

Appendix 2 – Comparison of the average cost per VAT return with other studies

Comparison of the average cost per VAT return according to the “EU Project on Baseline Measurement and Reduction of Administrative Costs – Report on the Tax Law (VAT) Priority Area” study and the “Study on the Feasibility and impact of a Common EU Standard VAT Return”

HIGH-LEVEL COMPARISON AT EU-27 LEVEL

1. In this Appendix, we draw a comparison between the results of a previous study performed for the European Commission in 2008, hereinafter named the “Study on the Tax Law (VAT) Priority Area”¹ and published in 2009, and the results of this study, which assesses the feasibility and impact of a common EU standard VAT return. Table 1 provides a general overview of the results of both studies regarding the population and cost of the ‘Preparation and submission of periodic VAT returns’ Information Obligation at EU-27 level.
2. Please note that the ‘Preparation and submission of periodic VAT returns’ Information Obligation does not take into account the cost of preparation and submission of the summarising annual VAT return. Therefore, only the cost for the preparation and submission of periodic VAT returns in the “Study on the feasibility and impact of a common EU Standard VAT return” is compared with the results from the “Study on the Tax Law (VAT) Priority Area”.

¹ Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 24.

Table 1 – Comparison of results from “Study on the feasibility and impact of a common EU Standard VAT return” and “Study on the Tax Law (VAT) Priority Area” performed for the European Commission²

	“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”	Difference (in %)
Original population in EU-27 (Number of VAT returns filed in EU-27 on a yearly basis)	149,623,247	148,333,589	-0.86%
Average cost per VAT return³	€128	€265	+107.2%
Total administrative cost for EU-27	€19,197,037,608	€39,347,060,790	+105.0%

3. In the “Study on the Tax Law (VAT) Priority Area”, a total yearly administrative burden of approximately €19 billion was arrived at for the EU-27. This results in an average cost per VAT return of €128, considering a population of 149,623,247 periodic VAT returns per annum. In the “Study on the feasibility and impact of a common EU Standard VAT return”, the total administrative cost for the EU-27 is estimated at €39,347,060,790. Considering a population of 148,333, 589 periodic VAT returns per annum, an average cost per VAT return of €265 is arrived at. Although the estimated population is slightly lower in the “Study on the feasibility and impact of a common EU Standard VAT return” than in the “Study on the Tax Law (VAT) Priority Area” performed for the European Commission, the total administrative cost estimate and the average cost estimate per VAT return are considerably higher.

Population

4. The population estimate of the “Study on the feasibility and impact of a common EU Standard VAT return” is 0.86% lower than the estimate of the “Study on the Tax Law (VAT) Priority Area”. The starting point for this population estimate was data provided by the tax authorities regarding total numbers of taxpayers. A detailed description of the methodology used to estimate the population can be found in Appendix 1.
5. In the “Study on the Tax Law (VAT) Priority Area”, the following is stated regarding the high level assumptions used:

² Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 24.

³ Total cost divided by the population

“Sources on the total number of periodical VAT returns submitted in Member States are derived from national government reports/websites, baseline measurement reports or even direct contacts with the national authorities. Sources on the total number of periodical VAT returns submitted were available for 16 Member States. Where no sources were available for Member States, the number of periodical VAT returns submitted was extrapolated, taken into account the specific frequencies of submission in Member States. Sometimes several conflicting sources were available. In these case sources were prioritised according to credibility, the publishing source and date of publishing.”⁴

6. We also note that the “Study on the Tax Law (VAT) Priority Area” was carried out in the course of 2008 and its results officially published in 2009. The current study was undertaken in 2012.

Cost per VAT return

7. The average cost per VAT return in the “Study on the feasibility and impact of a common EU Standard VAT return” is significantly higher than in the “Study on the Tax Law (VAT) Priority Area”. In order to understand the differences between the two studies, two aspects need to be considered: the approach to data gathering and the data itself.

Approach to data gathering:

8. In the “Study on the Tax Law (VAT) Priority Area”, it appears that data gathering was chiefly undertaken via workshops with an eye to arriving at “consensus”-based cost estimates:

“The workshop was the preferred approach in the measurement, since it allowed participants to interact with each other and come to a consensus on costs incurred/time spent on IOs which were sometimes not easy to measure. In addition, where necessary, data was collected by telephone interviews, face-to-face interviews or expert assessments.”⁵

9. The starting point for data collection for the “Study on the feasibility and impact of a common EU Standard VAT return” was a purposefully prepared questionnaire and interviews with individual business respondents. The sample companies were carefully selected and the respondents were all experts in VAT matters in their respective companies. All data that was reported by the companies was subsequently checked in individual follow-up telephone interviews. A workshop was organised, *inter alia* with companies’ representatives, to ultimately sense-check the results. Throughout the exercise, the economic consultants and VAT experts of PwC were involved. For a detailed comparison of the approaches to the two studies, we refer to *Text Box 1: Methodology and approach: a comparison between the “Study on the feasibility and impact of a common EU Standard VAT return” and the “Study on the Tax Law (VAT) Priority Area” performed for the European Commission (see below)*.

Data:

⁴ Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 91.

⁵ Final Report – Measurement data and analysis – As specified in the specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 24.

10. In the “Study on the Tax Law (VAT) Priority Area”, data was collected from a sample of businesses in six Member States, the so-called ‘measurement countries’. This data was supplemented by existing data from Member States that had already taken SCM measurements, the so-called ‘baseline countries’. This data then formed the basis for extrapolation to the remaining EU Member States. The measurement countries studied were Cyprus, France, Hungary, Latvia, Poland and Spain. In the “Study on the feasibility and impact of a common EU Standard VAT return”, only detailed data for the sample of large enterprises and for eight Member States in scope was considered. Based on this data and an extrapolation exercise, detailed data was obtained for all 27 Member States. Although the sample of Member States differs between the two studies, both studies ensured a good geographic spread, a balance between smaller versus larger Member States and between long-time members of the EU versus relatively new Member States.
11. We found it useful in the context of this study to compare the results and explain the main differences between the two studies in more detail. Next to the sample characteristics and the methodology used, we consider three main factors which can influence the final results of both studies: time spent, wage level and consulting fees. First, a comparison is made of time spent, wage levels and consulting fees for the sample of large enterprises in the Member States that are in scope in both studies (i.e. France, Hungary and Poland). Second, a more detailed comparison is made for the six Member States in scope in the “Study on the Tax Law (VAT) Priority Area” (Cyprus, France, Hungary, Latvia, Poland and Spain) in terms of consulting fees.

COMPARISON OF RESULTS FOR LARGE ENTERPRISES

12. For the “Study on the feasibility and impact of a common EU Standard VAT return”, source data is available for the sample of large enterprises. This source data can be compared with the available data in the “Study on the Tax Law (VAT) Priority Area”, i.e. data from both studies can be compared for the sample of large enterprises for the three Member States in scope in both studies.

Table 2 – Comparison of results from “Study on the feasibility and impact of a common EU Standard VAT return” and “Study on the Tax Law (VAT) Priority Area” performed for the European Commission for the sample of large enterprises in France, Hungary and Poland

	“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”	Difference (in %)
Average internal time spent (minutes) per periodic VAT return	794	824	+3.78%
Average wage level (euro per hour)	14	20	+42.86%
Consulting fees	Not applicable	Applicable	-

⁶ Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 24.

13. The average time spent per VAT return by large enterprises in the two studies is comparable. For the Member States in scope in the “Study on the Tax Law (VAT) Priority Area”, wage levels are considerably lower than those used for the sample of large enterprises in the “Study on the feasibility and impact of a common EU standard VAT return”. In the “Study on the Tax Law (VAT) Priority Area”, consulting fees are not taken into account for the sample of large enterprises, in contrast to the “Study on the feasibility and impact of a common EU standard VAT return”.
14. Results from comparing the two studies for the sample of large enterprises cannot be generalised for SMEs at EU-27 level.

DETAILED COMPARISON OF THE CONSULTING FEES AT EU-6 LEVEL

15. Although detailed data (source data and/or extrapolated data) are available for all 27 Member States for the “Study on the feasibility and impact of a common EU Standard VAT return”, this is not the case for the “Study on the Tax Law (VAT) Priority Area”. Therefore, the comparison of the results obtained in the two studies is necessarily limited to the available data in the “Study on the Tax Law (VAT) Priority Area”. More specifically, a detailed comparison of the consulting fees can only be made of the Member States in scope in the “Study on the Tax Law (VAT) Priority Area”. These Member States are Cyprus, France, Hungary, Latvia, Poland and Spain (hereinafter called the EU-6). The comparison includes all types of businesses (i.e. large companies, SMEs and micro enterprises) and is presented in Table 3. A specific comparison of the methodology and approach of both studies is provided in Text Box 1 at the end of this appendix.
16. In the following paragraphs, we only compare the two studies at EU-6 level. The results cannot be generalised at EU-27 level.

Table 3 – Detailed comparison of consulting fees from “Study on the feasibility and impact of a common EU Standard VAT return” and “Study on the Tax Law (VAT) Priority Area” for all businesses

		“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”	Difference (in %)
Average consulting fees per VAT return (euro) ⁸	Cyprus	334	149	-55%
	France	182	271	49%
	Hungary	290	218	-25%
	Latvia	84	187	122%
	Poland	177	504	184%
	Spain	184	497	170%
	Average	209	304	46%

⁷ Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 24.

⁸ The calculations are only based on the companies that use external consultants.

17. On average, for the six Member States in scope in the “Study on the Tax Law (VAT) Priority Area”, consulting fees are estimated at €209 per VAT return, irrespective of the type of business. For the “Study on the feasibility and impact of a common EU Standard VAT return”, this figure is 46% higher, i.e. €304 per VAT return, again irrespective of the type of business.
18. Although it is assumed in the “Study on the Tax Law (VAT) Priority Area” that large companies do not rely on outside consultants and that they deal with all VAT issues in-house,⁹ the impact of this is limited due to the limited proportion of large companies.
19. Moreover, the “Study on the Tax Law (VAT) Priority Area” considers that 50% of companies use external consultants, whereas this percentage differs among the Member States in the “Study on the feasibility and impact of a common EU Standard VAT return” (i.e. it varies from 14% to 55%).
20. Both studies conclude that costs incurred/time spent are not always easy to measure. Expert judgement was sometimes required. The main differences observed for the Member States for which data is available for both studies give an indication of the explanation for the difference in total cost for the EU-27, but cannot be generalised.

⁹ Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, pp. 91-94.

Text Box 1 – Methodology and approach: a comparison between the “Study on the feasibility and impact of a common EU Standard VAT return” and a “Study on the Tax Law (VAT) Priority Area” performed for the European Commission¹⁰

We present an overview (similarities and differences) of the approaches and methodologies underpinning the two studies:

Similarities	<ul style="list-style-type: none"> Standard Cost Model as guiding methodological framework Activities underlying the information obligation, with the exception that one of the activities (‘report transactions in the VAT return’) was split by PwC into two separate activities (‘prepare the VAT return’ and ‘reconcile data from accounting, listing, Intrastat, etc.’) following discussion with the Commission Sample of Member States 	
Differences	“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”
	Data gathering	
	<ul style="list-style-type: none"> Workshop as preferred approach for data gathering. During workshops, consensus is achieved on costs incurred/time spent. In addition, where necessary, data was collected by telephone interviews, face-to-face interviews or expert assessments. A questionnaire was provided to PwC by the European Commission. However, this questionnaire did not feature in the report and it is unclear to which stakeholders it was distributed and under what conditions. It is not clear whether the same data-gathering techniques were used for both large companies and SMEs 	<ul style="list-style-type: none"> Detailed questionnaires and telephone interviews with individual stakeholders to gather detailed quantitative and qualitative data. With the agreement of the Commission, SMEs were invited to share their input in a telephone interview without previously completing a questionnaire. The focus of these telephone interviews was to gather qualitative and quantitative data. Preliminary results of data gathering were sense-checked with stakeholders at a full-day conference.

¹⁰ Final Report – Measurement data and analysis – As specified in specific contract 5 & 6 on Modules 3 & 4 under Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area – EU Project on baseline measurement and reduction of administrative costs – 5 March 2009, p. 24.

Differences	“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”
	Sample	
	<ul style="list-style-type: none"> • Six measurement Member States: Cyprus, France, Hungary, Latvia, Poland and Spain. • Sample of companies selected by contractor. 	<ul style="list-style-type: none"> • Eight measurement Member States: Belgium, Finland, France, Germany, Hungary, Italy, Poland and the UK. • Sample of companies selected by contractor.
	Extrapolation	
	<ul style="list-style-type: none"> • Extrapolation from measurement Member States and baseline Member States in which the SCM was already applied in the past.¹¹ 	<ul style="list-style-type: none"> • Extrapolation from the measurement Member States. • Complexity factor used for the Member States out of scope.
	Distribution of SMEs and large enterprises	
<ul style="list-style-type: none"> • It is not immediately explained how the total population was calculated.¹² However the distribution can be approximated:¹³ 2% of large companies, 8% of medium companies, 29% of small companies and 62% of micro companies. • No data sources provided to reference assumption. 	<ul style="list-style-type: none"> • Distribution based on data available from Eurostat:¹⁴ 0.2% of all companies are large companies, 7.6% of all companies are SMEs and the remaining 92.2% are micro companies. 	

¹¹ Final Report – Measurement data and analysis – As specified in the specific contract 5 & 6 on Modules 3 & 4 under the Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area- EU Project on baseline measurement and reduction of administrative costs – 5 March 2009 (ec.europa.eu/dgs/secretariat_general/admin.../abst09_taxlaw_en.pdf), p. 49.

¹² Final Report – Measurement data and analysis – As specified in the specific contract 5 & 6 on Modules 3 & 4 under the Framework contract no. ENTR/06/061 – Report on the Tax Law (VAT) Priority Area- EU Project on baseline measurement and reduction of administrative costs – 5 March 2009 (ec.europa.eu/dgs/secretariat_general/admin.../abst09_taxlaw_en.pdf), p. 87.

¹³ Final Report – Measurement data and analysis – As specified in the specific contract 5 & 6 on Modules 3 & 4 under the Framework contract no. ENTR/06/061 – Report on Modules 3&4 for Tax Law (VAT) Priority Area– 5 March 2009 (ec.europa.eu/dgs/secretariat_general/admin.../abst09_taxlaw_en.pdf), p. 91

¹⁴ Eurostat – "http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Small_and_medium-sized_enterprises&printable=yes" (2009).

Differences	“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”
	Wage level	
	<ul style="list-style-type: none"> It is not clear how wage levels were defined and whether or not general average wage levels for the EU-27 were assumed. 	<ul style="list-style-type: none"> Sample companies were asked to specify the wage levels applicable per activity relative to the ‘preparation and submission of periodic VAT returns’ information obligation. Wage levels represent real costs, including social security charges and take into account the level of education and experience required by employees working in VAT departments. Standardised wage levels (ISCO 2) used for all the Member States in order to calculate the total cost at EU-27 level.
	Consulting fees	
	<ul style="list-style-type: none"> Only for SMEs and micro enterprises is a cost specified for external consultants in the report. Large companies are assumed to do all activities internally. 	<ul style="list-style-type: none"> Sample companies (large companies and SMEs) were asked to provide costs for external consultants. Real consulting fees used for Member States in scope. According to the factor of complexity, the other Member States have been classified into four categories and average consulting fees of the Member States in scope in each category have been used.
	Population	
<ul style="list-style-type: none"> The estimates could not be retrieved for the affected population in the “Study on the Tax Law (VAT) Priority Area”. The sources are derived from national government reports /websites, baseline measurement reports or direct contacts with the national authorities. Sources on the total number of periodic VAT returns submitted were available for 16 Member States. For the other Member States, the data has been extrapolated. 	<ul style="list-style-type: none"> Population is estimated based on a detailed analysis of the number of taxpayers and some calculations and assumptions derived from expert judgement. Data on the number of taxpayers was received from tax authorities from all 27 Member States, except Denmark. The sample and existing data sources are explained and referenced. 	



Differences	“Study on the Tax Law (VAT) Priority Area”	“Study on the feasibility and impact of a common EU Standard VAT return”
	Time period	
	<ul style="list-style-type: none"> Completed in 2008. 	<ul style="list-style-type: none"> Completed in 2012 with data mainly from 2012. Wage levels used are those from 2010.