133).

158 In that respect, one of these three large case-study companies decided to outsource the one-time activities linked to the new legislation both for recapitulative statements and the VAT Package. As the case-study company is not able to identify the cost strictly linked to recapitulative statements on the one hand and the VAT Package on the other hand, the one-time cost for this case-study company is considered zero. Moreover, this company declined to disclose the fees paid to the external services provider.

159 Finally, the only case-study company that reported a zero one-time cost but experienced a change in the frequency mentioned that "*the amount of the one-time cost incurred is not significant and, in fact, can be considered zero*".

160 The majority of the large case-study companies use SAP or an equivalent system for preparing their recapitulative statements. The updates necessary due the change in the legislation were done by the external provider or internal IT specialists. The average cost involved is assessed at 56% of the one-time cost, an average of EUR at 2,482.

4.2.2.3 Small and medium-sized companies

161 The average one-time cost for the five SMEs was EUR 1,841. The minimum cost of EUR 0 and the maximum cost of EUR 7,864 demonstrate the lower and upper limits of the estimated costs. The SME with the highest one-time cost is the only one that changed from filing manually to filing semi-electronically, and is in fact a service company.

162 Contrary to the large case-study companies, the main factor causing the one-time cost for SMEs was analysing the new/changed requirements (i.e. 75% of their total one-time costs). One SME incurred a relatively high cost for this activity because an external consultancy firm was hired to analyse the impact of the change in legislation; as the sample of SMEs was relatively small, this had a direct effect on the averages.

163 For one of the SMEs, we can identify the impact of the higher filing frequency as its frequency changed and its service transactions are very few in number (only 2% of its intra-Community supplies). The company reported a one-time cost of EUR 981,[37] which can mainly be attributed to the altering the reports in the system and analysing the new/changed requirements.

4.2.3 *Recurring costs*

4.2.3.1 General

164 Costs in this category are:

- gathering necessary information to create recapitulative statements,
- checking customers' VAT number(s),
- creating recapitulative statements,
- reconciling recapitulative statement data with VAT, accounting and Intrastat records,
- submitting recapitulative statements for validation,
- validating (i.e. reviewing) recapitulative statements,
- filing recapitulative statements,
- providing recurring training.

165 The average annual recurring cost of the 21 case-study companies is EUR 9,237. The minimum cost of EUR 109 and the maximum cost of EUR 34,077 represent the lower and upper limits of the estimated costs. All the companies interviewed mentioned recurring costs that varied greatly.

166 The below table presents the annual recurring costs for all the companies interviewed. Three case-study companies incur an annual recurring cost above EUR 20,000:

- 34 077 EUR for a Latvian SME which can be attributed to 5 reasons: firstly, it is a services company; secondly, the majority of the business is linked to intra-Community transactions; thirdly, more time is allocated to each recurring activity compared to the rest of the case-study companies; fourthly, the wage level of the employee who carried out the recurring activities is higher than for the rest of the case-study companies; and fifthly, the adoption of a new way of filing the recapitulative statements (semi-electronic instead of manually).
- 33 229 EUR for a Hungarian large company attributable to 2 factors: the majority of the business is linked to intra-Community transactions and more time is allocated to each recurring activity compared to the rest of the case-study companies

[37] The figure reported differs from that reported in Figure 12 as we are only considering a company whose filing frequency has changed and that performs very few service transactions.

- 23 144 EUR for a Portuguese large company which is due to 2 main reasons: firstly, it is a services company; secondly, more time is allocated to each recurring activity compared to the rest of the case-study companies.

As it concerns only 3 case-study companies out of 21 (2 services companies and 1 goods company), the above is merely indicative and no general conclusions can be drawn.

Figure 16: The annual recurring cost for the case-study companies

Country	Size	Annual recurring cost incurred by the case-study companies (EUR)
Belgium	Large	1,656
Belgium	Large	11,678
Belgium	Large	109
Belgium	SME	653
Czech Republic	Large	14,819
Finland	Large	980
Germany	Large	330
Hungary	Large	3,062
Hungary	Large	33,229
Hungary	Large	3,977
Hungary	SME	3,415
Ireland	SME	446
Italy	Large	7,059
Italy	Large	11,438
Latvia	SME	34,077
Latvia	SME	1,727
Latvia	Large	9,824
Luxembourg	Large	8,801
Luxembourg	Large	18,112
Portugal	Large	5,437
Portugal	Large	23,144

167 The higher frequency with which recapitulative statements have to be submitted has of itself increased the annual recurring costs incurred by the case-study companies: going through the procedures 12 times a year rather than four times a year leads to a higher recurring cost.

168 In order to evaluate the annual recurring cost linked directly to the higher frequency with which recapitulative statements have to be filed, the same approach as used for the one-time cost was applied.

- Considering only the case-study companies that have to file recapitulative statements more frequently, the average annual recurring cost is EUR 10,276.
- In this restricted sample, there are two case-study companies that do not provide services to clients (B2B) in other EU Member States (i.e. the German and one Portuguese company in the sample). For them, the annual recurring cost is assessed at EUR 330 and EUR 5,437, respectively.

169 Both the German and Portuguese companies indicated difficulties in relation to reconciliation of recapitulative statements with the VAT return, accounting and Intrastat records. Even though they have a high level of automation, corrections carried out in the reconciliation process need to be done manually.

Figure 17: Percentage of each activity in total annual recurring cost

	Large companies	SMEs	Total sample
Gathering necessary information to create recapitulative statements	15%	26%	18%
Checking customers' VAT number(s)	12%	8%	11%
Creating recapitulative statements	14%	10%	13%
Reconciling recapitulative statement data with the VAT returns, accounting and Intrastat records	23%	24%	23%
Submitting recapitulative statements for validation	10%	15%	11%
Validating (i.e. reviewing) recapitulative statements	13%	9%	12%
Filing recapitulative statements	8%	8%	8%
Providing recurring training	5%	0%	4%

170 The table suggests that two activities are considered particularly burdensome by the case-study companies:

- Reconciling the recapitulative statement data with the VAT returns, accounting and Intrastat records (i.e. 23% of the total annual recurring cost for the total sample): the manual corrections needed to reconcile the data are very time-consuming for the case-study companies. Several interviewees mentioned this as being the most time-consuming activity. As one noted, *"Monthly reconciliation increases our workload but our errors are more rapidly identified."* Another said, *"The reconciliation is extremely time-consuming for us: before 2010, the reconciliation was done on a yearly basis and now it must be done on a monthly basis."*

- Gathering the necessary information to create recapitulative statements (i.e. 18% of the total annual recurring cost for the total sample): some of the case-study companies were not used to filing recapitulative statements or were used to only filing recapitulative statements with a few lines (i.e. service providers). Since 2010, they have all been obliged to submit them on a monthly basis, with higher levels of detail. Therefore, it is essential to have a quality data management system to work efficiently.

4.2.3.2 Large companies

171 The average annual recurring cost for the large case-study companies is EUR 9,603. The annual recurring cost estimation varies from EUR 109 to EUR 33,229. Though the number of intra-Community supplies of goods, including deemed supplies, remains unchanged, the number of lines per recapitulative statement has increased because companies need to report their intra-Community supplies of services.

172 Reconciling the recapitulative statement data with the VAT returns, accounting and Intrastat records is considered as a rather time-consuming activity. The case-study companies indicated that they spend more time on data reconciliation between the different statements than was the case when the filing frequency was lower. A reason might be that the gathering of VAT return data, data for the recapitulative statement, accounting and intrastat data are not fully automated and derived from one system and that manual interventions and reconciliations are still needed.

173 Where the deadlines for submitting VAT returns and recapitulative statements differ, this aggravates the situation, as the case-study companies need to put additional controls in place to reconcile information and need to keep track of the different deadlines in each Member State.

174 The recurring cost is also affected by the fact that some large case-study companies have to file recapitulative statements in several countries. As the way of filing and the information to be provided differs in each Member State, the administrative cost increases in terms of gathering all the necessary information and, ultimately, creating the recapitulative statement. These costs are however not linked to the reduction of the timeframe.

175 Making up 11% of the total annual recurring cost for large case-study companies, verifying the validity of customers' VAT number(s) is considered an important activity.[38] Even though it is not a

[38] This activity is the most important in terms of annual recurring costs if the analysis is done without standardisation.

new requirement brought in by the legislative changes, the case-study companies report that they currently spend more time on verification than before 1 January 2010. First, because the frequency with which recapitulative statements are filed has increased. Second, because the inclusion of services means that now also VAT numbers of service customers have to be checked. It is worth emphasising that, when submitting recapitulative statements, businesses regularly have to check the VAT numbers of all their cross-border EU customers to verify whether they are still valid, and this is seen as time-consuming by companies whose back office relies on client data input from the front office (particularly for new clients). One of the interviewees remarked, *“We need to devote some time each month to checking our VAT numbers because if there is just one error, the recapitulative statement cannot be submitted on the administration’s web portal. We can only know if there are wrong VAT numbers when we upload our file … We need to perform frequent VAT number checks in order to correctly input data of our new clients and to update existing data. Otherwise we get questions from the VAT administration, which leads to more time being needed because then time is spent on both correcting the VAT number in our database and answering the administration.”*

176 Five large case-study companies have provided data on the cost incurred in 2009 in order to estimate the additional administrative burden and (compliance) costs due to the possible options for Member States as set down in article 263.According to the data collected, the recurring annual cost should have increased by a multiplication factor ranging from 3 to 5 for the majority of the large case-study companies interviewed. Four large companies indicated that the majority of this cost increase is linked to the inclusion of services in the recapitulative statement. The last company decided to insource the activities related to the preparation and submission of the recapitulative statement as of 2010, which in fact lowered the multiplication factor.

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Figure 18: Multiplication factor for large case-study companies

Country	Main activities	Multiplication factor[39]	Comments
Belgium	Healthcare	*3	Major impact due to the inclusion of services in the recapitulative statement
Hungary	Automotive	*10	Major impact due to the inclusion of services in the recapitulative statement
Hungary	Manufacturing and distribution of lighting products	*4	Major impact due to the inclusion of services in the recapitulative statement
Luxembourg	Logistics – Transport	*18	Major impact due to the inclusion of services in the recapitulative statement
Portugal	Manufacturing	*5	Insourcing of activities related to recapitulative statement

4.2.3.3 Small and medium-sized companies

177 The average annual recurring cost for the SMEs interviewed is EUR 8,063. The annual recurring cost estimate varies from EUR 446 to EUR 34,077. The fact that the highest cost was reported by one of the five SMEs is explained by the fact that this case-study company is a service company and the reconciliation exercise takes more time than previously because the number of transactions has increased, as has the number of corrections that need to be made. In addition, this company switched from manual filing to semi-electronic filing. The SME with the lowest annual recurring cost justified its numbers by the fact that the intra-Community supplies, including deemed supplies, relate to group transactions, meaning that the same procedures are gone through each month.

[39] The case-study companies have completed part III of the questionnaire with their recurring costs in 2009. The time spent for each recurring activity has been multiplied by the hourly cost level indicated for each activity. Then the total quarterly cost has been multiplied by 1,25 (in order to consider the overhead cost) and by 4 (in order to have the annual recurring costs). The current annual recurring cost divided by the 2009 annual recurring cost gives the multiplication factor indicated in the table.

178 The following two activities are the most time-consuming for the SMEs interviewed:

- gathering information necessary to create recapitulative statements (i.e. 26% of the total annual recurring cost);
- reconciling the recapitulative statement data with the VAT returns, accounting and Intrastat records (i.e. 24% of the total annual recurring cost).

179 Where the process is automated, costs are generally lower and the complexity of the activity does not increase. One interviewee told us, *"The major issue was to change the set-up of our systems and provide training to our employees. Subsequently, the process has rapidly become automated and now the listed activities are becoming routine, meaning that the complexity is the same as before."*

180 Four SMEs have provided data on the cost incurred in 2009 in order to estimate the additional administrative burden and (compliance) costs due to the possible options for Member States as set down in article 263. According to the data collected, the recurring annual cost should have increased by a multiplication factor ranging from 0,5 to 4. The lowest figure is explained by the fact that the SME decided to automate the majority of its processes in light of the implementation of the VAT package. For the three other SMEs, the cost increase is mainly explained by the inclusion of services in the recapitulative statement.

Figure 19: Multiplication factor for SME

Country	Main activities	Multiplication factor[40]	Comments
Belgium	Manufacturing	*0,5	Automation of the majority of the processes due to the implementation of the VAT package
Ireland	Manufacturing and distribution of lighting products	*4	Major impact due to the inclusion of services in the recapitulative statement
Latvia	Logistics – Transport	*3	Major impact due to the inclusion of services in the recapitulative statement
Latvia	Logistics – Transport	*1.1	Major impact due to the inclusion of services in the recapitulative statement

4.3 Qualitative findings

181 This section of the report discusses the results of the research from a more qualitative point of view.

4.3.1 Level of automation in submitting recapitulative statements

182 There are three different methods of filing recapitulative statements:

- the manual procedure consists of completing a paper recapitulative statement with data being input manually;

[40] The case-study companies have completed part III of the questionnaire with their recurring costs in 2009. The time spent for each recurring activity has been multiplied by the hourly cost level indicated for each activity. Then the total quarterly cost has been multiplied by 1,25 (in order to consider the overhead cost) and by 4 (in order to have the annual recurring costs). The current annual recurring cost divided by the 2009 annual recurring cost gives the multiplication factor indicated in the table.

When the case-study companies interviewed did not have the real value of the recurring costs incurred in 2009, they provided an estimated percentage of increase. This concerns only one case-study company, a Latvian SME which indicated an increase of 10% of its annual recurring costs between 2009 and 2011.

- the semi-electronic procedure consists of using an electronic format for completing the recapitulative statement, while entering the data manually;
- the electronic procedure consists of using an internal format for the recapitulative statement (e.g. an Excel sheet) and subsequently exporting that format electronically and transforming it into the official format required by the tax authorities.

183 According to the table below, representing the feedback of all 23 case-study companies, 52% of the case-study companies file their recapitulative statements electronically, 48% doing so semi-electronically since 2010. None of the case-study companies applies a manual procedure. Moreover, four case-study companies have moved away from filing recapitulative statements manually to semi-electronic or electronic filing.

Figure 20: Method of filing recapitulative statements

	Number of companies (before 2010)	Number of companies (from 2010)
Large companies – 17 case-study companies		
N/A or no available information	3	
Manual procedure	3	
Semi-electronic procedure	6	8
Electronic procedure	5	9
SMEs – 6 case-study companies		
N/A or no available information	2	
Manual procedure	2	
Semi-electronic procedure	1	3
Electronic procedure	1	3

184 The case-study companies indicated that a higher level of automation fosters a sense of routine and reduces cost in the medium/long term. One large-company representative noted, *“Once it is set up, we don’t experience increased complexity.”* Companies typically opt for electronic filing for “efficiency and transparency” purposes. However, they still have to devote time and resources to continuously updating systems.

4.3.2 *Trade-off between administrative burden and data quality*

185 The increase in frequency has negatively impacted the administrative burden for the majority of the case-study companies. Whereas recapitulative statement activities were previously only done quarterly (or not at all where the business provided services), now they have to be done twelve times a year.

186 The monthly reconciliation between the VAT return and the recapitulative statement is also often mentioned as being a major administrative burden. However, certain case-study companies indicated that the quarterly reconciliation is much more time-consuming because more corrections are required and the quarterly reconciliation means considering previous months' data where the VAT return and the recapitulative statement cover different time periods. In that respect, one case-study company established in Luxembourg has decided to submit its recapitulative statements monthly (at the same time and for the same period as its VAT return) because the time spent on data correction was deemed too high in the case of quarterly submissions.

187 At the same time, submitting recapitulative statements monthly has necessitated more internal controls, which, respondents note, have a positive impact on the quality of the data. As one interviewee said, *"Problems are detected more rapidly and we take direct action in order to solve them. This allows us to considerably improve the quality of our data."* Furthermore, monthly filing means that the number of transactions per recapitulative statement is lower than with quarterly filing. According to one interviewee, this means *"fewer human mistakes and less time to correct mistakes."* The majority of the case-study companies, however, seem to be in a transition phase, looking for the most efficient way of tackling the changes imposed by the new legislation in terms of recapitulative statements.

4.3.3 *Alignment at an EU level*

4.3.3.1 Alignment of filing periods

188 Aligning submission period for VAT returns and recapitulative statements would have a positive impact on the administrative burden in terms of time spent on data correction. This is acknowledged by case-study companies that choose to file monthly in their country of establishment even where they have the option of filing quarterly.

4.3.3.2 Alignment of filing methods and timeframes

189 At the same time, case-study companies are conscious that applying the same time frame for the VAT return and the recapitulative statement concentrates the workload in a given period and may increase the pressure on staff. Therefore, some are in favour of aligning the submission periods provided that the filing procedure is fully electronic in all the various Member States. In other words, alignment in terms of timeframes should be accompanied by alignment of filing procedure – i.e. a move towards electronic filing and, particularly, a simple, user-friendly interface that simplifies monthly filing as much as possible, e.g. each Member States accepts XML files in the same format.

4.3.3.3 Alignment of content

190 A number of case-study companies are in favour of aligning the format of recapitulative statements so that (i) the same information is requested in all Member States in the same manner and (ii) filing procedures are aligned. For example, in Hungary, recapitulative statements require to include not only intra-Community supplies of goods, including deemed supplies, and services but also (deemed) intra-Community acquisitions. In Belgium, on the contrary, businesses are only obliged to report intra-Community supplies of goods, including deemed supplies, and services. For businesses having to file recapitulative statements in multiple locations in the EU, alignment could reduce the time and money spent in filing recapitulative statements.

4.3.3.4 Thresholds

191 The large case-study companies that must file recapitulative statements in multiple Member States have to monitor the thresholds in order to keep tabs on the applicable periodicity. In some countries, being below the threshold means one has to file quarterly, and there is no choice for monthly filing. If quarterly filing below the threshold were optional (opt-in) and monthly were the standard, there would be no need to follow up on thresholds. This would have a positively effect on the cost burden for businesses.

4.3.4 *Interaction with tax authorities*

192 The case-study companies report that communications with tax authorities are more frequent than before 2010. As more transactions need to be included in the statement more frequently and corrections are also made more frequently, tax authorities tend to have more questions that require to be followed up on by declarants.

193 The majority of the VAT authorities' questions seem to relate to the validity of the VAT numbers reported by companies in their lists. One interviewee commented on this: "*As from 2011, we are experiencing more questions from the tax authorities. The questions from the authorities are to our mind raised in order to check the validity of the VAT numbers when the recapitulative statements are filed*" and another one indicated that "*The time devoted to answering the VAT authorities' questions has doubled since 2010.*"

194 With respect to VAT audits, at the time of our interviews, the case-study companies were not experiencing more of them, nor were they expecting more audits in the future. This impression can be explained by the strengthening of internal controls and the resulting enhancement in data quality.

4.4 *The results of the 2007 ex-ante study*

195 The comparison of the results of the ex-ante study in 2007 with the results of the current study is only valuable from a qualitative point of view.

196 The drivers for the one-time costs identified in 2007 still apply to this study (i.e. IT systems, maintenance contracts with external providers and the format of submissions).

197 In 2007, the proposed regulatory changes were considered as a business-unfriendly measure. In 2011, the case-study companies' opinions are more moderate. Even though they reported higher administrative costs, they also see the positive impact the changes have had on data quality. Potential issues/problems are identified more quickly and some of the companies have set up internal procedures to increase controls and ensure the quality of the information used to complete recapitulative statements.

198 One of the major fears of the companies interviewed in 2007 was that they would be subject to more VAT audits. Till now, the companies interviewed for this study have not encountered a greater incidence of tax audits, at least not in reference to recapitulative statements. However, the tax administrations have tended to ask more questions and request more information from declarants. If this continues, it may of course lead to an increase in recurring costs for companies, while providing them with an additional incentive to improve the quality of their data, if this is why questions are being raised by the authorities.

199 The quantitative results of the ex-ante study and those indicated in the present study are not comparable for two main reasons.

200 First, in 2007, the VAT Package was not yet implemented and there was no obligation yet to include the intra-Community services into the recapitulative statement. The estimated costs stated for 2007 therefore only related to the increase of the periodicity of the recapitulative statement for intra-Community supplies of goods including deemed supplies. For the current study, as both the reduction of the time frame to file the recapitulative statement and the implementation of the VAT Package became effective as from 1 January 2010, it is difficult to separate the costs inherent to one of the changes implemented at that time. As no separate costs are available related to the reduction of the time frame to file the recapitulative statement, a comparison with the results of the ex-ante study is not useful.

Secondly, note that no comparison can be made between the annual recurring costs evaluated in 2007 and those presented in this study because the data for the 2007 study refers to incremental costs (i.e. the estimated additional costs due to a higher filing frequency) whereas the annual recurring costs in this study are total costs.

5 Conclusion

201 The main objective of this study is to provide the Commission with input for its report on assessing the impact of article 263(1), in particular as regards the impact on businesses of, first, a reduction in the time frame to file recapitulative statements from a quarterly basis to a monthly basis and, second, the usefulness of the options provided in article 263(1a) to (1c) from businesses' point of view. More specifically, the following questions need to be answered:

- provide a short description of the tax treatment currently applied by the Member States to implement the provisions of the new article 263 of Directive 2006/112/EC;
- pinpoint the issues for businesses, if any, that may have been caused by the options provided in article 263(1a) to (1c) (thresholds and derogations) applied by the 27 Member States, describing their nature and assessing their impact;
- estimate the additional administrative burden and (compliance) costs that businesses may incur due to the possible options for Member States as set down in article 263;
- assess whether the problems arise both for larger companies (multinationals) and for SMEs carrying out intra-Community supplies and having to submit recapitulative statements;
- estimate the potential impact of a more harmonised situation where Member States apply the same time frame without derogations and thresholds as currently set forth in article 263(1a) to (1c).

<u>VAT Data</u>

Provide a short description of the tax treatment currently applied by the Member States to implement the provisions of the new article 263 of Directive 2006/112/EC

202 A first part of the Study consists in a VAT analysis of the implementation of article 263(1) of Directive 2006/112/EC in the local legislation of the different Member States and the practical implementation regarding the recapitulative statement in these Member States.

203 The VAT analysis shows that the (practical) implementation of article 263(1) of Directive 2006/112/EC, and especially the options laid down, is not uniform. For instance:

- 17 Member States have implemented the derogation to file recapitulative statements on a quarterly basis and 10 Member States have not implemented the derogation;
- 5 Member States have made the application of the derogation mandatory and 12 have made it optional;
- 2 Member States have a separate recapitulative statement for goods and services and others (25 Member States) have a combined recapitulative statement. In 4 Member States, there may be differences in the periods covered by recapitulative statements for intra-Community supplies of goods, including deemed supplies, on the one hand, and services on the other hand;

- 22 Member States require electronic filing (in 10 Member States exceptions however apply) and 5 others provide for optional electronic filing.

Impact for businesses

204 Next to the VAT analysis, the study assesses the impact in terms of administrative costs businesses may experience from the implementation of article 263(1) of Directive 2006/112/EC. In addition to quantitative data, qualitative findings were gathered in order to gain a broader view of the issues encountered by businesses.

205 In order to collect the economic data, 23 case-study companies (the initial scope, a relevant sample of 12 to 16 businesses, was expanded), both large and SMEs, were selected in 10 Member States according to various criteria such as the type of business, to complete a questionnaire and to participate in a follow-up interview (with representatives of the company). Note that only 21 case-study companies are considered for the calculation of the administrative costs because two case-study companies (one large and one SME) did not fully complete the part III of the interview guidelines and therefore only the qualitative feedback is taken into account for the analysis of the results.

206 The quantitative data have been collected by using the Standard Cost Model approach. Moreover they have been reported in this study on a standardised level in order to eliminate any potential wage bias, as labour costs vary across Member States.

207 Due to the implementation of the VAT Package at the same time as the implementation of article 263(1), and because companies exclusively supplying goods are the exception – bundling supplies of goods with services transactions is common business practice – it is hard, and for some companies impossible, to separate the costs linked to the increase of the periodicity of the recapitulative statement for intra-Community supplies of goods, including deemed supplies, on the one hand, and including the intra-Community supplies of services in the recapitulative statement (and other costs linked to the VAT Package implementation) on the other hand. This can be illustrated by the relative high one time cost devoted to analysing new/changed legislation by the case study companies, mainly the SMEs. On average, 75% of the total one time cost is related to this activity for SMEs, but they mentioned that it is very difficult for them to identify the cost only linked to the recapitulative statement's new legislation. Consequently, the quantitative results of the study have an indicative character and should be treated with caution.

Pinpoint the issues for businesses, if any, that may have been caused by the options provided in article 263(1a) to (1c) (thresholds and derogations) applied by the 27 Member States, describing their nature and assessing their impact

208 The impact of the options foreseen in article 263(1a) to (1c), could not be assessed as none of the sample case study companies were affected by the options. This because the threshold, foreseen in article 263(1a), was exceeded or they had chosen not to make use of the option. Companies that might be impacted by or confronted with the options foreseen in the 27 Member States, if applicable, are companies with a limited amount of intra-Community supplies of goods and/or deemed supplies in multiple Member States, not exceeding the threshold in those Member States (if applicable). However, no such companies were identified in the sample case study companies.

209 One of the case-study companies interviewed indicated that it opts for the monthly filing even if it had the opportunity to file its recapitulative statement on a quarterly basis. This however does not imply that the utility of the option is challenged on a general basis. Indeed, only one case study company indicated this and could be an exception.

Estimate the additional administrative burden and (compliance) costs that businesses may incur due to the possible options for Member States as set down in article 263, and assess whether the problems arise both for larger companies (multinationals) and for SMEs carrying out intra-Community supplies and having to submit recapitulative statements

210 The economic data collection contained questions towards the case study companies in order to understand :

- the impact of more frequent submissions on businesses' administrative costs (one-time and recurring costs) from a quantitative point of view;
- the opinions of business on the regulatory changes from a qualitative point of view.

Impact on administrative costs

211 Our economic research shows that:

Implementation of the new legislation relating to recapitulative statements led, in general, to an increase of administrative costs, both in terms of one-time cost and recurring cost. This observation is valid for both large case-study companies and SMEs. This is primarily due to the fact that more recapitulative statements need to be submitted each year as from 2010. If the one-time cost is compared to the turnover of the case-study companies, there is no difference between the large companies and the SMEs in the sample. On the contrary, a significant difference is observed between the annual recurring cost if compared to the turnover for the large case-study companies and for the SMEs. The latter experience higher recurring cost when they are compared to the turnover.

212 The average one-time cost calculated for the 21 case-study companies interviewed (for the quantitative assessment, the sample contains 21 case-study companies because one Belgian and one Luxembourg case-study company did not complete part III of the questionnaire) was EUR 4,891.The major factor causing one-time cost for large companies was creating or changing reports in the system whereas the SMEs indicated that analysing new/changed requirements was the higher one-time cost. This can be partially explained by the fact that the majority of the large companies are using SAP or equivalent system for preparing their recapitulative statements. The updates necessary were done by an external service provider or internal IT specialists who represent an important cost. With respect to the SMEs in the sample, it appears that one SME incurred a high cost for analysing new/changed legislation because an external consultancy firm was hired; as the sample of SMEs was relatively small, this had a direct effect on the averages. At the same time, a number of case-study companies said they had difficulty in estimating the real time spent on this activity for recapitulative statements due to the overlap in timeframes between the implementation of article 263(1) of the Directive and the VAT Package. The one-time cost reported could therefore be overestimated.

213 The companies interviewed also experienced one-time cost in automating the process of preparing and filing recapitulative statements.

214 The case-study companies that already did electronic filing before 2010 or that have a maintenance contract with an IT supplier generally had lower one-time cost. However, the majority of companies work with an automated system (e.g. Oracle, ERP, SAP) in combination with a straightforward spreadsheet (e.g. Excel). Updating and/or creating the spreadsheet is typically seen as burdensome by the companies surveyed.

215 The majority of one-time costs are determined by:

- the difference in level of detail in terms of the information required by tax authorities: as there currently is no harmonisation in the EU, companies with filing obligations in different Member States must adjust their systems in accordance with the requirements of different tax administrations.
- the level of automation in the compliance process: the case-study companies that already employed electronic filing before 2010 or that have a maintenance contract with an IT supplier, in general, incur lower one-time costs;
- the organisation and specialisation of the accounting/tax department: some companies have organised their accounting/tax departments in a shared service centre or manned them with a number of specialists. Therefore, they depend less on external providers to analyse the changes in the new legislation or provide training. The same holds for those companies that are able to update their systems with the help of their own IT specialists;

216 In terms of annual recurring cost, whereas recapitulative statements previously had to be filed only 4 times a year, they are required to be filed 12 times a year as from 1 January 2010. The higher frequency with which recapitulative statements have to be submitted has of itself increased the annual recurring costs incurred by the case-study companies: going through the procedures 12 times a year rather than 4 times a year leads to higher recurring costs.

217 The case-study companies indicated an average annual recurring cost of EUR 9,237. Two activities are considered by the case-study companies as particularly burdensome:

- reconciling the recapitulative statement data with the VAT returns, accounting and Intrastat records: the manual corrections required to reconcile the data are seen as time-consuming by case-study companies;
- gathering the information necessary to create the recapitulative statements.

218 Although both activities are a cost burden for large companies as well as for SMEs, the latter expressed a higher recurring cost for gathering information whereas the large companies indicated the reconciliation activity as the major source of recurring cost.

219 Where different deadlines apply for submitting VAT returns and recapitulative statements, this aggravates the situation, as case-study companies need to put in place additional controls to reconcile information and need to keep track of the different deadlines in each Member State.

220 Several companies also highlighted the time spent on checking the validity of customers' VAT numbers. Although this is not a new requirement under the legislative changes under consideration, the case-study companies report that they currently spend more time on validation than before 1 January 2010. First, because the recapitulative statements have to be filed more frequently and, second, because the inclusion of services means that VAT numbers of customers buying services now also have to be checked. This was also indicated in the VAT analysis.

221 The additional administrative burden and (compliance) costs that businesses incur due to the possible options for Member States as set down in article 263 vary. Nine case-study companies (i.e. 5 large companies and 4 SMEs) have provided data on the recurring cost incurred in 2009 or have provided a percentage of annual recurring cost increase between 2009 and 2011. Based on the information provided by the case-study companies, a multiplication factor has been calculated and represents how many times the recurring costs incurred in 2011 by the case-study companies have been multiplied compared to the recurring costs in 2009. For the majority of the case-study companies, the recurring annual costs have increased by a multiplication factor ranging between 0,5 and 5. The increase is mainly linked to the addition of services in the listing. The decrease in the annual recurring cost indicated by one of the SMEs is linked to an automation of the majority of the processes due to the implementation of the VAT package. Overall, it should be noted that the case-study companies find it difficult to separate the effect of the inclusion of services from the increase of frequency.

Qualitative findings

222 The qualitative feedback provided by the 23 case-study companies highlights some relevant considerations on the impact of implementing article 263(1) of Directive 2006/112/EC.

223 Although monthly submission of recapitulative statements and monthly reconciliation of data are identified as additional administrative burdens, they also motivate companies to carry out more frequent internal controls. This positively impacts the quality of company data. Looking towards the future, the majority of companies therefore expect a positive balance between administrative costs and advantages in terms of improved data quality and reliability.

224 The level of automation has a big impact on perceived complexity and on administrative costs. Introducing automated internal processes involves an important one-time cost for companies because they have to change/update their systems and manage the internal changes. At the same time, companies appreciate that this will result in lower recurring costs over time.

225 The absence of harmonisation within the EU in terms of submission periods, format and level of detail is particularly burdensome for companies that have multiple locations or registrations across the EU. Declarants also suggest that harmonisation of timeframes should be accompanied by harmonisation of filing procedures – i.e. a move towards electronic filing and, particularly, a simple, user-friendly interface that simplifies monthly filing as much as possible.

226 Companies supplying both intra-Community goods and services or only intra-Community services experience difficulties in gathering complete information to create the recapitulative statements. Especially the addition of services is viewed as a higher level of detail to be provided as compared to before 1 January 2010.

227 The case-study companies indicate that communications with tax authorities have increased. As more supplies (intra-Community supplies of services) need to be included in more frequent recapitulative statements and corrections are also made more frequently, tax authorities tend to have more questions requiring follow-up by companies than before the implementation of the new legislation.

228 Summarising the sentiments expressed by the case-study companies, three strands can be identified:

- some businesses tend to perceive the regulatory changes as having a neutral impact on operations, with the notable exception of one-time costs related to updating/changing their system, which are considered a significant cost element;
- other companies indicate a strong preference for the situation as it existed before the implementation of article 263(1) of Directive 2006/112/EC, suggesting it has led to important new cost factors;
- a number of companies see the advantages the new situation has had/will have in the future, pointing *inter alia* to enhanced data quality and fewer incidents of tax fraud.

Estimate the potential impact of a more harmonised situation where Member States apply the same time frame without derogations and thresholds as currently set forth in article 263(1a) to (1c)

229 The potential impact of a more harmonised situation can be estimated to be positive from a qualitative point of view. Indeed companies indicated that they expect harmonisation across European Member States to lower the costs incurred. They also suggest that harmonising the time frames should be accompanied by harmonising the filing procedure – i.e. a move towards mandatory electronic filing in all Member States and, mainly, a simple, user-friendly interface making monthly filing as easy as possible (e.g. a single interface for all Member States, XML files that are accepted in the same format across all Member States).

Ex-ante study

230 The comparison of the results of the ex-ante study in 2007 with the results of the current study is only valuable from a qualitative point of view.

231 The drivers for the one-time costs identified in 2007 still apply to this study (i.e. IT systems, maintenance contracts with external providers and the format of submissions).

232 In 2007, the proposed regulatory changes were considered as a business-unfriendly measure. In 2011, the case-study companies' opinions are more moderate. Even though they reported higher administrative costs, they also see the positive impact the changes have had on data quality.

233 The quantitative results of the ex-ante study and those indicated in the present study are not comparable for two main reasons.

234 First, in 2007, the VAT Package was not yet implemented and there was no obligation yet to include the intra-Community services into the recapitulative statement. The estimated costs stated for 2007 therefore only related to the increase of the periodicity of the recapitulative statement for intra-Community supplies of goods including deemed supplies. For the current study, as both the reduction of the time frame to file the recapitulative statement and the implementation of the VAT Package became effective as from 1 January 2010, it is difficult to separate the costs inherent to one of the changes implemented at that time. As no separate costs are available related to the reduction of the time frame to file the recapitulative statement, a comparison with the results of the ex-ante study is not useful.

235 Secondly, note that no comparison can be made between the annual recurring costs evaluated in 2007 and those presented in this study because the data for the 2007 study refers to incremental costs whereas the annual recurring costs in this study are total costs.

6 Recommendations and next steps

236 The Study performed by PwC[41], according to the agreed scope, aimed at analysing the impact of the implementation of article 263(1) for businesses. Based on the results of the Study, it is clear that there is an increase in the on-time cost and the recurring cost for businesses due to the new VAT legislation.

237 Further analysis is required to weigh these additional costs against the aim and benefits of the new VAT legislation, namely the reduction of the VAT gap through the quicker detection of fraud and decreasing the risk on VAT carrousels.

238 Those benefits, if identified, which we have not analysed in the Study because it was not in scope, will mainly be for the tax authorities (in terms of a reduction of the VAT gap), but also for the businesses due to a reduced risk to be unwillingly involved in and to be held liable for VAT fraud. As such it may also help to reduce VAT fraud and unfair competition by fraudulent companies.

239 As the reduction in the time frame of the recapitulative statement is one element from a total to combat fraud, also the other measures to reduce the VAT gap need to be taken up in the analysis to see the aggregated effect on the costs for businesses and to verify whether the measures have an impact on the VAT gap.

240 Calculating the costs and benefits related to all the measures gives a relevant insight whether the measures are, from a macro-economic point of view, justified.

241 Further analysis can be done on how the recurring cost can be decreased by e.g. harmonising the filing procedure through a single, user friendly interface for all Member States and/or through accepting XML files to be uploaded in the same format across all Member States.

[41] Cf. footnote 7

7 *Appendices*

Appendix 1 – VAT legislation in the 27 Member States and administrative guidelines implementing article 263(1)

Appendix 2 – Summary of the VAT data collected

Appendix 3 – Interview guidelines and questionnaire

Appendix 4 – Eurostat: hourly labour costs