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Study on the feasibility and impact of a common EU standard VAT return

Specific Contract No. 9, TAXUD/2011/DE/329

FINAL REPORT

27 February 2013

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Preface

This document is the Final Report in the framework of the Study on the feasibility and impact of a common EU standard VAT return.

The study consists of two main parts, the first one being the definition of proposed standards with respect to:

- information requirements to be included in the common EU standard VAT return;
- a common approach for submission of VAT returns, including e-filing;
- a common approach for correction of errors in VAT returns.

These standards have been compared to the current national VAT returns, submission methods and correction methods in eight reference Member States.

The second part of the study is an assessment of the economic impact that the common EU standard VAT return may have. In this second part of the study, the socio-economic impact is analysed both on businesses as well as on tax authorities.

Businesses, business organisations and tax authorities have been consulted for this report. Businesses were consulted through questionnaires, follow-up interviews and workshops. Tax authorities were asked to complete a questionnaire and follow-up interviews were performed with 7 of them during the Fiscalis meeting of 2-4 October 2012.

In order to deliver a study of this size, PwC gathered a multidisciplinary team of professionals with relevant expertise.

The PwC core project team consisted of Pieter Breyne, Michael Wagemans, Jeanine Daou and Wim De Clercq, who acted as experts in IT consulting, impact assessments and VAT, respectively, with the support of Caroline Cleppert, Ellen De Groote, Katrijn De Naeyer and Delphine Cordewin. Wim De Clercq also acted as the project manager for this study. Ine Lejeune acted as the Project Leader.

In addition, we also relied on the PwC global Indirect Taxes network. The interim report has been reviewed by a team composed of Stephen Dale, Serge Mary and Martin Grote (experts in VAT), Floris Ampe (impact assessments), Joao Frade (IT consulting), Rudy Hoskens (fraud detection) and Stefaan Dewachter (accounting). The final report has been reviewed by a team composed of Floris Ampe (impact assessments), Serge Mary (expert in VAT) and Jacques de Swart (expert in economics and impact assessments).

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Ine Lejeune

Partner & Indirect Taxes Policy Leader within the Global Tax Policy and Administration Network

PwC

26 February 2013

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1 Introduction and Background

1 Due to the lack of detailed European VAT rules regarding VAT returns, the EU Member States have a wide margin of discretion in developing national rules with respect to the particulars required in their national VAT returns, the submission of VAT returns and the correction of VAT-return errors. In this regard, variations exist amongst Member States due, notably, to the objective and intended uses for VAT returns: i.e. some Member States use the return as an audit tool while others use it as a simple collection tool.

2 According to articles 250-252 of Directive 2006/112/EC:

- every taxable person is required to submit a VAT return, with the necessary information requested by the EU Member States, to calculate the tax that has become chargeable and the deductions to be made;
- taxable persons are allowed to submit VAT returns by electronic means. However, Member States have the option to require this method of submission;
- the information required in VAT returns for intra-Community supplies and intra-Community acquisitions needs to be listed;
- EU Member States may determine the tax period (i.e. one, two, three or more months, but one year as a maximum);
- EU Member States may determine the submission deadline, with a maximum of two months after the end of each tax period.

3 Consequently, VAT returns and submission mechanisms, including deadlines and correction of errors, differ among Member States. This reflects divergent attitudes of tax authorities towards the level of information required from taxable persons in order to oversee the correctness of the VAT declared and, accordingly, the level of burden placed on them.

4 For businesses identified for VAT purposes in more than one Member State, complying with up to 27 different sets of rules for completing VAT returns can be difficult and costly.

5 This has been confirmed as an outcome of the Green Paper consultation[2], and more particularly the Green Paper conference held in May 2011, where it was stressed that several aspects of the current differences between national VAT returns (detail of information, interpretation of required information, format/lay-out, submission deadlines, submission method/mechanism, how to correct errors) increase compliance burdens on businesses.

[2] http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0318&language=EN.

6 The concept of a common EU standard VAT return applicable in all Member States aims at addressing this issue in line with the commitment at the EU level to reduce the compliance burden on businesses and help SMEs via the "Think Small First" initiative.

7 The implementation of a common EU standard VAT return would enable taxable persons VAT-registered in more than one Member State to submit VAT returns with the same format, information requirements and submission rules to national tax authorities of each of the EU Member States[3].

8 This would make it possible for taxable persons to reduce their costs in two major ways. First of all, harmonisation would enable businesses to centralise and in-source those of their VAT-compliance processes that are presently often decentralised and/or outsourced owing to local laws and/or language barriers. Second, harmonisation means standardisation, which facilitates the preparation and review of VAT returns, increasing the quality of VAT compliance and/or reducing the time spent on it.

9 The aim of a common EU standard VAT return is to offer an alternative alongside national VAT returns, i.e. taxable persons would have the option, in each Member State where they have VAT filing obligations, to use the national VAT return form or the EU standard VAT return form. However, this should not be seen at this stage as a one-stop-shop VAT return, meaning that, for each Member State where the business is VAT-registered, a separate common EU standard VAT return would still need to be filed. Nevertheless, this might form the basis of a future one-stop shop, enabling businesses to file one single VAT return in their Member State of establishment with information on their operations in all Member states, and the relevant information then being transmitted to the relevant Member States.

10 Against this background, the European Commission has appointed PwC to perform a study whose main objective is to propose a concept for a common EU standard VAT return and to assess the economic impact of such common EU standard VAT return.

[3] Based on the Green Paper consultation (http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0318&language=EN), the contribution of the stakeholders and the Stoiber Group's recommendations on Administrative Burdens (http://ec.europa.eu/dgs/secretariat_general/admin_burden/ind_stakeholders/ind_stakeholders_en.htm).

2 Scope, Methodology and Approach

2.1 Scope

2.1.1 Introduction

1 The main objective of the study is to provide the European Commission with a concept of a common EU standard VAT return and the economic impact thereof. The results of the study may be used by the European Commission to develop one or more proposals for a directive to modify Directive 2006/112/EC or for a regulation.

2 As part of delivery of the study, the following information will be provided:

- information requirements to be included in the common EU standard VAT return;
- common approach for submission of VAT returns;
- common approach for correction of errors in VAT returns;
- economic impact of the common EU standard VAT return[4].

2.1.2 Activities in scope

3 Based on the Request for Proposal[5], we list the information required for each of the main topics.

1. <u>Information requirements to be included in the common EU standard VAT return</u>

- Determine a core set of information requirements that would (probably) be sufficient for all Member States to assess and audit VAT.
- Consider whether, alongside the core set of information requirements, an additional, optional list of information might be included that could be requested by Member States to meet specific needs (e.g. for specific sizes of companies, industries). This list should be limited.
- Provide a standardised common EU standard VAT-return format allowing businesses to complete and submit a VAT return in any Member State as well as their Member

[5] Request for offer under framework contract TAXUD/2010/CC/101.

State of establishment on the basis of the corresponding version of the VAT return in their own language.

- Provide guidelines/a manual enabling businesses throughout the EU to complete the standard VAT return consistently in each of the EU Member States and to have a common understanding throughout the EU on the core set and additional, optional information requirements of the common standard VAT return by means of common definitions.

2. <u>Common approach for submission of VAT returns (period/format)</u>

- Determine a common approach with respect to the submission of a standard VAT return (both the submission period and the submission format).
- Analyse the advantages and disadvantages for both businesses and tax authorities of having mandatory common tax periods or of businesses being flexible to choose a tax period and of tax authorities imposing different tax periods.
- Consider the need for businesses and tax authorities to require different information and different forms of standard VAT-return submission depending on the annual turnover of the business.
- Provide a high-level, expert opinion, including advantages and disadvantages for both businesses and tax authorities, on whether the standard VAT return should be limited to approved taxable persons, i.e. approved and authorised by the tax authorities.

3. <u>Common approach for correction of VAT-return errors</u>

- Devise a common approach in terms of required information and submission of corrections to the format or period of the standard VAT return.

4 Within the scope of the above three information-gathering activities and based on the core set of information requirements and the additional, optional list of information, a comparison should be made with the VAT returns of a maximum of eight Member States (based on national legislation valid in 2011). The eight Member States selected for this GAP analysis are Belgium, Finland, France, Germany, Hungary, Italy, Poland and the UK.

4. <u>Economic impact of the common EU standard VAT return</u>

- Provide economic data on how many businesses submit VAT returns in more than one Member State (by total numbers, by turnover, as a percentage of the total number of businesses), differentiating among businesses that are identified for VAT purposes in several Member States and those that are established in several Member States.
- Quantitative estimation, based on a statistical sample in line with the EU standard cost model, of the potential reduction in administrative burdens for businesses of using a common EU standard VAT return, including any one-off costs for businesses linked to system changes.

- Quantitative estimate of the cost for businesses and tax authorities of adapting their systems to cope with the common mechanism(s) for submitting VAT returns as identified under point 2 (“submission of VAT returns”), above[6].
- Provide a qualitative analysis on the likely impact for Member States of a common EU standard VAT return in terms of auditing and reducing fraud.
- Provide an overview and evaluation of the consequences of using a common EU standard VAT return on the information Member States need if their local VAT return includes information requirements that have purposes other than strictly VAT (e.g. for direct taxes).
- Analysis of the impact of optional additional information requirements with respect to the common EU standard VAT return (if any) and any differentiation in information requirements and submission for the common EU standard VAT return depending on the annual turnover of the business in terms of compliance costs for businesses and audit issues for tax authorities.
- Provide a qualitative assessment of the proposed common approach regarding the standard VAT return, submission and correction of the standard VAT return, where useful and appropriate, in terms of economic, social and environmental impact, in accordance with the European Commission Impact Assessment Guidelines.

2.1.3 Activities not in scope

5 The scope of the study does not cover the following:

- Providing a template detailing the VAT-return requirements including submission and correction requirements/practices in the 27 Member States (based on the national legislation valid in 2011) and, where applicable and publicly known, which information on VAT returns is requested by Member States for purposes other than VAT. Therefore analyses will not be performed of either the current VAT return requirements or the differences regarding the submission/correction of VAT returns in the 27 Member States.
- Describing the different mechanisms available for submitting the common EU standard VAT return and analysing what mechanisms for submitting VAT returns are more suitable, together with the reason why they are suitable.
- Drafting potential new provisions of Directive 2006/112/EC to cover the legislative aspect of introducing the standard EU common VAT return.

6 Furthermore, the scope of the study does not cover intra-Community sales/acquisition listings, yearly client listings, Intrastat, VAT bookkeeping (sales ledgers, purchase ledgers), VAT-refund and VAT-payment procedures/rules, penalties and late-payment interest, or prescription periods.

[6] At this stage, the interim report only quantifies the cost for businesses of adapting their systems to cope with the common mechanism(s) for submitting VAT returns. The quantitative estimates for the tax authorities will be included in the final report.

2.2 Methodology and approach

7 The methodology and approach described below are based on active involvement of the European Commission, business stakeholders, tax practitioners and tax authorities in different Member States.

2.2.1 Development of the standards

2.2.1.1 Development steps

8 A first version of the standards (common EU standard VAT return, common approach for corrections to the standard VAT return, common EU submission standard) was developed by PwC's core project team on 8 December 2011 and this was discussed in a two-day meeting held on 31 January and 1 February 2012 with PwC experts and the European Commission. The outcome of the meeting led to versions 2 and 3 of the proposed standards.

9 At a first workshop held on 16 February 2012, 23 businesses were consulted on their views on version 3 of the proposed standards. The workshop was also attended by the European Commission.

10 The following topics were discussed at this workshop:

- general issues related to use of the common EU standard VAT return;
- the proposed standards:
- the content of the common EU standard VAT return;
- submission of the common EU standard VAT return;
- presentation of the questionnaire on economic impact.

11 The outcome of the first workshop led to version 4 of the proposed standards, which was circulated to the participating businesses and business organisations as a preparation document for a second workshop, held on 27 March 2012, to present and further discuss the standards. At this second workshop, which was attended by the European Commission, 26 businesses and 4 business organisations, we discussed version 4 of the standards and drew some preliminary conclusions. Furthermore, the 'as is' questionnaire was presented to the businesses and business organisations.

12 The outcome of the second workshop led to version 5 of the proposed standards. Version 5 is the basis of this interim report.

13 Version 5 was discussed at a conference held on 31 May 2012, where 56 businesses, 3 business organisations and 13 representatives of Member States' tax authorities were present. The input gathered at the conference has also been included in this report.

2.2.1.2 Consultation of EU Member States

14 A Fiscalis meeting has been organised on 2,3 and 4 October 2012.

15 Tax authorities from the 27 Member States were asked to complete a questionnaire well before the Fiscalis meeting.

16 Just before the start of the Fiscalis meeting, on 1 October, follow-up interviews were performed with seven of the Member States in scope. No follow up interview was performed with Germany due the absence of the German tax authorities. No questionnaires were received from Denmark and Spain.

17 The two main objectives of the Fiscalis meeting were to bring EU Member States and business representatives together to review:

- the developed standards and guidelines; and
- the impact of the developed standards on Member States.

18 The following items have also been discussed:

- the advantages and disadvantages of the obligation to provide a common EU standard VAT return as an option alongside national VAT returns;
- the need for tax authorities to have a common approach to the filing mechanism for submitting VAT returns and the tax period covered by them;
- the advantages and disadvantages for tax authorities of having mandatory common tax periods or of having flexibility to impose different tax periods;
- the need for tax authorities to require different information and a different approach to the submission of the common EU standard VAT return depending on the annual turnover of the relevant business;
- the advantages and disadvantages for tax authorities of limiting the standard VAT return to authorised taxable persons.

19 The input from the Fiscalis meeting is processed in this Final Report.

2.2.2 Gap analysis

2.2.2.1 Economic assessment

20 An impact assessment is the process of identifying the future consequences of a current or proposed action. An impact assessment supports but does not replace decision-making. The general framework for the impact assessment is based on the European Commission's Impact Assessment Guidelines of 15 January 2009.[7]

21 The "impact" is the difference between what would happen when certain actions are carried out and what would happen without them. An impact assessment begins with the definition of a reference scenario (the AS IS situation) and alternative scenarios (TO BE situation). Next, the AS IS and TO BE situations are compared to each other. This allows the identification of effects.

22 We first analysed the effects or impact of the TO BE situation on businesses. Afterwards, we examined the impact of the TO BE situation on tax authorities.

Impact on businesses

23 We first analysed the reference scenario, i.e. the AS IS situation, in which each Member State deals with its own local VAT return. We developed a first questionnaire (see Appendix 6) specifically aimed at collecting qualitative and quantitative data about the administrative cost for businesses to be compliant with the VAT regulations in the AS IS situation.

24 After analysis of the AS IS situation and development of the standards, we assessed the impact of the alternative scenario, in which the proposed common EU standard VAT return is introduced, i.e. the TO BE situation. For this purpose, a second questionnaire was developed (see Appendix 7), aimed at collecting both qualitative and quantitative data about the impact on the administrative cost for business to be compliant with the VAT regulations in the TO BE situation.

25 We assured the comparability of the two questionnaires by using the same structure and population. In terms of practical application and to increase the response rate, we did not ask for exact cost estimates in the TO BE questionnaire. Instead, we opted for a "comparator". The sample companies were asked to estimate the impact of introduction of the proposed common EU standard VAT return in terms of a percentage increase or decrease in costs compared to the AS IS situation.

Impact on tax authorities

26 For the tax authorities, only one questionnaire was developed, specifically aimed at collection of qualitative and quantitative data about the administrative cost for tax authorities in both the AS IS situation and the TO BE situation. In terms of practical application and to increase the response rate, we did not ask for exact cost estimates for the TO BE situation. In line with the questionnaire for businesses, we opted for a "comparator".

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[7] http://ec.europa.eu/governance/impact/commission_guidelines/docs/iag_2009_en.pdf.

27 Both questionnaires for businesses and tax authorities were set up taking into account the “standard cost model” (SCM) methodology[8], which is used as an overarching methodology for the economic impact assessment. This methodology was first developed by the Netherlands and later accepted 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.

28 According to the SCM Network, the SCM[9]

“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.”

29 The SCM breaks regulations down 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”. The only information obligation identified for the purpose of this study is “submission of a periodic VAT return”. This information obligation is brought about by Directive 2006/112/EC on the common system of value added tax.

30 Appendix 1 elaborates further on the project steps for the economic impact assessment.

2.2.2.2 VAT return gap analysis

31 A gap analysis has been carried out in order to show the gap between the proposed standards and the current national requirements of the selected Member States with regard to VAT returns and correction and submission procedures.

32 This analysis has been carried out in eight EU Member States: Belgium, Finland, France, Germany, Hungary, Italy, Poland and the UK.

33 The questionnaire was submitted to the local PwC offices in the eight EU Member States in scope and input was collected and analysed.

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

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

1. VAT-data analysis

34 The VAT part of the questionnaire is a mapping of the transactions to be reported in the common EU standard VAT return and of the submission and correction principles. The purpose of the questionnaire was to identify the differences between the proposed standards and the current national VAT-return requirements.

2. IT-data analysis

35 The purpose of the IT analysis was to gather qualitative input regarding the current IT-filing mechanism in the selected Member States.

3 Proposed Standards

36 As indicated, the standards proposed in this interim report are based on the discussion and preliminary conclusions reached with the various stakeholders at the workshops and at the conference on 31 May 2012 and based on the gap analysis.

3.1 The common EU standard VAT return

3.1.1 Preliminary remarks

3.1.1.1 The purpose of a VAT return

37 The VAT return is considered as a statement made by a taxable person to self-assess its legal VAT position. In this respect, the VAT return's main purposes is to enable the collection and monitoring of VAT receipts. It also provides information on the number of filers and non-filers of VAT returns. From a macro point of view, the VAT return is also used to measure the VAT gap, meaning comparing the VAT that should have been collected with the VAT actually collected. It is also traditionally used for statistical purposes or to allow specific territorial allocations of revenues.

38 Currently, amongst the Member States, two main trends/approaches have to be distinguished for VAT returns.

1. Minimalist approach – the VAT return as a pure collection tool

39 In this approach, risk-management profiling of taxable persons is not the main objective of the VAT return. The information contained in the VAT return may serve as a primary audit tool for tax authorities and is often used as part of a broader audit strategy. In such systems, the VAT return is considered as the final output of a whole process that needs to be controlled and monitored. Some countries, e.g. the Netherlands[10], have even introduced special systems like "horizontal monitoring"[11] to ensure the VAT return is based on proper business processes.

[10] http://www.nltaxinternational.com/index.php/taxadvice/10. Please also see in this respect the Guidance note of the OECD "*Forum on tax administration: Compliance management of large business task group – Experiences and practices in eight OECD countries*", July 2009.

[11] 'Horizontal monitoring' is a process introduced by some tax authorities that regulates the relationship between tax authorities and businesses. It is based on mutual trust, understanding and transparency, and consists of two elements: (i) a compliance agreement and (ii) a tax-control framework.

40 From the taxable person's point of view, what is appreciated with the minimalist approach is:

- its brevity: a simple VAT return is easy and cheap to fill in;
- its simplicity: the taxable person immediately knows where to report transactions;
- its flexibility/stability: changes in systems and processes are costly and increase the risk of non-compliance. A simple, straightforward VAT return allows flexibility and needs fewer adjustments in the event of legislative amendments.

2. Detailed approach – VAT return as an essential audit tool

41 Member States with a detailed VAT return generally consider it an important element for risk-analysis purposes, useful for data mining. Those Member States have significantly invested in their VAT return, which is used for a large number of internal cross-checks.

3.1.1.2 The purpose of the common EU standard VAT return

42 We discussed the roles/expectations regarding a common EU standard VAT return for taxable persons and tax authorities.

43 The purpose of implementing a common EU standard VAT return should be to simplify and standardise VAT return requirements across the EU.

44 The table below shows the starting points that were discussed with respect to the roles/expectations regarding a common EU standard VAT return for taxable persons and tax authorities.

Table 1 - Starting points with respect to roles/expectations regarding a common EU standard VAT return for taxable persons and tax authorities

<table>
<tr><th>Taxable person</th><th>Tax authority</th></tr>
<tr><td>Simplicity & standardisation:
The standard VAT return should be made available in all EU Member States and it would be <u>preferable</u> not to have additional country-specific requirements.
There should be a common interpretation of the required particulars in all EU Member States. Guidelines should be developed to describe the content of each box in the common EU standard VAT return.
The information required in the VAT return should be sufficient to calculate the VAT position.</td><td>Primary audit tool: performs basic/logical checks on accuracy of data and should provide high-level insight into a company's transactions/activities.</td></tr>
<tr><td>Reduction of administrative burden and costs:
Reduces cost (processing time, time spent on questions/audit by tax authorities).
Alleviates administrative burdens on doing business in other EU Member States.
Standardises and eases management of VAT-compliance processes where VAT returns have to be filed in multiple EU Member States.</td><td>Reduces cost.</td></tr>
<tr><td>Standard information requirements are easy to reconcile with accounting, intra-Community sales/acquisition listings and Intrastat.</td><td>Enables better/faster detection of initial indicators of risk of potential (cross-border) fraud (high-level risk profiling).</td></tr>
<tr><td>Helps to improve quality of VAT reporting as reporting requirements are the same in all EU Member States.</td><td>Enables easy information exchange with tax authorities in other Member States.</td></tr>
<tr><td>Should allow basic/logical checks to be performed on accuracy of the data.</td><td></td></tr>
<tr><td>Should allow optimal use of the system's functionality (automation) – only requiring readily available information and avoiding taxable persons having to retrieve information manually.</td><td></td></tr>
</table>

45 The information comprised in the return will not enable a business or tax authority to calculate the pro rata in the case of a mixed/partial taxable person as it would only be useful for taxable persons that use the general pro rata. For taxable persons that use the method of actual use and special deductible proportions, the information to calculate the VAT deduction may vary from one Member State to another and is not always based on turnover.

46 The common EU standard VAT return and the common approach to correcting it should obviate the need for other, additional VAT-return-filing obligations (like annual VAT returns), or supporting appendices to VAT returns (like a separate sheet to explain corrections, a calculation sheet with further details for calculating the amount of VAT due/refundable and/or the pro rata, etc.).

47 The common EU standard VAT return should not in any case include information at transaction level.

3.1.1.3 Considerations

48 Although not within scope of the study, intra-Community sales/acquisition listings requirements were taken into consideration when designing the common EU standard VAT return requirements to try to ensure as great a reconciliation as possible between the information available in both documents.

49 It will also be important to examine the relationship between the Standard Audit File for Tax (SAF-T) and the common EU standard VAT return from a data-requirement perspective. The SAF-T is "a file containing reliable accounting data exported from an original accounting system, for a specific time period, easily readable by virtue of its standardisation of layout and format, and one that is extensible according to need".[12] It has been designed as part of a methodology that provides increased effectiveness and productivity in computer-assisted audit[13] and is an important element of the EU Commission's VAT strategy.[14] If boxes in a VAT return can be linked to data fields in the SAF-T, and the SAF-T provides detailed information on the totals in the VAT return, this may allow for a simpler VAT return to be filed, as information will be available to tax authorities through the SAF-T for control purposes.

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[12] OECD, Guidance for the Standard Audit File-Tax, May 2005, http://www.oecd.org/LongAbstract/0,3425,en_2649_33749_34910278_1_1_1_1,00.html.

[13] OECD, Guidance for the Standard Audit File – Tax, April 2010, http://www.oecd.org/dataoecd/42/35/45045602.pdf.

The use of the SAF-T has been recommended in the PwC Study on the feasibility of alternative methods for improving and simplifying the collection of VAT through the means of modern technologies and/or financial intermediaries, September 2010, p.55 http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/future_vat/vat-study_en.pdf

[14] SAF-T is considered as a key tool to improve the VAT collection and monitoring. As this is one of the priorities of the EU Commission, it will seek a common approach at EU level on the SAF-T in order to streamline its implementation.

Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the future of VAT towards a simpler, more robust and efficient VAT system tailored to the single market, 6 December 2011,

http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/key_documents/communications/com_2011_851_en.pdf.

3.1.2 Use of the common EU standard VAT return

3.1.2.1 General rule

50 We first envisaged the possibility of introducing a common EU standard VAT return that would replace the current national VAT returns. A migration phase was envisaged in order to make the transition process smoother. However, taking into account the below table summarising the pros and cons for mandatory use of the common EU standard VAT return and abolition of the national VAT returns an option allowing use of the common EU standard VAT return alongside national VAT returns but with the obligation for Member States to provide the option seems – especially from a business perspective – more preferable.

Table 2 - Pros and cons of mandatory use of the common EU standard VAT return and the abolition of national VAT returns

PROS	CONS
For tax authorities, one VAT return form is easier to monitor than handling national VAT returns alongside the common EU standard VAT return. It is also cheaper to maintain IT systems, and it allows one, streamlined back-office process and a single control and audit process/approach.	According to the principle of 'subsidiarity', Member States are fully competent in relation to the VAT return as it is the logical link with the VAT-collection process.
Handling one system for VAT returns is a better tool for combating fraud and it avoids businesses "shopping" between the national VAT return and the common EU standard VAT return in one country, or between countries (e.g. in one Member State, the national VAT return; in another Member State, the common EU standard VAT return) with the aim of making it more difficult for tax authorities to carry out audits.	Consequently, there is a need for unanimous political agreement if use of the common EU standard VAT return should be compulsory for all.
Having a compulsory system allows cross-border reconciliation for both tax authorities and taxable persons.	Some Member States have "simple" local VAT returns compared to the proposed common EU standard VAT return and would not be willing to abolish their local VAT returns.
It allows easier exchanges of information (because the content is the same) between tax authorities.	Businesses are "forced" to incur costs to be able to file the common EU standard VAT return.

PROS	CONS
A critical mass has to be reached to achieve a return on investment.	This will lead to discussion as to whether exceptions to/derogations from mandatory use need to be allowed and, if so, how this should be determined and whether a transitional phase will need to be introduced.

51 The option where it is allowed to use the common EU standard VAT return alongside national VAT returns but with the obligation for Member States to provide the option has been further discussed whereby the following options have been reviewed:

Obligatory for Member States and:

1. Optional for all businesses; or
2. Optional for certain businesses (i.e. those registered for VAT purposes in more than one Member State as established or non-established taxable person).

Furthermore the option where the standard VAT return would replace the national VAT return (i.e. obligatory for both Member States and all businesses) has also been reviewed.

52 To satisfy the need for flexibility for businesses, the option to allow them to choose in an independent manner for the use of the common EU standard VAT return has been preferred by businesses. Businesses, and especially SMEs, have indeed remarked the importance to have a fully fledged choice to opt for the use of the common EU standard VAT return for various business reasons. Indeed, the reduction of the administrative burden for businesses outweighs the argument of the less desirable possibility for "VAT return shopping" (i.e. that in Member States with a more complex national VAT return the businesses will opt for the common EU standard VAT return as opposed to where the national VAT return is less complex).

53 Therefore, in the proposed model, it would be an obligation for Member States to provide the option to file a common EU standard VAT return for all taxable persons, including:

- taxable persons only registered in their EU Member State of establishment;
- taxable persons not established in the EU but registered in only one EU Member State; and
- taxable persons (established in the EU or outside the EU) with multiple VAT registrations in the EU.

3.1.2.2 Means of applying the option:

54 Based on the above, the following has been agreed.

55 The decision of a business to use the common EU standard VAT return in a Member State where it is established does not necessarily oblige it to use it in other Member States where it has fixed establishments.

This means, for example, that a business may opt to use the common EU standard VAT return in the Member State of its main place of establishment and that it may opt to use the national VAT return in another Member State where it has a fixed establishment (and vice versa).

56 Similarly, if a business decides to use the common EU standard VAT return in a Member State where it is established, it may decide to opt to apply it in the other Member States where it is registered or is obliged to register as a non-established taxable person and the option can be made for each Member State individually.

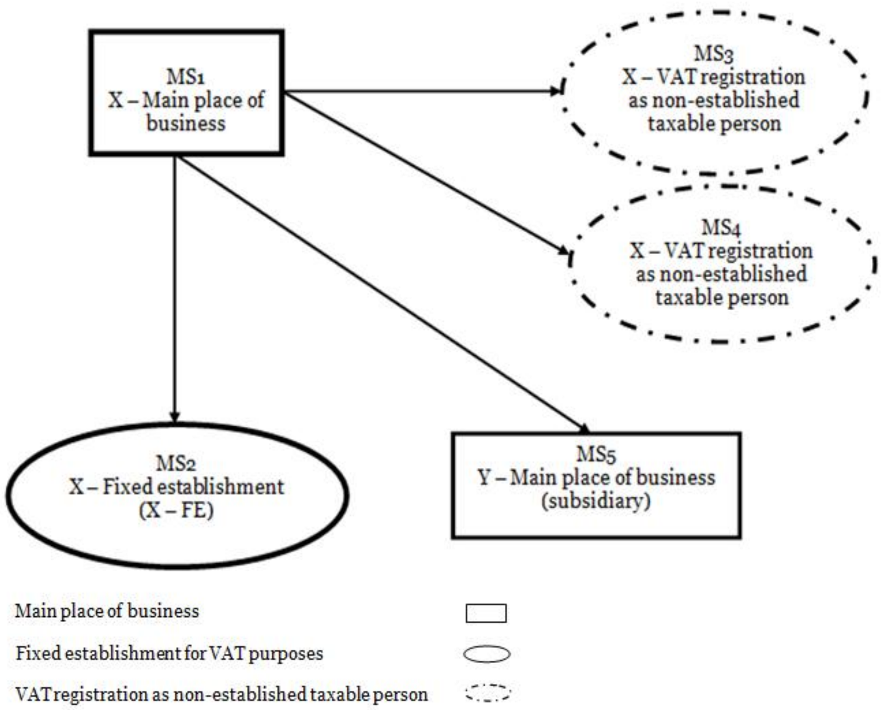
57 Where the taxable person has its main place of establishment outside the EU, the option to use the common EU standard VAT return can be made for all Member States where it is registered or obliged to register as a non-established taxable person individually.

58 Similarly, a parent company's decision to use the common EU standard VAT return will not bind its subsidiaries (separate legal entities), and vice versa.

59 The below visual summarises how the optional model would apply.

Figure 1 – Application of the optional model

Individual decision to opt to use the common EU standard VAT return



60 A VAT groups is considered as an independent entity for VAT purposes in accordance with article 11 of Directive 2006/112/EC. Decisions by a VAT group to use the common EU standard VAT return will not affect their members, which may have VAT registrations as non-established taxable persons or have a fixed establishment in other Member States.

3.1.2.3 Opt in/opt out:

61 In the envisaged model, use of the common EU standard VAT return is an option for taxable persons. Once the taxable person has opted in (for the first time), it will have to file a common EU standard VAT return as from the subsequent reporting period following notification to the tax authorities.

62 There is an opt-out option as, from a business perspective, it is important that the system should offer flexibility to taxable persons, enabling them to make free business decisions (e.g. in a case of restructuring). In practice, however, it seems reasonable to say that, in most cases, businesses are not likely to opt out considering the investment and system adjustments required to implement the new standards.

63 Regarding the procedure for applying the opt-out option, the following standards are proposed.

- Once the taxable person has opted in, he may not opt out before the end of the calendar year following that in which the option is effective, i.e. if a taxable person starts filing a common EU standard VAT return related to June 2015, it may not opt out before 31 December 2016. The taxable person will have to inform the tax authorities at least 15 days before the end of the reporting period after which it intends to cease using the common EU standard VAT return. In the above example, this means that, if the taxable person intends to cease using the common EU standard VAT return starting February 2017, he must inform the tax authorities of its intention by 16 January 2017 and file its last common EU standard VAT return for January 2017 and its first national VAT return for the month of February 2017 (taking into account e.g. the national rules regarding submission).
- After opting out, the taxable person will be excluded from using the common EU standard VAT return until the end of the calendar year following that in which the opt-out became effective. In the above example, this means that, as the opt-out becomes effective as from February 2017, the taxable person will have to file national VAT returns until at least 31 December 2018. However, an exception could be provided where a business is acquired by another business that uses the common EU standard VAT return, to allow consolidation of the VAT reporting without any delay.

3.1.2.4 Additional considerations

A) Use restriction based on turnover

64 The option to file a common EU standard VAT return should be available to all taxable persons irrespective of their annual turnover. This conclusion is based on the following reasons:

- There will be an additional burden for taxable persons and tax authorities linked to monitoring turnover.
- It will be necessary but difficult to set a threshold and a turnover figure to ensure the common use option. Regarding turnover, it is necessary to set a turnover figure to be the reference turnover (e.g. local, EU, main establishment).
- It will be necessary to fix procedures for applying the opt-in and opt-out processes.
- Small companies will not be allowed to benefit from this option.

65 It is important within a company group that all subsidiaries and branches can file the common EU standard VAT return, especially when compliance is decentralised.

B) Use restriction based on authorisation

66 The option to file a common EU standard VAT return should be available to all taxable persons and should not be restricted to authorised taxable persons. This conclusion is based on the below table summarising the pros and cons of limiting use of the common EU standard VAT return to authorised taxable persons.

Table 3 - Pros and cons of limiting use of the common EU standard VAT return to authorised taxable persons.

PROS	CONS
It would limit potential risks of revenue loss as only taxable persons with a good track record of VAT compliance and with relevant VAT controls in place (amongst other criteria) would be authorised. The common EU standard VAT return could be offered as a reward/benefit for taxable persons that attain the status of authorised taxable person[15].	It would be necessary but difficult to determine common criteria and ensure common interpretation of the criteria.
	It would be difficult to determine which tax authority is competent to "authorise" taxable persons established in more than one Member State. The Member State of main establishment could be the competent tax authority for authorisation but a system would still need to be in place for mutual recognition of authorisations by other Member States.
	There would be an additional burden for taxable persons and tax authorities linked to monitoring the scheme.
	It would be necessary to fix a validity period or to check whether the criteria were being met throughout that period.

[15] Whereas businesses were not in favour of limiting use of the common EU standard VAT return, they were in favour of implementing an authorisation process if this would allow authorised taxable persons to be considered as trustworthy taxable persons having efficient compliance processes in place and consequently reducing the frequency of VAT audits and *ad hoc* questions from tax authorities.

67 This system of authorised taxable persons is currently used for customs agents. We could base the authorisation process for using the common EU standard VAT return on that process. However, this could make the system more complex, whereas the purpose is simplification and standardisation. Furthermore, this clearly impacts the compliance costs for both tax authorities and taxable persons, which is contrary to what is expected from this common EU standard VAT return.

C) General remark

68 As the proposed model may sometimes contain fewer boxes/information requirements than some existing national VAT returns, Member States may not require taxable persons that have opted to file a common EU standard VAT return to also file a national VAT return (neither an annual VAT return nor additional appendices, as that would defeat the purpose of a standardised VAT return).

69 As a result of introducing the common EU standard VAT return, Member States can abolish their current, national VAT return and replace it with the standard VAT return to also be used nationally (meaning that there will only be one VAT return in that Member State, but without businesses VAT-registered in that Member State being forced to also use the common EU standard VAT return in other Member States).

3.1.3 The content of the common EU standard VAT return

3.1.3.1 Proposed content

70 Based on the workshops carried out with the European Commission, businesses and business organisations, we have developed the common EU standard VAT return presented below.

Figure 2 – Proposed common EU standard VAT return

1.General information	
(11) Company name Intelligent box (12) VAT-identification number: country code of the relevant EU MS + VAT number of the relevant EU MS	
(13) VAT period	

	2. Output transactions		3. VAT due	
Standard rate		211		311
Reduced rate		212		312
Other rates		213		313
IC supplies of goods		22		
IC supplies of services		23		
Exports of goods		24		
Other supplies with right of deduction		25		
Other supplies without right of deduction		26		
SUBTOTAL	Intelligent box	27	Intelligent box	32
VAT due via reverse charge (including deferred import VAT)				33
TOTAL			Intelligent box	34

	4. Input transactions		5. VAT deductible	
Local purchases		41		51
IC acquisitions of goods		42		52
IC purchases of services		43		53
Imports of goods		44		54
Domestic reverse charge		45		55
Other cross-border reverse charges		46		56
SUBTOTAL	Intelligent box	47	Intelligent box	57
Adjustments (+/–)				58
TOTAL			Intelligent box	59

6.Balance	
	Amount
(61) Net amount of current period = (34) – (59)	Intelligent box
(621) VAT credit brought forward from previous period	
(622) Advance payments made	
(63) Net VAT amount payable/refundable = [61] – (621) – (622)	Intelligent box
(64) Amount claimed as refund	

7. Corrections							
Period		Under-declared VAT		Over-claimed VAT		Total	
711		721		731		741	Intelligent box
712		722		732		742	Intelligent box
713		723		733		743	Intelligent box
71x[16]		72x		73x		74x	Intelligent box
Total						75	Intelligent box

8. Name, capacity and date	
(81) Name of submitter	Data box
(82) Capacity of submitter	Data box
(83) Date	Intelligent box

[16] x = per VAT period to be corrected.

3.1.3.2 General remarks

71 The content of the common EU standard VAT return is further explained in the guidelines (see Chapter 4). The guidelines map all transactions to be reported in each box.

72 The taxable person should report the sales (output) transactions that are or should have been performed under its VAT-identification number in the Member State of reporting.

Table 4 - Pros and cons of reporting the transactions that are or should have been performed under the VAT-identification number in the Member State of reporting

PROS	CONS
It is easy to generate 'VAT identification number' reports using the ERP system.	Reconciliation with the total turnover reported in the G/L accounts will be slightly more difficult and may require the accounting system to be set up appropriately.
It is easy to reconcile reported figures with reports from the ERP system.	
It is more in line with the VAT logic regarding the place of supply rules (with some exceptions, e.g. intra-Community supplies of services and other cross-border supplies of services).	

73 An alternative method of reporting was discussed, which is reporting overall turnover. This has not been chosen, based on the below table summarising the pros and cons of the method.

Table 5 - Pros and cons of reporting overall turnover

PROS	CONS
It is easier to reconcile the reported VAT turnover with the overall turnover reported in the G/L accounts.	There is double reporting of some transactions, in the Member State of establishment and in the Member State where the transaction has to be declared. This involves a complex ERP set-up. This is currently the case in Member States requiring taxable persons to report their worldwide turnover.
It is more transparent for the VAT authorities in the Member State of establishment.	An agreement is necessary on what turnover has to be reported in the VAT return of the fixed establishment.
	Some EU Member States do not currently require overall turnover to be reported, so it seems to be an optional information requirement, which should be avoided as this is not in line with the purpose of the common EU standard VAT return.

74 Another alternative discussed was to report only sales transactions whose place of supply is located in the Member State of reporting including intra-Community supplies of services performed under the VAT-identification number in the Member State of reporting (for reconciliation with the intra-Community sales listing). In this alternative, e.g. services supplied to customers not established within the EU, even though performed under the VAT-identification number in the Member State of reporting, would not be reported in the VAT return (because these services do not take place for VAT purposes in the Member State of reporting). Very few businesses were in favour thereof. Some businesses also suggested leaving the option for each Member State to decide what turnover to include. This option is not considered further, as the common EU standard VAT return would then no longer be a standard for all Member States. Most businesses were in favour of reporting the transactions performed under the VAT-identification number in the Member State of reporting.

75 The taxable person should report the purchase (input) transactions that have taken place (for VAT purposes) in the Member State of reporting.

76 The common EU standard VAT return allows for negative amounts. It is not, however, allowed to round up or down; numbers have to be reported to two decimal positions.

77 The taxable amount has to be reported in the boxes related to output (2) and input (4) transactions. The VAT deductible (column 5) should reflect the partial deduction rate of the taxable person, if applicable. The non-deductible VAT should be neither reported nor added to the taxable amount. It is suggested that, even if the taxable person has no right of deduction, the taxable amount still has to be reported in column 4 to reflect the total amount of purchases made in the MS of reporting.

78 Based on the discussions we had with businesses, it is also suggested that no specific box for fixed assets should be included in the common EU standard VAT return. Although such data would enable tax authorities to "control" to a limited extent the requested adjustments, the information in that box would not be sufficient to calculate the VAT position regarding fixed assets. Moreover, requesting the data would mean that taxable persons would have to provide multiple additional tax codes in IT systems, which would increase costs, and it would open the door to possible errors when booking purchase invoices. Finally, there is no common definition of "fixed assets" in the EU Member States (article 189(a) of the Directive says that Member States may define the concept of fixed assets for the purposes of applying articles 187 and 188 in relation to VAT adjustments)[17]. Including all data to audit adjustments is beyond the scope of the common EU standard VAT return. Such data are part of the taxable person books and records and can also be provided as part of the SAF-T file (see section 3.1.1.3.).

[17] The CJEU has however given some guidance on the concept of "fixed assets" which is defined as goods used for the purposes of some business activity and distinguishable by their durable nature and their value and such that the acquisition costs are not normally treated as current expenditure but are written off over several years. (ECJ Case 51/76 *Verbond van Nederlandse Ondernemingen* [1977] ECR 113, paragraph 12).

79 According to the envisaged model, there should not be an optional list of information that Member States can request to meet specific needs, as the goal of the common EU standard VAT return is standardisation. Therefore, only “must have” boxes are included as information required in the common EU standard VAT return. These ‘must have’ boxes ask for information necessary to collect the right amount of VAT and make the right allocation. Information needed by some Member States for specific reasons other than calculating the right amount of VAT due can be obtained using other means, notably the SAF-T. In this respect, we refer inter alia to boxes used to allocate revenue to the different regions of a Member State, boxes used for transactions carried out in the framework of a special VAT regime, boxes used for statistical purposes, etc.

3.1.3.3 Remarks on some boxes

Boxes 21 and 31 – taxable supplies

80 We have analysed the possibility of a detailed split per rate. The below table summarises the pros and cons in this respect.

Table 6 - Pros and cons of a detailed split per rate

PROS	CONS
Interesting from a statistical point of view to know the turnover split per rate.	(Additional) burden for some Member States because more information to manage.
No additional burden for taxable persons as information is available in accounting system (special tax code per rate charged).	Possible site controls required to ensure that rates are applied correctly. This information could, however, be included in the SAF-T.
Audit tool for taxable persons for reconciliation between VAT return and accounting books.	Taking into account all the derogations, a large multiplicity of boxes would result in the common EU standard VAT return becoming more complex.
Split used by Member States for statistical purposes.	
More transparency – avoids additional questions from tax authorities.	

81 Based on above table, the option currently gone for is a detailed split among three rates (standard/reduced/other rates), as this information can easily be retrieved by businesses and it allows them to improve reconciliations (i.e. self-assessment and initial audit benchmark for companies).

82 As Member States could have multiple rates (e.g. different rates per region, more than one reduced rate, etc.), a detailed split per rate would make the VAT return less concise and special boxes would have to be added for certain Member States. This would defeat the purpose of the common EU standard VAT return.

83 The use of intelligent boxes to automatically calculate the VAT amount will only be possible for boxes where transactions to be reported are subject to one single rate (i.e. the box for transactions subject to the standard rate). If transactions subject to different rates should be reported in the same box, the use of intelligent boxes is no longer possible as the calculated VAT amount will differ from the actual VAT due.

Additional considerations

84 If it is decided that a detailed split of turnover per rate is appropriate:

- the form should automatically contain the different rates charged in the Member State of submission;

- there should be a clear definition of what is meant by the reduced/super-reduced rate (as some Member States have more than one reduced/super reduced rate) in order to report transactions in the correct boxes.

85 If a split per rate would obviate additional questions from the tax authorities, it becomes a "must have".

86 If a detailed split per rate is chosen in the VAT return, an additional box is necessary to report transactions subject to an old rate in case of a change in rates during a VAT period. If there is no detailed split of the rates in the VAT return, the new rate will be reported as the standard/reduced rate for the period and the old rate should be reported in "other rates" for the period.

87 These boxes are used by Member States for audit/risk-profiling purposes as well as for statistical purposes.

88 As there may be more than one reduced rate, it was also suggested only having two boxes for rates (standard/other rates).

Box 23 – Intra-Community supplies of services

89 Services that are VAT-exempt (with or without a right to deduct) in the Member State of establishment of the recipient should not be reported in box 23 or in an intra-Community sales listing. However, Member States are flexible in this respect as the exemptions applied in the Member State of destination are not always known to the supplier and may differ from one Member State to another.

90 It is important for businesses to match the information requirements on VAT returns with intra-Community sales listings. Consequently, the sum of boxes 22 and 23 should be the same as the total reported in the intra-Community sales listing. Those boxes should be split because how the two are treated for VAT purposes differs: transactions reported in box 22 take place in the Member State of reporting whereas transactions reported in box 23 take place in another Member State. Furthermore, different coding may be used in the intra-Community sales listing for the two kinds of transactions.

Table 7 - Pros and cons of matching the information requirements in the VAT return with those in intra-Community sales listings

PROS	CONS
Matching intra-Community sales listings and VAT returns helps reconciliation and correct reporting and is a check for taxable persons' and tax authorities' control purposes.	Duplication of information as the source of the information is the same. Is it necessary to have the same information twice; can it be combined?
No additional burden for the taxable person as information is available in its accounting system.	

Box 41 – Local purchases

91 The taxable amount of local purchases should be reported. Indeed, if not all taxable amounts of input transactions are reported, box 47 (Total) ceases to be relevant. Furthermore, this will not be an additional burden for taxable persons as the information is available in their accounting systems. Finally, this will allow for a logical check to be performed, i.e. the amount reported in box 51 should never be higher than the standard rate multiplied by the amount reported in box 41.

Box 64 – Amount claimed for refund

92 The VAT refund procedure is not addressed as it is not covered by the scope of the study (carry-forward of VAT credit, refund process, refund intervals). Consequently, each Member State will continue to apply its own rules/procedures.

3.2 Common approach for correcting errors in the common EU standard VAT return

3.2.1 Definition of corrections

93 In order to determine a process for corrections of VAT-return errors, a common, clear definition of errors should be agreed. In this respect, based on the discussions we had with the stakeholders, errors for the purpose of the common EU standard VAT return are those resulting in under-declared VAT due and over-claimed VAT, including manual errors when completing the VAT return. Even though over-paid VAT and under-declared input tax are to be reported in the VAT return, they are not included in the definition of errors as only errors related to incorrect reporting or non-reporting impacting the VAT due and leading to penalties and/or late-payment interest are considered.

3.2.2 Standard approach for corrections

3.2.2.1. Disclosed versus undisclosed corrections

94 Errors have to be corrected as soon as they are detected as this will limit the late-payment interest that might be incurred. If businesses decide to do this once a year, that is a business decision and the risk should be assessed by the taxable person based on national VAT rules and taking into account all possible consequences. Corrections have to be reported in the normal boxes in the VAT return. However, only material errors have to be disclosed to the VAT authorities. A threshold should be used to determine the materiality of the errors and whether they have to be disclosed or not.

95 Note that all errors should be corrected (to avoid e.g. penalties or interest) but only material ones should be separately disclosed in order to avoid burdensome work for businesses in separately disclosing minor errors. Therefore there is a need to establish a threshold to be adhered by the Member States.

96 Based on businesses' input, if there is a threshold for corrections, the taxable person should ensure that the calculation can be made easily and properly, allowing use of the system's (automation) functionality. It may be difficult to automate this in the relevant IT system.

97 In this respect, it is proposed that the threshold be considered exceeded if the sum of the under-declared VAT and over-claimed VAT in a given period is greater than:

- €50,000, or;
- 1% of the average monthly turnover, i.e. the total amount of taxable transactions, performed in the previous calendar year if the amount of corrections is less than or equal to €50,000.

Example 1:

- VAT return of June 2016.
- Total amount of corrections (i.e. sum of under-declared VAT and over-claimed VAT): €1,900.
- Average turnover reported in 2015: €2,160,000.
- Average monthly turnover for 2015: €180,000.
- Corrections need to be disclosed in the special boxes since the sum of the corrections (i.e. sum of under-declared VAT and over-claimed VAT) does not exceed €50,000 but is more than 1% of the average monthly turnover (i.e. €1,800) reported in the previous calendar year.

Example 2:

- VAT return of April 2016.
- Total amount of corrections (i.e. sum of under-declared VAT and over-claimed VAT): €10,000.
- Average turnover reported in 2015: €14,400,000.
- Average monthly turnover for 2015: €1,200,000.
- Corrections do not need to be disclosed in the special boxes as the sum of the corrections (i.e. sum of under-declared VAT and over-claimed VAT) is less than 1% of the average monthly turnover reported in the previous calendar year and not exceeding €50,000.

Example 3:

- VAT return of December 2016.
- Total amount of corrections (i.e. sum of under-declared VAT and over-claimed VAT): €52,300.
- Average turnover reported in 2015: €72,000,000
- Average monthly turnover for 2015: €6,000,000.
- Although the correction is less than € 60.000,00 or less than 1% of average monthly turnover it still has to be disclosed as the amount of corrections is greater than €50,000.

98 Based on comments received, this threshold should have a minimum value in order not to increase the administrative burden on small businesses. Indeed, as the minimum is a percentage, small businesses could have to disclose corrections of €50, as this could represent more than 1% of the average monthly turnover reported in the VAT returns of the previous calendar year.

99 Also, as corrections only have to be disclosed if the threshold is exceeded, taxable persons could be tempted to delay reporting an error to the next reporting period if they exceed the threshold in the current period. However, this will increase the late-payment interest in the case of a VAT regularisation as a result of a tax audit. This is a business decision.

100 Some businesses consider that thresholds make procedures for applying the rules more complex.

101 Even though the application of a materiality threshold seems to make sense from the viewpoint in which the administrative burden is to be reduced, businesses might decide to voluntarily disclose errors e.g. in order to minimise penalties. Therefore, if the sum of the under-declared VAT and over-claimed VAT in a given period is less than 1% of the average monthly turnover, i.e. the total amount of taxable transactions, performed in the previous calendar year, and the amount of corrections is less than €50,000, businesses can use the correction boxes to make a voluntary disclosure.

3.2.2.2. Format of correction

102 In order to determine the best format for corrections, we analysed the pros and cons of correcting subsequent VAT returns, adjusting the relevant VAT return or having a separate special corrective VAT return. In the table below, we compare the pros and cons of the envisaged forms of correction.

Table 8 - Pros and cons regarding the envisaged forms of correction

Correction in a subsequent VAT return	Adjustment of the relevant VAT return	Separate, special, corrective VAT return
All corrections are reported in the VAT return in the relevant standard box. In addition, corrections above a specific threshold should be disclosed.	All corrections are disclosed – no threshold.	All corrections are disclosed – no threshold.
Several entries for corrections if several periods need to be corrected; it is still possible to do it on the same form.	Additional burden if several periods to correct as several VAT returns to be re-filed and possible re-filing of VAT returns related to same period (multiple versions of same VAT return).	Several entries for corrections if several periods need to be corrected; it is still possible to do it in the same form.
No separate, additional form to be submitted because correction forms part of VAT return.	Additional forms to be submitted.	Additional forms to be submitted.
Same submission rules as for VAT return.	Submission rules can be same/may be different from those for VAT return.	Submission rules can be same/may be different from those for VAT return.
Additional boxes to be inserted; VAT return will become more complex.	One additional box to be inserted in the standard VAT return to indicate version number of VAT return.	No impact on VAT return format.
Amount of corrections made is easy to read in case of disclosed corrections only.	Amount of corrections made to be calculated by comparing with VAT return filed initially.	Amount of corrections made is easy to read.
Correcting taxable amount is possible/necessary.	Correcting taxable amount is possible/necessary.	Boxes for correcting taxable amount of relevant corrected VAT period are possible, but entails creating a complex form.
It is not possible for tax authorities to calculate penalties/late-payment interest based on figures reported in the VAT return as not all corrections are disclosed. Tax authorities will know that corrections took place only in cases where the threshold is exceeded.	As all corrections are disclosed, it is easier for tax authorities to calculate penalties/late-payment interest based on figures reported in VAT return.	As all corrections are disclosed, it is easier for tax authorities to calculate penalties/late-payment interest based on figures reported in VAT return.

Correction in a subsequent VAT return	Adjustment of the relevant VAT return	Separate, special, corrective VAT return
Corrections follow same preparation process as VAT return. However, a separate process is necessary to keep track of corrections and to monitor threshold in order to disclose corrections.	Separate correction process, corrections need to be filtered from correct postings, which in itself may give rise to errors.	Separate correction process, corrections need to be filtered from correct postings, which in itself may give rise to errors.
Easy reconciliation between figures reported in VAT return and accounting data for the same period.	No reconciliation between VAT return and accounting data for the same period (if corrections are booked).	No reconciliation between VAT return and accounting data for the same period (if corrections are booked).
Periodic VAT return (in the case of corrections related to previous periods) does not show figures related only to period itself.	Periodic VAT return only shows (or should only show) figures related to period itself.	Periodic VAT return only shows (or should only show) figures related to period itself.
The amount of VAT declared in a VAT return for a specific period may not necessarily relate to activities in that period (it might include undisclosed corrections).	Corrected previous VAT return shows (or should show) correct VAT figures for that period.	Figures related to a specific VAT period can be computed based on the corrections made in the corrective return and the VAT return itself.
Correction cannot be processed as soon as the error is detected as corrections have to be made in the subsequent VAT return. For quarterly filers, corrections can be made up to three months after detection.	Correction can be processed as soon as the error is detected.	Correction can be processed as soon as the error is detected.

103 Based on the above analysis, it appears that the corrections should be made in a subsequent VAT return in order to match with the accounting period in which the correction has been posted. No additional filing/preparation process will be required in addition to the common EU standard VAT return.

104 An adjustment of the relevant VAT return is not preferred because (i) this may result in the additional burden of filing multiple VAT returns in the case that several periods need to be corrected, (ii) a separate correction process is then required and (iii) reconciliation with the accounting data is not possible. Furthermore, there seems to be consensus on the fact that this is not best practice. Indeed, a simple correction process is very important for businesses as corrections are time-consuming and can heavily impact compliance costs. Correction in that form would not allow of automation. The correction process is a recurring process.

105 A separate, special, corrective VAT return is not preferred because (i) this requires a separate filing/preparation process and (ii) reconciliation with accounting data is not possible.

106 Correction of a VAT return filed in a specific period can be done by re-filing that VAT return where the filing due date has not yet passed.

3.2.2.3. Information required to be disclosed

107 Taking into account the above conclusions drawn with respect to the disclosure of corrections and the form in which corrections are made, all corrections need to be reported in the common EU standard VAT return (e.g. when a sales transaction is reported too late, the taxable amount and VAT due (if any) should be reported in the relevant boxes).

108 A complete, undisclosed process has been envisaged for errors made. However, this would not be acceptable as the common EU standard VAT return cannot result in more or fewer penalties and/or more or less late-payment interest being paid than when filing the local VAT return.

109 Furthermore, we have analysed the pros and cons of detailing any errors by reference to the original box number in the return. Based on the table below, such references have not been gone for.

Table 9 - Pros and cons of detailing any errors by reference to the original box number

PROS	CONS
Transparent	Additional boxes to be completed, resulting in administrative burden for taxable persons.
Full reconciliation possible according to nature of transactions.	Complicated correction procedure

110 Consequently, in addition to their being reported in the relevant boxes, all corrections must be disclosed to the VAT authorities in separate boxes in the VAT return without fail when they exceed the threshold and/or voluntarily when they fall below the threshold.

7. Corrections							
Period		Under-declared VAT		Over-claimed VAT		Total	
711		721		731		741	Intelligent box
712		722		732		742	Intelligent box
713		723		733		743	Intelligent box
71x		72x		73x		74x	Intelligent box
Total						75	Intelligent box

111 There will be as many lines as there are VAT periods to be corrected.

Example:

- The taxable person did not report a sales transaction of €300,000 (taxable basis) in the return of September 2017 or quarter 3 of 2017. The under-declared VAT amounts to €63,000 (if the rate is 21%), i.e. above the threshold, because greater than €50,000. The correction will be reported as follows:
- Box 211: €300,000
- Box 311: €63,000
- Box 711: the period in which the sale took place (taxable event)
- Box 721: €63,000

112 In the case that the threshold is exceeded, the following information should be disclosed per period to be corrected:

- the total amount of under-declared VAT reported in the current period per period that is corrected, e.g. amount related to September 2017 or quarter 3 of 2017;
- the total amount of over-claimed VAT reported in the current period per period that is corrected, e.g. amount related to September 2017 or quarter 3 of 2017.

113 Only totals per period to which the corrections relate need to be disclosed; no details or explanations should be provided for each individual correction.

114 No netting-off is allowed between the under-declared and over-claimed VAT amounts declared for a relevant period.

115 Businesses are obliged to possess the underlying documentation but should not fully disclose all details or provide explanations in the VAT return.

3.3 *Common approach to submission of the common EU standard VAT return*

3.3.1 Submission method

116 It is proposed that the common EU standard VAT return must be filed electronically.

3.3.2 Filing period

3.2.2.4. General rule

117 As a general rule, the common EU standard VAT return should be filed monthly.

118 Even though the economic gap analysis has indicated that a quarterly VAT return is more beneficial in terms of costs, it is felt there should be an option for a monthly filing period. Indeed, most taxable persons have a monthly closing from an accounting point of view. Moreover, monthly filing is aligned with the main rule for filing intra-Community sales listings (also monthly) and it is easy for cross-border checking and reconciliation purposes. With a view to the future one-stop-shop VAT return, where a harmonised quarterly filing period is foreseen, also for the common EU standard VAT return a harmonised filing period, i.e. quarterly or monthly, should be aimed at.

3.2.2.5. Derogation and application procedures

119 An optional derogation for quarterly filing should be granted to taxable persons with reported turnover (sum of box 27 in all the common EU standard VAT returns filed the previous calendar year for a VAT identification number) of less than €2 million (EU definition of micro SMEs[18]). Both monthly and quarterly filers will file the same VAT return form.

120 In this respect, the following procedures for applying the derogation have been agreed.

121 When a taxable person fulfils the conditions for quarterly filing, he can opt for quarterly filing by notifying the relevant tax authorities at least 30 calendar days before the end of the calendar quarter and the option will become effective as from the next calendar quarter, i.e. if a taxable person informs the tax authorities on 28 February 2015 that it intends to opt for quarterly filing, it should file its last monthly VAT return for March 2015 and its first quarterly VAT return for the second quarter of 2015 (April, May and June 2015).

[18] Article 2(3) of the annex to the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises: "*Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed €2 million.*"

122 When a taxable person ceases to fulfil the conditions for quarterly filing, the last quarterly VAT return to be filed relates to the calendar quarter in which the conditions for quarterly filing are no longer fulfilled (e.g. November 2016: threshold reached – last quarterly VAT return to submit for Q4 2016 in January 2017, first monthly VAT return to submit for January 2017 in February 2017). The first monthly VAT return to be filed relates to the first month following the calendar quarter in which the conditions for quarterly filing are no longer fulfilled, i.e. if a taxable person ceases to fulfil the conditions for quarterly filing in May 2016, it will have to file its last quarterly VAT return for the second quarter of 2016 and its first monthly VAT return for July 2016.

123 Taxable persons that fulfil the conditions for quarterly filing and that have opted to file quarterly can switch to monthly filing by notifying the relevant tax authorities at least 30 calendar days before the end of the quarter. The last quarterly VAT return to be filed relates to the calendar quarter in which the notification was sent. The first monthly VAT return to be filed relates to the first month following the calendar quarter in which the notification was sent, i.e. if a taxable person informs the tax authorities on 10 February 2015 that it intends to switch to monthly filing, it should file its last quarterly VAT return for the first quarter of 2015 and its first monthly VAT return for April 2015. The choice for monthly filing is irrevocable until at least the end of the following calendar year, i.e., in the above example, the taxable person will have to file monthly VAT returns until the VAT period of December 2016.

124 Start-ups (or each new VAT-identification number, if relevant) will have the option of filing quarterly if the criteria are fulfilled based on estimates. We assume the tax authorities will approve and effectively control this prior to granting VAT registrations, as this is needed to avoid fraud.

125 The filing period is based on calendar months/quarters.

Additional considerations

126 The monthly filing would shorten the filing period, for some taxable persons. Indeed some Member States actually only provide for quarterly and yearly filing. There are some worries regarding the possible cost increase for both businesses and tax authorities related to a more frequent filing period.

3.3.3 Submission date

127 The common EU standard VAT return should have to be filed no later than the last day of the month following the reporting period. There should be no extension for e.g. Sundays or public holidays.

128 Although the last day of the month following the reporting period seems to be reasonable to businesses, some argued that there is no rationale for having a standardised submission date. Currently, some Member States do have different submission dates according to the VAT position of the taxable person (refundable/payable) or according to the sector of activity, etc. Furthermore, even though it may create a cash-flow advantage in some Member States, the organisational problems in planning the workload seem to be a concern for businesses. This is, however, an organisational matter that should not impact the functioning of the model, as businesses can still file their VAT return at an earlier date and can spread the workload for preparing different Member States' common EU standard VAT returns themselves.

3.3.4 Payment date for the VAT due

129 The payment date for the VAT due will be aligned with the filing date. However, if the taxable person were to opt to file quarterly, a prepayment of 1/3 of the VAT due over the previous quarter would have to be made by the last day of the first and second months of the calendar quarter.

130 The prepayment could, however, impact the decision of SMEs to go for quarterly filing as they would have less incentive to file quarterly from a cash-flow point of view.

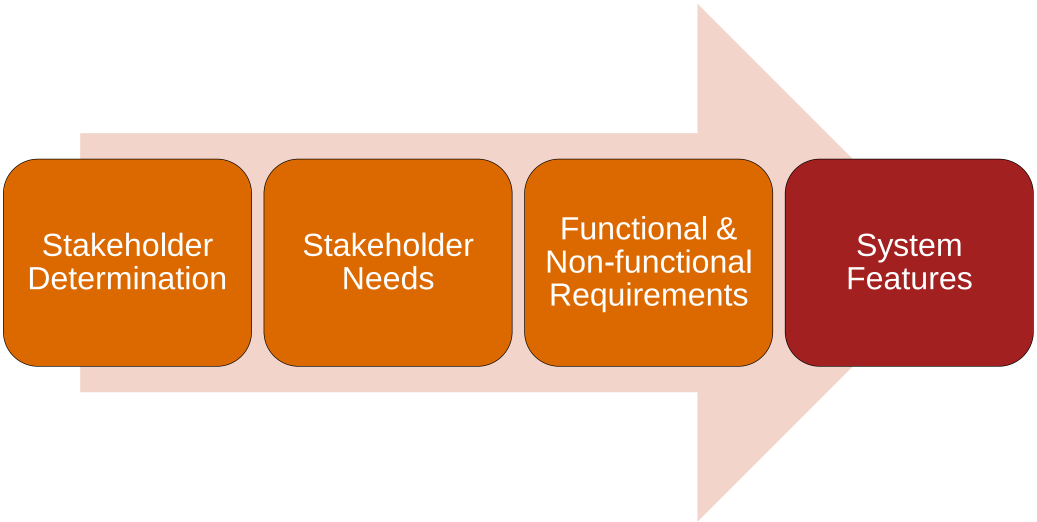
3.4 Common approach to filing mechanism

3.4.1 Problem statement and approach

131 "What is the optimal IT solution for submitting common EU standard VAT return forms?"

The problem statement above is the starting point of our requirements analysis. To be able to answer that question, all stakeholders must be identified to know their needs for filing VAT return forms. The different stakeholder requests will be collected and after selection and prioritisation, they will be consolidated into clearly defined stakeholder needs. Finally, after analysis, selection and prioritisation of the requirements, they can be further translated into system features.

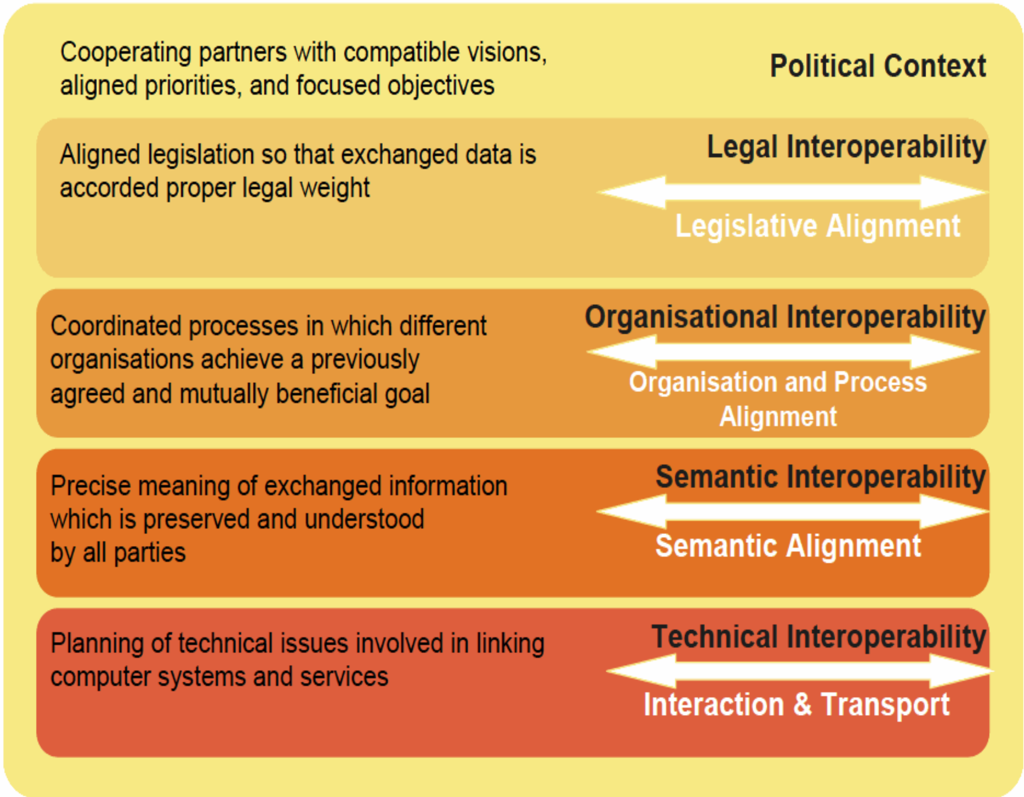
Figure 3 – Requirements analysis



132 Furthermore, the envisaged solution should also fit into a wider interoperability context, where the European Interoperability Framework[19] can be used as a common baseline (see below). This framework consists of five interoperability layers (political, legal, organisational, semantic and technical) and provides guidance for each layer, in order to be able to cover all the aspects of an interoperable solution.

[19] The European Interoperability Framework, ec.europa.eu/isa/documents/isa_annex_ii_eif_en.pdf

Figure 4 – European Interoperability Framework used as a common baseline



3.4.2 Determining the stakeholders

Table 10 - Stakeholder determination

Stakeholder	Description
European **Commission**	The executive body of the European Union. The body is responsible for proposing legislation, implementing decisions, upholding the Union's Treaties and the general day-to-day running of the Union.
Member States	All 27 countries that are members of the European Union.
Companies **(SME/LC)**	All taxable persons (doing business within one Member State or across borders) that file VAT return forms in one or more Member State be it as established company or as non-established company. This includes Small and Medium sized Enterprises as well as Large Companies, and other taxable persons.
Submitters	The person within a company responsible for submitting the VAT return forms. This can also be an external agent, appointed as a responsible for submitting the VAT return forms.
VAT **administrations**	The organisations of each Member State responsible for the collection and processing of the VAT return forms.
Third Parties	Third Parties for programming or maintaining customised software components (such as ERP systems).
Service Provider	Economic operator providing commercial solutions for electronic communication.

3.4.3 Needs, requirements and system features

133 All stakeholder requests, collected during the workshops organised with the European Commission and businesses, have been consolidated into clearly defined needs.

134 These needs are then translated into system features and grouped into the subcategories mentioned below. Please note that, for needs with conflicting stakeholder requests, the reasoning behind the choice is always added.

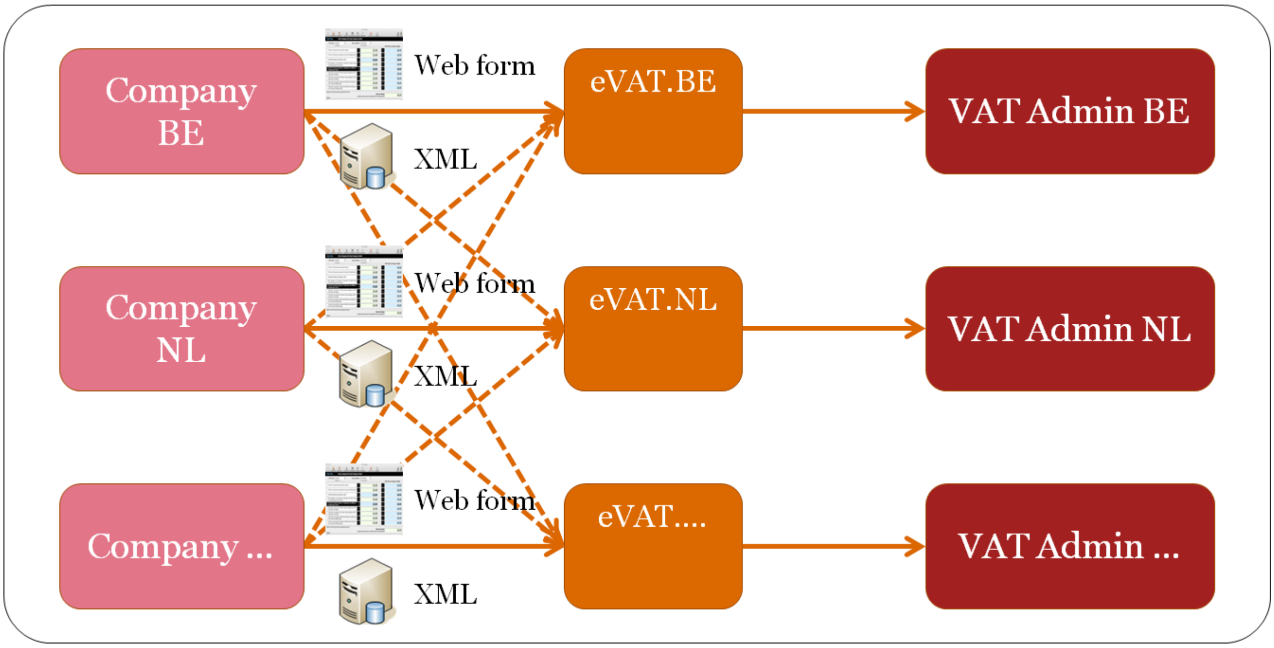
135 The key words “MUST”, “MUST NOT”, “REQUIRED”, “SHALL”, “SHALL NOT”, “SHOULD”, “SHOULD NOT”, “RECOMMENDED”, “MAY”, and “OPTIONAL” in this part of the document are to be interpreted as described in S. Bradner, Key words for use in RFCs to Indicate Requirement Levels.[20]

[20] S. Bradner, *Key words for use in RFCs to Indicate Requirement Levels*, http://www.ietf.org/rfc/rfc2119.txt, IETF RFC 2119, March 1997.

3.4.3.1 Platform

136 The "platform" or "eVAT platform" is defined as an IT technical solution allowing economic operators sending their VAT return forms electronically to a VAT administration.

Figure 5 – Preferred options – first step



137 The picture above depicts the preferred options, as described in System Feature 1 below, referred to as "the first step".

<table>
<tr><td colspan="3">System Feature 1

Companies must use the eVAT platform in the Member State of identification where the company has to file the common EU standard VAT return. The eVAT platforms in the 27 Member States should have a common way for the registration, authentication, authorization and submission of VAT return forms. This has to be seen as a first step of a potential further and closer harmonisation.

In a second phase, the registration, authentication and/or authorisation processes may be integrated as well in a single-sign-on modus and/or mutual recognition (to avoid administrative burden for both taxable persons and tax authorities).

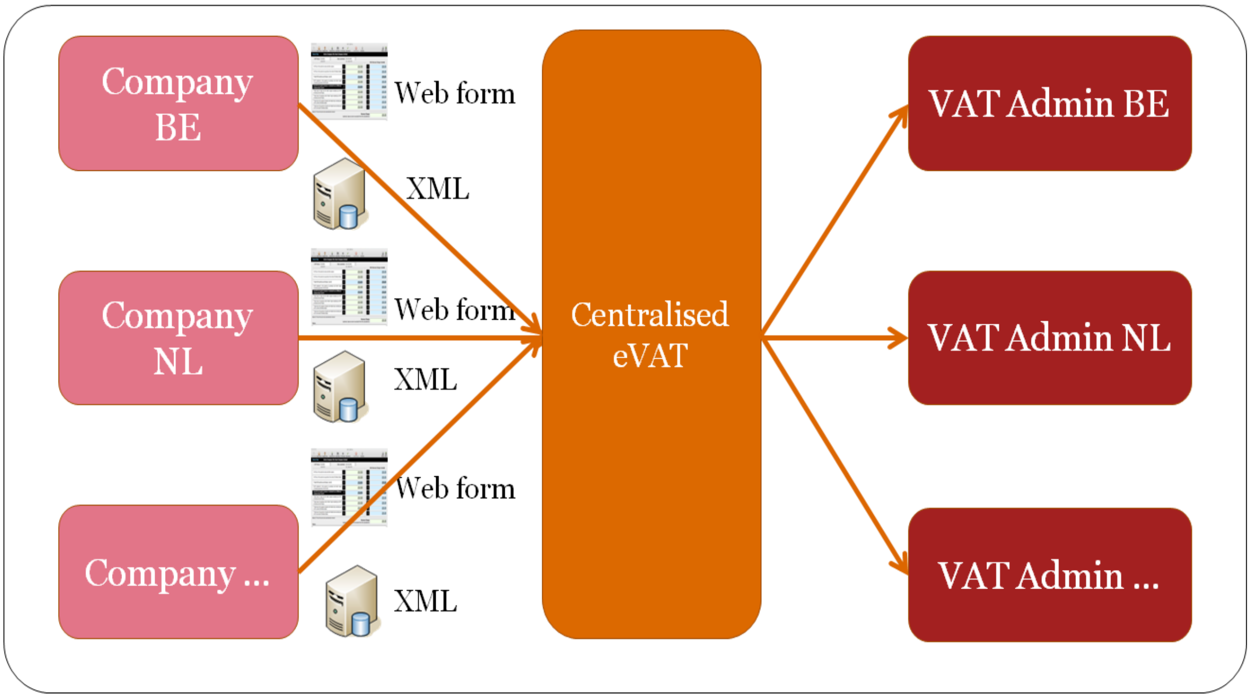
In a third phase, VAT return forms may be submitted via any of the existing national platforms to any of the VAT administrations in Europe, but this would require a substantial internationalisation and localisation effort.

Alternatively, VAT return forms may be submitted via a centralised platform which is offered and managed by a service provider using the standardised XML submission method.</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">Companies want to be able to submit their VAT return forms on a standardised and central platform, preferably with multi-access points.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional (not all options were kept in the consolidated need – more explanation can be found in the “comments” below.)</td><td>VAT return forms could be submitted via any of the following possible options:

- one centralised platform (e.g. eVAT.EU);
- a national platform, to send VAT return forms to the corresponding VAT administration;
- a national platform of choice, to send VAT return forms to any VAT administration in Europe;
- via a service provider.</td></tr>
<tr><td>Non-functional</td><td>1. It should be possible to submit VAT return forms at all times so that companies are able to submit before the required deadlines. Procedural measures could be taken when this is not the case (e.g. extending the submission deadline).
2. The platform should provide 24/7 technical support and helpdesk.
3. The availability of the platform must be very high.</td></tr>
</table>

Comments	Businesses made it clear that they want a single point of access to submit their VAT return forms. • This can be implemented by a single centralised platform, e.g. eVAT .EU', managed by the EU, but such one-stop-shop solutions are currently out of scope. • An alternative is that companies use a national platform of their choice (e.g. where their shared services centre is located), as single point of access to file their VAT returns to any of the VAT administrations in the EU. The national administration hosting this platform should only have access to VAT return forms sent to them. Companies can use one or more national platforms (e.g. in case one is down). However, it is not guaranteed that national administrations will agree with this approach, and hence not seen as feasible in a first phase. At least they should agree to harmonise the submission method. • Another option is that service providers implement commercial platforms, offering a web interface (using the standard VAT form) and submitting the data to the individual platforms using XML communication.

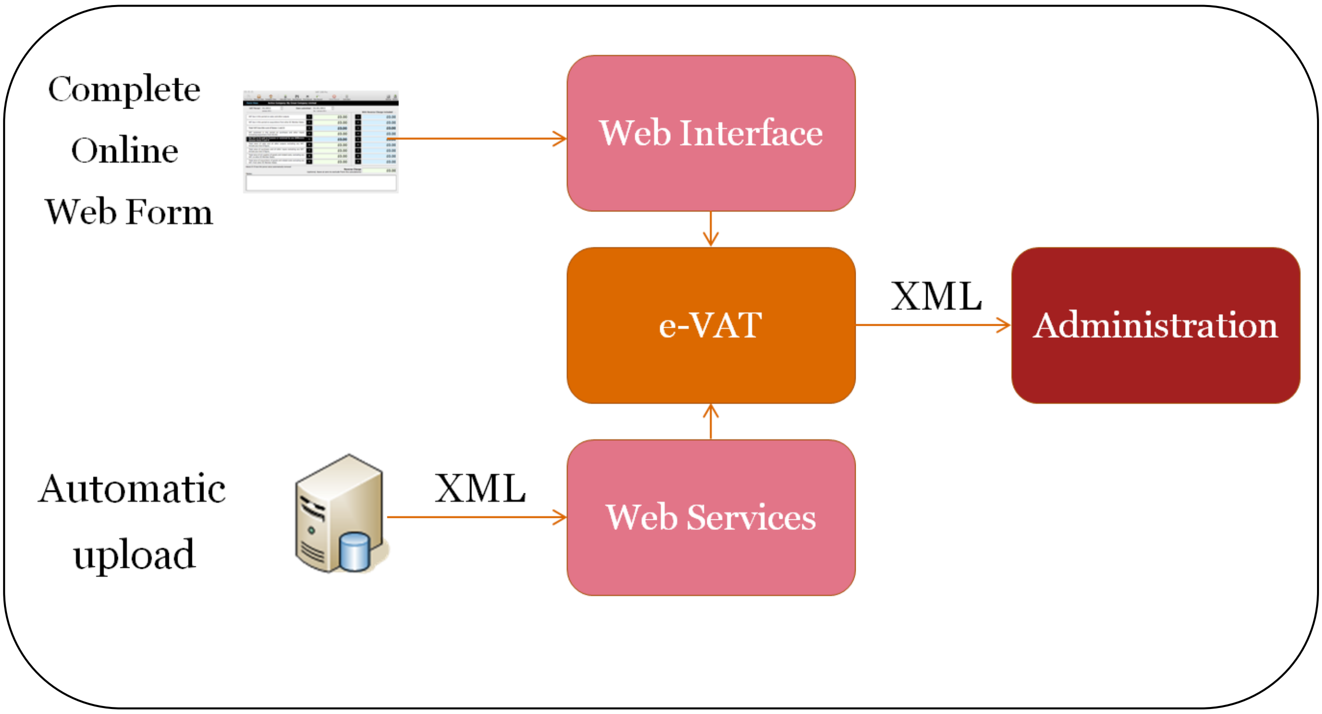
Figure 6 – The alternative "central solution"



3.4.3.2 VAT return form

138 The ways to submit the VAT return form, as described in System Feature 2, are shown in the picture below.

Figure 7 – The way to submit the VAT return form (see System Feature 2)



<table>
<tr><td colspan="3">System Feature 2

Companies must be able to submit VAT return forms manually using:
a web form
or fully automatically by sending an electronic message (e.g. an XML-file produced by their ERP system and directly sent through the platform)
As a hybrid solution, this electronic message can also be used to pre-fill the web form</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">Small companies would rather be able to submit their VAT return forms using a quick and simple form, while large companies are more likely to make use of the data available in their ERP systems.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional (not all options have been retained)</td><td>Companies should be able to submit VAT return forms:

- using a web form;
- using a web form to be pre-filled using their structured data (e.g. XML file produced by their ERP system);
- by sending an electronic message automatically (e.g. XML file produced by their ERP system directly sent through the platform);
- by sending an electronic message through a manual upload (e.g. XML file produced by their ERP system that is manually uploaded onto the platform);
- using a downloadable pdf form that is uploaded after filling in and after approval using their internal workflow systems;
- using a simple Excel file to be filled in and uploaded.</td></tr>
<tr><td>Non-functional</td><td>1. The VAT return form should be controllable, meaning that errors should be detected before fully submitting. In case of an error, the submission should be stopped and the submitter should be informed of this.
2. The solution should be user friendly.</td></tr>
</table>

<table>
<tr><td colspan="3">System Feature 3

Data validation on the completeness and appropriateness of VAT return forms (web forms as well as electronic messages produced by ERP systems) must be performed by the system, e.g. XSD validation (set of rules to which an XML document must conform in order to be considered 'valid' according to that schema) and schematron (business rule-based validation about the presence or absence of patterns in XML trees). Please note that the checks are to be defined. Errors against this validation process should block the VAT return form from being submitted.

Furthermore, data/fields must be intelligent as much as possible, meaning that some items must be calculated/verified automatically. This may also be done by using code tables.</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">The user would like to know that the submitted VAT return form is filled in appropriately (not the data itself, but rather the structure) and completely.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional</td><td>Data of the VAT return forms should be validated by the system.</td></tr>
<tr><td>Non-functional</td><td>The VAT return form should be controllable, meaning that errors should be detected before fully submitting.</td></tr>
</table>

<table>
<tr><td colspan="3">System feature 4

In case of errors when using ERP-generated data, companies must be able to adjust the data in the systems from where the data is generated, before re-submitting to and acceptance by the VAT administration.</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">In case of errors, companies want to be able to modify the data before submitting.</td></tr>
<tr><td>Stakeholder Requests</td><td>Functional</td><td>Companies should:

- be able to adjust errors in a pre-filled web form of VAT return forms;

- be able to adjust errors in the data of their systems where the data comes from (which generates the XML file for example).</td></tr>
<tr><td>Reasoning</td><td colspan="2">Errors should be solved at the root.</td></tr>
</table>

System feature 5 ***Companies must be able to make corrections of VAT return forms within the*** *current filing period: corrections must be made in the current VAT return form by recalling the VAT return form of this period and overwriting the data of the form already submitted.*		
Stakeholder Need	Companies must be able to make corrections of their VAT return forms.	
Stakeholder **Requests**	Functional	Companies should be able to re-file a submitted VAT return form within the filing period: corrections should be made in the submitted VAT return form of the current period.

System feature 6 ***All VAT return forms (independent of the filing method used, using the web form*** *or uploading XML to the web services) must be sent from the eVAT platform to the administration's back-office using structured data. They may be sent in the same XML format as the companies use to upload the VAT return form to the eVAT platform, but this could also be done using another format and other transport protocols.*		
Stakeholder Need	The VAT return forms should be submitted in a standard structured format.	
Stakeholder **Requests**	Functional	Administrations should be able to receive all VAT return forms in a structured and standardised format (e.g. XML file).

3.4.3.3 Authentication and signing

<table>
<tr><td colspan="3">System feature 7

Submitters must be able to register themselves as submitters on the eVAT platform in each of the Member States of identification where the company has to file the common EU standard VAT return (cf. System Feature 1, first step). Furthermore, after registration and receiving logon credentials, submitters can appoint proxies (including Third Parties that are managing the automatic upload of structured data) with appropriate rights (create, submit, read-only, etc.).

The username and password is used by a company to
- "Manually" logon to the eVAT platform and fill-in the web form
- "Automatically" logon to the eVAT platform's machine-to-machine interface when uploading the XML files</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">Companies want to be able to have control over the submitters to ensure the appropriate people submit the VAT return form.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional</td><td>Submitters should be able to:
- register themselves as submitters on the eVAT platform;
- appoint and register a backup (proxy) on the eVAT platform to submit in their place in case of absence.</td></tr>
<tr><td>Non-functional</td><td>The confidentiality, integrity and authenticity of the VAT return forms should be guaranteed.</td></tr>
</table>

<table>
<tr><td colspan="3">System feature 8

Submitters must authenticate themselves before submitting a VAT return form by means of a user ID (e.g. VAT number) and password (that were communicated after registration) complying with strong password requirements. The password has to be changed after first use. This authentication applies to both the submission via a web form and the machine-to-machine interface.</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">Companies want to be sure that only the appointed submitters can submit the VAT return forms.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional (with conflicts)</td><td>Submitters (and proxies) should be able to authenticate themselves on the eVAT platform by means of:

- user ID (e.g. VAT number) and password;
- tokens (such as smartcards).</td></tr>
<tr><td>Non-functional</td><td>The solution should be easily accessible for the submitter.</td></tr>
<tr><td>Reasoning</td><td colspan="2">The administrative burden around tokens is considered as too big, so the use of a user ID and password have been suggested.</td></tr>
</table>

System feature 9 ***After registration of the submitters and receiving user ID and password, the submitters*** *must in each Member State of filing be able to file VAT return forms for different companies with the same user ID and password without having to log off and log on again. Therefore, a list of VAT numbers under their responsibility is issued to the submitters during the registration process.*		
Stakeholder **Need**	Submitters want to be able to file for multiple companies as efficiently as possible.	
Stakeholder **Requests**	Functional	The submitters should be able to submit VAT return forms for different companies with the same user ID and password without having to log off and log on again.

System feature 10 ***Once the submitters are authenticated (by means of user ID and pass****word), the VAT return form must be submitted without an electronic signature.*		
Stakeholder **Need**	Companies must be able to submit their VAT return forms to the VAT administrations securely but easily.	
Stakeholder **Requests**	Functional *(with conflicts)*	Once they are authenticated, submitters (and proxies) should be able to submit the VAT return forms: - securely by electronically signing them based on certificates from certification authorities included in the trusted list (within the 27 Member States); - without signing them electronically.
	Non-functional	Submitting VAT return forms should be done in a secure way in order to prevent misuse and abuse, allowing, however, for the necessary flexibility.
Reasoning	Assuming that the registration process is secure enough (giving a secure user ID and password to the right persons) and given the requirement that companies want an easy system without too many steps in the process (no extra administrative burden), no electronic signature should be required. Although advanced (or qualified) electronic signatures provide robust assurance of authenticity, integrity and non-repudiation of submitted information, and a higher security level when authentication is done using certificates, the drawbacks in terms of cost, non-user friendliness and non-interoperability are much higher. This is especially a concern for SMEs. If it would be decided to consider using electronic signatures after all, the tax administrations may require companies to use those defined by Directive 1999/93/EC, supported by a qualified electronic certificate referred to in the Trusted List as provided for in the Commission Decision 2009/767/EC, created with or without a secure signature creation device and compliant with the following requirements: (i) they must establish the required advanced signature format on the basis of formats established in Commission Decision 2011/130/EU and put in place necessary measures to be able to process those formats technically; (ii) where a VAT return is signed using a qualified certificate that is included in the Trusted list, they must not impose additional requirements that might hinder use of those signatures by companies.	

3.4.3.4 Proof of receipt and archiving

<table>
<tr><td colspan="3">System feature 11

After successful submission of a VAT return form, the VAT administration must send back a signed pdf form (with an electronic signature based on the certificate of the VAT administration) to the companies as proof of receipt, including the received data (which can be used as double check for companies). The language of the receipts should be based on a parameter in the VAT return form (which can have a default value linked to the submitter). The layout of the pdf should be in line with the common EU standard VAT return.</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">Companies want to be sure that their VAT return forms were received appropriately and completely.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional (with options)</td><td>Once the VAT return form is successfully submitted, a proof of receipt should be given by:
- a signed pdf form which includes the data sent (by the VAT administration with a signature based on a certificate of the VAT administration)
- a unique submission ID (issued by the respective Member State) returned by the VAT administration.</td></tr>
<tr><td>Non-functional</td><td>The solution should be transparent and user friendly for all companies of all Member States, which also means that all official languages of the EU Member States should be supported.</td></tr>
<tr><td>Reasoning</td><td colspan="2">Sending back only a submission ID does not give companies the necessary certainty that their VAT return form was well received. Furthermore, a signed pdf that is sent back with the received data included could also be used as an archiving document (see below).</td></tr>
</table>

<table>
<tr><td colspan="3">System feature 12

The proof of receipt with the data of VAT return forms included is archived on the platform where it was submitted for X months p.a.s. They are retrievable/searchable. Furthermore, they can be downloaded and can therefore be archived by the companies for as long as they want/is needed.</td></tr>
<tr><td>Stakeholder Need</td><td colspan="2">Companies should be able to retrieve the submitted VAT return forms and archive them.</td></tr>
<tr><td rowspan="2">Stakeholder Requests</td><td>Functional</td><td>The proof of receipt with the data of VAT return forms included should be archived for several years and therefore they should be retrievable/searchable. Furthermore, they can also be downloaded by the companies.</td></tr>
<tr><td>Non-functional</td><td>The solution should include recoverable backups of proofs of submitted VAT return forms.</td></tr>
</table>

3.4.3.5 The use of electronic signatures

139 During the workshops with businesses, at which the business requirements were identified, there seemed to be some unwillingness to adopt the use of electronic signatures. This is reflected in the system features mentioned above. While electronic signatures may be seen as a burden, e.g. for SMEs, their use still offers great advantages as well, especially in a world of increasing cybercrime. Therefore, in the next section we look into how the latest developments in this context could contribute to providing authentication for the eVAT platform and the electronic signing of VAT return forms.

Context

140 In 1999, the European Commission published the eSignature Directive (1999/93/EC), establishing a legal framework for electronic signatures and Certificate Service Providers. One outcome from the EESSI (European Electronic Signature Standardisation Initiative) was to the publication of various CWA (Common Workshop Agreement) documents by ETSI, to facilitate standardisation. As a follow-up by the Commission, in 2007, the "Study on the standardisation aspects of e-signatures" concluded that the current multiplicity of standardisation deliverables together with the lack of usage guidelines, the difficulty of access and lack of business orientation was detrimental to the interoperability of eSignatures. In 2008, the Commission adopted an Action Plan on eSignature and eIdentification (COM(2008)798], to update/extend Commission Decision 2003/511/EC to compile a "Trusted List" of qualified certification service providers and provide guidance to help implement eSignature interoperability and to create a rationalised framework.

141 To facilitate access, a central list (TLIST) has been created by DIGIT under the IDABC programme in collaboration with DG Internal Market and DG Information Society. The list is formatted as per ETSI TS 102 231, and published in both human readable format (pdf) and XML format.

142 As per 2010, the standardisation landscape was quite complex and therefore Mandate M460 was granted to combine CEN and ETSI. Under M460, the following tasks are carried out:

- Inventory of existing eSignature standards;
- Establishing a rationalised structure for the European eSignature standardisation documents;
- Gap analysis;
- Quick fixes (updating Decision 2003/511/EC, and a set of key CWAs).

143 Meanwhile, the need for a better approach with regard to electronic identity and authentication had also become apparent. In the public sector, the STORK project was launched to evaluate solutions for providing interoperable electronic identities, and large-scale projects such as PEPPOL (electronic procurement) also became interested in eSignatures. In the private sector, many large-scale enterprises are struggling with electronic identity more than with electronic signatures. Internally, the Commission also demonstrated that their in-house identity and authentication server, ECAS, could be extended to accept eIDs from multiple countries using the STORK protocols.

144 The Commission then embarked on rewriting the eSignature directive, including the ambition to address identification and authentication aspects. The new vision was embodied through a number of activities:

- The Digital Agenda for Europe includes Key Action 3 to propose a revision of the eSignature Directive in 2011 with a view to providing a legal framework for cross-border recognition and interoperability of secure eAuthentication systems.
- Preparation of the new regulation was organised across multiple DGs of the Commission, including Information Society, Internal Market and Competition.
- On 4 June 2012, the draft regulation (COM 2012 238) was adopted internally by the Commission and put forward as a legislative proposal, and started its acceptance process at the level of the Council and the EP.

145 It is important to realise that what was proposed was a regulation, not a directive. Key elements include the following:

- The primary scope is the mutual recognition of electronic identification and of electronic trust services, with interoperability/usability for electronic signatures and seals, including a cross-border dimension of time-stamping, certified electronic document delivery, electronic document admissibility, and website authentication.
- The Regulation proposes the “notified” electronic identity, where Member States have the option to notify the Commission about the national eID scheme(s) used at home for at least access to public services. Member States must recognise and accept notified eIDs of other Member States for cross-border access to public services of theirs requiring electronic identification. This should foster mutual recognition and interoperability.
- Also, notification goes hand-in-hand with liability for unambiguous identification of persons, and Member States must provide online free eID authentication facilities.
- Furthermore, the Member States must allow the private sector to use the notified eID.

146 Certain aspects are deliberately out of scope, such as “soft IDs”, such as Facebook or LinkedIn. Also, there is no supervision at EU level, but Member States are free to help one another. Furthermore:

- no prior authorisation to start a qualified service;
- no detailed provisions on trust services other than electronic signatures and electronic seals;
- no rules on persons’ roles and or attributes;
- no coverage of certification of products besides electronic signatures and electronic seal-creation devices;
- no rules on encryption.

Recommendations

147 While the business world in general has a preference for 'simple but adequate' solutions, the Commission has been working since the 1990s on improving the reliability of electronic business channels, including by introducing the principle that electronic signatures should be of legal effect when they comply with certain aspects of EU regulation. Such improved reliability should contribute to increasing dematerialisation, which in turn should lead to a more competitive position for our enterprises. It would equally allow public entities to increase dematerialisation in their business processes, which should lead to higher efficiency and less cost.

148 In the light of the preceding section, where we discussed the context, we distinguish between authentication and signatures.

149 Authentication, e.g. logging in on the eVAT platform, should consider the new possibilities offered by COM 2012 238, particularly with regard to 'notified' electronic identities as introduced in the preceding section. Where this proves to be impossible, preference should be given to commonly recognised two-factor[21] authentication solutions.

150 It should also consider the outcome of STORK[22] and the current successor, STORK2, particularly the architecture of PEPS (Pan-European Proxy Servers), which facilitates cross-border authentication and validation. 'PEPS' is a general description for a package of services which need to be provided. The PEPS concept can be implemented in many ways, including as a series of decentralised, local (i.e. purely national) infrastructures, without any centralised European component. In that case, each PEPS is responsible for discovering the applicable identity providers within its own borders, and for communicating the result of the authentication process to the service provider which originally redirected the user to the PEPS.

151 In the context of electronic signatures, we could re-consider the use of qualified signatures for the VAT return form once the aforementioned measures prove to be effective in practice and user-friendly for SMEs. For proof-of-receipt, we recommend looking beyond electronic signatures and including the deployment of electronic seals (essentially electronic signatures generated by legal entities as opposed to natural persons) as also introduced in COM 2012 238. Furthermore, Trust Services such as time-stamping (ensuring that a trustworthy notation of time is integrated in an electronic signature) and electronic delivery service (where the full delivery chain including legal evidence is provided e.g. by means of recorded delivery mail) could be factored in as well.

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[21] Authentication is commonly defined as based on 'something you know' (e.g. your password, which comprises one single factor), 'something you have' (a security token, smart card, dongle, which when combined with a password, creates a two-factor solution), or 'something you are' (typically biometrics such as fingerprints or an iris scan).

[22] https://www.eid-stork.eu/ – 'Secure idenTity acrOss boRders linked' as well as http://www.eid-stork2.eu/.

4 Guidelines

4.1 General remarks

152 The guidelines have been developed with the following in mind:

- Output transactions that have to be reported are the transactions that are or should have been performed under a taxable person's VAT-identification number in the Member State of reporting.
- Input transactions that have to be reported are the transactions that have taken place (for VAT purposes) in the Member State of reporting.
- Negative amounts are allowed.
- It is not allowed to round up or down. Numbers have to be reported to two decimal places.
- The taxable amount has to be reported in the columns related to output (2) and input (4) transactions.
- The VAT deductible (column 5) reflects the partial deduction rate of the taxable person, if applicable. The non-deductible VAT should be neither reported nor added to the taxable amount. Even if the taxable person has no right of deduction, the taxable amount still has to be reported in column 4.
- Boxes in the VAT return that are grey shaded are intelligent boxes not required to be filled in.

4.2 Output transactions

Box name	Taxable amount (box number)	VAT amount (box number)	Description
Standard rate	211	311	Supplies of goods and/or services on which VAT is charged at the standard rate.
			Self-supplies of goods and/or services on which VAT is charged at the standard rate.
Reduced rate(s)	212	312	Supplies of goods and/or services on which VAT is charged at any reduced rate(s) of 5% or more.
			Self-supplies of goods and/or services on which VAT is charged at (a) reduced rate(s) of 5% or more.
Other rates	213	313	Supplies of goods and/or services on which VAT is charged at super-reduced rate(s) or 0% (derogations, e.g. for children's clothes in the UK).
			Self-supplies of goods and/or services on which VAT is charged at super-reduced rate(s) or 0% (derogations).

Box name	Taxable amount (box number)	VAT amount (box number)	Description
			Supplies of goods and/or services related to a standard rate/reduced rate that used to be applicable.
Intra-Community supplies of goods	22		Supplies of goods exempt from VAT because the goods are transported from a Member State to a person liable to VAT on its intra-Community acquisitions of goods in another Member State: these supplies have to be reported in the intra-Community sales List as supplies of goods. Deemed supplies of goods exempt from VAT because the goods are transported by a taxable person from a Member State to itself in another Member State where that person is liable to VAT on the deemed intra-Community acquisitions of goods (transfers): these supplies have to be reported in the intra-Community sales List as supplies of goods. Supplies of goods by party B in a triangular transaction (ABC): these supplies take place in the Member State of final destination of the goods where the acquirer, C, is liable for VAT on these supplies. These supplies have to be reported in the Intra-Community sales List with a specific code for triangular transactions.
Intra-Community supplies of services	23		General B2B supplies of services taking place in another Member State for which the recipient taxable person (or the recipient who is considered a taxable person because it is registered for VAT) is liable to VAT in a Member State other than the Member State of the supplier and that are not exempt from VAT (articles 44 and 196 of the EU Directive): these supplies have to be reported in the intra-Community sales List of the supplier as supplies of services.
Exports of goods	24		Supplies of goods exempt from VAT because the goods are transported outside the EU by the supplier, by the customer not established in the Member State of departure of the transport, or on their behalf.

Box name	Taxable amount (box number)	VAT amount (box number)	Description
Other supplies with right of deduction (= supplies made in the Member State of submission of the VAT return or supplies made outside this Member State from the VAT-identification number of the Member State of submission but that would have opened up a right to deduct if made in the Member State of submission of the VAT return)	25		Exempt supplies to embassies, consulates, international organisations, etc.
			Exempt supplies in customs warehouses, VAT warehouses, etc.
			Exempt supplies related to international transport (e.g. supplies of aircraft, etc.)
			Supplies of goods and/or services made in the Member State of submission of the return for which the recipient in the same Member State is liable to pay the VAT: this concerns local reverse charges based on derogations or options e.g. article 194 of Directive 2006/112/EC
			Supplies of goods taking place outside the Member State of submission of the VAT return, but made from the VAT-identification number of the Member State of submission (e.g. supply with installation in Member State 2 with application of local reverse charge for which the supplier need not be registered for VAT purposes in Member State 2).
			Supplies of services taking place outside the EU (including on the basis of the use and enjoyment rule).
			Supplies of services other than those reported in box 23, taking place in another Member State, but made from the VAT-identification number of the Member State of submission, e.g. repair of a building located in another Member State than the Member State of submission.

Box name	Taxable amount (box number)	VAT amount (box number)	Description
Other supplies without right of deduction (= supplies made in the Member State of submission of the VAT return or supplies taking place outside this Member State from the VAT-identification number of the Member State of submission but that would not have opened up a right to deduct if made in the Member State of submission of the VAT return)	26		Supplies of goods and/or services exempt from VAT without right of deduction taking place in the Member State where the VAT return is to be submitted.
			Supplies of services taking place abroad (including in another Member State) and exempt in the Member State from where the service is rendered (main establishment, branch): normally, the service is also exempt in the Member State where the service takes place and, consequently, need not be reported in the intra-Community sales list.
			Supplies of goods that would in any case be exempt from VAT without a right of deduction (e.g. blood, human organs, etc) if made in or from the Member State where the VAT return is to be submitted even if they could benefit from another exemption because they are transported to another Member State (see box 22) or outside the EU (see box 24).
SUBTOTAL	27	32	Intelligent box filled in automatically

Box name	Taxable amount (box number)	VAT amount (box number)	Description
Reverse charge		33	Deferred VAT payment upon importation: VAT is to be reported as due [and also as (partially or totally) deductible (if applicable) in box 51] in the VAT return of the Member State where the importation takes place.
			VAT due on (deemed) intra-Community acquisitions of goods: VAT is to be reported as due [and also as (partially or totally) deductible (if applicable) in box 52] in the VAT return of the Member State where the intra-Community acquisition takes place.
			VAT due on intra-Community purchases of general B2B services: VAT is to be reported as due [and also as (partially or totally) deductible (if applicable) in box 53] in the VAT return of the Member State where the service takes place.
			VAT due on domestic purchases of goods and/or services: VAT is to be reported as due [and also as (partially or totally) deductible (if applicable) in box 54] in the VAT return of the Member State where the supply takes place.
			VAT due on other cross-border purchases: VAT is to be reported as due [and also as (partially or totally) deductible (if applicable) in box 55] in the VAT return of the Member State where the supply takes place.
TOTAL	28	34	Intelligent box filled in automatically

4.3 Input transactions

Box name	Taxable amount (box number)	VAT amount (box number)	Description
Local purchases	41	56	This concerns all purchases that have taken place (for VAT purposes) in the Member State of reporting, not reported in the other input transactions boxes.
IC acquisitions of goods	42	52	This concerns purchases of goods that are transported from a Member State to a person liable to VAT on his intra-Community acquisitions of goods in another Member State: VAT is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the intra-Community acquisition takes place. The purchases of these goods are to be reported in the EC Acquisitions List in some Member States of destination.
			This concerns movements of goods that are transported by a taxable person from a Member State to itself in another Member State where this person is liable to VAT on the deemed intra-Community acquisition of goods (transfers): VAT is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the deemed intra-Community acquisition takes place. The movements of these goods are to be reported in the IC Acquisitions List in some Member States of destination.
			Purchase of goods by party B in Member State 2 in a triangular transaction (ABC): the acquisition takes place in the Member State of final destination (Member State 3) of the goods where the acquirer, C, is liable for VAT on the supply made to him by B. The supply by A to B is to be reported in the intra-Community sales List of the supplier as a supply of goods. The intra-Community acquisition made by B is not subject to VAT.
		52	Purchase of goods by party C in Member State 3 in a triangular transaction (ABC): the supply takes place in the Member State of final destination (Member State 3) of the goods where the acquirer, C, is liable for VAT on the supply made to him by B.

Box name	Taxable amount (box number)	VAT amount (box number)	Description
IC purchases of services	43	53	General B2B purchases of services taking place in the Member State of submission of the VAT return for which the recipient taxable person (or party considered as a taxable person because it is registered for VAT) is liable to VAT and that are not exempt from VAT (articles 44 and 196 of the EU Directive): VAT is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the service takes place. The purchases of these services are to be reported in the IC Acquisitions List in some Member States of destination.

Box name	Taxable amount (box number)	VAT amount (box number)	Description
Imports of goods	44	55	Importation of goods with deferred payment of VAT: VAT is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the importation takes place.
			Importation of goods without deferred payment of VAT: VAT paid at the customs office to be reported as (partially or totally) deductible (if applicable) in the VAT return of the Member State where the importation takes place.
			Importation of goods exempt from VAT.
Domestic reverse charge	45	55	Purchases of goods and/or services made in the Member State of submission of the return for which the recipient in that Member State is liable to pay the VAT: this concerns the local reverse charge based on derogations. VAT is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the supply takes place.
Other cross-border reverse charges	46	56	Purchases of services from non-EU suppliers taking place in the Member State of submission of the VAT return for which the recipient taxable person (or party considered as a taxable person because it is registered for VAT) is liable for VAT: it concerns any supply of services (even exempt from VAT in the Member State of submission of the VAT return) other than those reported in box 43. VAT (if any) is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the supply takes place.
			Purchases of services taking place in the Member State of submission of the VAT return for which the recipient taxable person (or party considered as a taxable person because it is registered for VAT) is liable for VAT in application of the use and enjoyment rule- VAT (if any) is to be reported as (partially or totally) deductible (if applicable) [and also as due in box 33] in the VAT return of the Member State where the supply takes place.
SUBTOTAL	47	57	Intelligent box filled in automatically
Adjustments (+/-)		58	Adjustments of the VAT deducted on e.g. fixed assets: this concerns adjustments in favour of the State (–) or in favour of the taxable person (+)
			Adjustments of the VAT deducted after review of the provisional *pro rata*: in (–) if this is in favour of the State or in (+) if this is in favour of the taxable person.
			VAT reclaimed on bad debts.
TOTAL		59	Intelligent box filled in automatically

4.4 Balance

Box name	Box number	Description
Net amount of the period = (34) – (59)	61	Intelligent box filled in automatically. The net amount of VAT for the period is to be reported in this box i.e. the amount of VAT due minus the amount of VAT deductible for the period
VAT credit brought forward from previous period	621	The amount of VAT credit that is brought forward from previous period should be reported in this box.
Advance payments made	622	In this box advance payments made by the taxable person prior to the end of the tax period (where applicable) must be reported. These payments are offset against the net amount of the period, e.g.:
		- December prepayment (e.g. Belgium);
		- monthly prepayments made by quarterly filers;
		- others.
Net VAT amount payable/refundable = (61) – (621) – (622).	63	Intelligent box filled in automatically.
Amount claimed as refund	64	In case the net VAT amount is refundable, the taxable person must indicate whether he claims full or part of this amount for refund subject to the conditions set out by the national refund rules in each of the Member States.

4.5 Corrections

Box name	Box number	Description
Period	71X	The VAT period to which the correction relates. X = per VAT period to be corrected.
Under-declared VAT	72X	The total amount of under-declared VAT that is being reported for the period corrected (and per period corrected).
Over-claimed VAT	73X	The total amount of over-claimed VAT that is being reported for the period corrected (and per period that is corrected).,
Total = (72X) + (73X)	74X	Intelligent box filled in automatically.
Total = sum (74)	75	Intelligent box filled in automatically.

4.6 Date and signature

Box name	Box number	Description
Name of submitter	81	Intelligent box filled in automatically.
Capacity of submitter	82	Intelligent box filled in automatically.
Date	83	Intelligent box filled in automatically.

5 Gap Analysis

5.1 VAT impact and IT impact assessment

5.1.1 Process for VAT data collection – project steps

153 Further to the agreed standards for a common EU standard VAT return, a questionnaire (see Appendix 8) has been drafted and, after a pilot test, sent to the PwC experts in eight Member States (United Kingdom, Belgium, Finland, Hungary, Poland, Germany, Italy and France).

154 The eight Member States have been selected on the basis of the following features:

- required time to comply with VAT-compliance obligations in the Member State[23]
- geographical spread
- size of the Member State (small vs. large)
- date of accession (recently acceding Member States vs. "older" acceding Member States)
- length and complexity of the national VAT return

155 After a first analysis of the input of the PwC experts for potential gaps between the standards (see chapter 3) and the national VAT returns, follow-up interviews have been performed. The figure below shows the questionnaire process steps.

[23]PwC publication on "paying taxes: the compliance burden" 2010 (http://www.pwc.com/gx/en/paying-taxes/compliance-burden.jhtml).

Figure 8 – Process for VAT data collection

Phase 1 – Questionnaire

- Step 1 – Selection of pilot country and sample Member States
- Step 2 – Preparation of questionnaire

Phase 2 – Piloting

- Step 3 – Pilot questionnaire submitted to Belgium

Phase 3 – Data capture

- Step 4 – Questionnaire submitted to seven sample Member States
- Step 5 – Analysis of VAT information collected

Phase 4 – Follow-up interviews

156 We present below the results of the analysis of the VAT data collection. The written input on the questionnaire, including additional comments received during follow-up calls with the PwC Network VAT specialists, and a detailed description of the functioning of the national VAT return for each Member State within the scope of our analysis are attached (see Appendix 9) to this report.

5.1.2 Results of analysing the VAT data collected

5.1.2.1 Results of analysing the gaps between the national VAT return and the common EU standard VAT return

157 Based on the input provided by the PwC Experts in the 8 Member States, below we provide an analysis of the most fundamental gaps between the national VAT return and the proposed common EU standard VAT return. Where possible, we have visually compared the position of the common EU standard VAT return as currently proposed with the current national VAT returns in the 8 Member States.

158 For more details on the information to be included in the VAT returns of the 8 pilot Member States, reference is made to the questionnaires in Appendix 9.

5.1.2.2 Common denominators for reporting of output transactions

Figure 9 - Output transactions

	2. Output transactions		3. VAT due	
Standard rate		211		311
Reduced rate		212		312
Other rates		213		313
IC supplies of goods		22		
IC supplies of services		23		
Exports of goods		24		
Other supplies with right of deduction		25		
Other supplies without right of deduction		26		
SUBTOTAL	Intelligent box	27	Intelligent box	32
VAT due via reverse charge (including deferred import VAT)				33
TOTAL			Intelligent box	34

159 Almost all transactions proposed to be included in the common EU standard VAT return are currently reported under the periodic national VAT returns in scope of our analysis.

160 In each of the 8 Member States the taxable person should report the sales transactions that are or should have been performed under his VAT identification number in the Member State of reporting.

161 Differences between the rules for established and non-established taxable persons are not substantial. In the 8 Member States, non-established taxable persons should not report information with respect to the worldwide turnover whilst established taxable persons should report the worldwide turnover.

162 Furthermore, except for Belgium and France, all Member States within the scope of the gap analysis generally permit reporting of negative amounts and credit notes in the same boxes as the initial invoices to which they relate. In Belgium and France separate boxes are used to include information on credit notes or other adjustments.

163 In some Member States certain proposed boxes are not required and/or certain information is not to be reported in the VAT return:

- Finland currently does not include a box for reporting the taxable amounts of supplies of goods and services on which VAT is charged at the standard or (super) reduced rates (boxes 211, 212, 213). Only the VAT amount is to be reported (different box for the standard rate and the (super) reduced rate).
- In Poland and Belgium, there is no special box for reporting supplies subject to an "old" VAT rate[24] but this should be reported in the relevant standard/reduced rate box.
- Belgium does not require the VAT amount to be reported for (supplies subject to) other rates than standard and reduced rates.
- In Poland and Finland supplies of goods by party B in a triangular transaction are not to be reported in the VAT return, although they should be indicated in the intra-Community sales List with a specific code for triangular transactions.
- Furthermore, other supplies without right of deduction are not to be included in the Finnish VAT return (box 26).
- Finland does not have a special box for export of goods.
- The United Kingdom, France and Finland do not have a VAT deferred payment mechanism upon importation (whereby the import VAT is "reversed charged" on the VAT return).
- For local reversed charge supplies based on derogations (domestic supplies), the United Kingdom, Finland and Italy do not require this information to be reported (except in the United Kingdom for specific items such as mobile phones and computers for which the VAT due is to be reported in the output tax box).

[24] An 'old VAT rate' is any VAT rate applicable before a change in the VAT rate.

- For supplies of goods taking place outside the MS of submission of the VAT return, but made from the VAT number of the MS of submission (e.g. supply with installation in MS2), Germany and Italy do not require this to be reported.
- For supplies without right to deduct, Belgium does not require this information to be reported unless in the case of mixed or partial taxable persons. Germany, Poland and Hungary do not require supplies of services taking place abroad and exempt in the Member State from where services are rendered and not to be reported in the intra-Community sales List to be reported in the VAT return (to avoid mismatches with the intra-Community sales List).

164 In other Member States, additional reporting requirements exist or other boxes are included in the VAT return.

- Poland and Hungary for example have additional reporting requirements with regards to transactions subject to the reverse charge:
    - In Poland the taxable amount of the transactions is to be reported in addition to the amount of tax due.
    - In Hungary, the VAT due under the reverse charge mechanism is reported by type of transaction and by rate applicable.
- Poland has also separate boxes for IC-acquisitions of new means of transport, supplies of goods to travellers for which VAT was refunded and for goods included in the so-called physical stock consisting of goods that should be prepared as of the day of dissolution of the partnership or cessation of performance of taxable transactions.
- Requirement for the reporting of some transactions performed outside the scope of VAT e.g. transfer of going concern in Belgium and France, and of goods and operations within a VAT group in Belgium.
- Hungary requires the reporting of the taxable amount, the VAT incurred and the deductible VAT on acquisition of own equity.
- In Finland a new separate box has been introduced to indicate on the output side the taxable amount for construction services and on the input side the reverse charge mechanism applicable to received construction services.

5.1.2.2.1 Common denominators for reporting of input transactions

Figure 10 – Input transactions

	4. Input transactions		5. VAT deductible	
Local purchases		41		51
IC acquisitions of goods		42		52
IC purchases of services		43		53
Imports of goods		44		54
Domestic reverse charge		45		55
Other cross-border reverse charges		46		56
SUBTOTAL	Intelligent box	47	Intelligent box	57
Adjustments (+/–)				58
TOTAL			Intelligent box	59

165 Similarly to the analysis made for the output transactions, it can be stated that almost all transactions proposed to be included in the common EU standard VAT return are currently reported under the periodic national VAT returns in the 8 Member States reviewed.

166 Generally, Member States require the taxable person to report the purchase transactions that are or should have been performed under its VAT identification number in the Member State of reporting.

167 In Belgium and Germany, established taxable persons are required to provide information on their total purchase transactions independent from the place of supply.

168 Differences in the information to be reported in the VAT return between established and non-established taxable persons are not substantial except where the Member State (e.g. France) has applied Article 194 of Directive 2006/112/EC.

169 As for the output transactions, also for the input transactions, except for Belgium and France, all Member States within the scope of the gap analysis generally permit reporting of negative amounts and credit notes in the same boxes as the initial invoices to which they relate. In Belgium and France separate boxes are used to include information on credit notes or other adjustments.

170 In some Member States certain proposed boxes are not included or certain information is not required to be reported:

- In Germany, France, Poland and Finland, imports of goods that are exempt from VAT are not required to be reported.
- Finland requires only the VAT amount to be reported for import of goods not subject to deferred VAT as well as for domestic reverse charges, other cross border reverse charge and other purchases, for which no separate boxes are included in the VAT return.
- As stated above the United Kingdom, France and Finland do not have a VAT deferred payment mechanism upon importation and do consequently not require any information in this respect.
- The United Kingdom, in general, does not have a local reverse charge mechanism for domestic supplies (apart from specific items such as mobile phones and computers, for which the VAT deductible is to be reported in the input tax box). Accordingly, such related information is not required.
- In Germany, France, Poland and Finland the purchase of goods by party B in MS 2 in a triangular transaction (the intra-Community acquisition made by B is not subject to VAT) is not to be reported in the VAT return, nor do importations of goods exempt from VAT.
- In Finland and the United Kingdom there are no separate boxes for adjustments that have to be reported in the relevant boxes of the VAT return pertaining to the transaction to which the adjustment relates.
- Where the common EU standard VAT return provides for the reporting of both the taxable amount and the VAT amount, e.g. in France, Germany and Finland, the VAT amounts require to be shown only for “domestic” purchases and imports.

171 In some Member States, additional reporting requirements exist or other boxes are included in the VAT return.

- In Germany, acquisitions of mobile phones and integrated circuit devices are subject to a reverse charge and have to be declared separately. Also, acquisitions of mortgaged goods subject to German real estate transfer tax are subject to a reverse charge and have to be declared separately.
- Information on fixed/capital assets has to be reported separately in some Member States:
    - In Italy and Belgium the taxable amount has to be separately reported in the VAT return, whereas in Hungary and Poland both the taxable amount and the VAT amount have to be separately reported in the VAT return.
    - In France, the VAT deductible (input VAT) relating to capital goods purchased or manufactured/created by the taxable person has to be reported in a separate box.

- The United Kingdom, Finland and Germany have no reporting requirements for fixed assets.

172 It should be noted that the standards initially suggested including a box in the common EU standard VAT return to separately report purchases of capital assets. This has been abandoned in the latest version of the standards.

5.1.2.2.2 Analysis of the balance of the VAT return

Figure 11– Balance of the common EU standard VAT return

6.Balance	
	Amount
(61) Net amount of current period = (34) – (59)	Intelligent box
(621) VAT credit brought forward from previous period	
(622) Advance payments made	
(63) Net VAT amount payable/refundable = [61] - (621) – (622)	Intelligent box
(64) Amount claimed as refund	

173 As regards the balance, it can be stated that the VAT returns of the 8 Member States impose more or less the same information requirements. Differences follow from the various refund processes:

- VAT credit brought forward from previous periods is currently not to be reported in a number of Member States that generally allow VAT to be refunded on a periodic basis. This is the case for the United Kingdom, Germany and Finland.
- Advance payments can be off-set against the VAT due (or refunded) in Germany, France, Italy, Poland and Belgium.
- Belgium and Germany have no box in their VAT return to indicate the VAT amount requested to be refunded.

5.1.2.2.3 Analysis of the additional information requirements alongside the national VAT return

174 The proposed common EU standard VAT return does not allow appendices to be provided nor additional information to be requested in addition to the information included in the VAT return, which would serve solely for information purposes.

175 In some of the 8 Member States reviewed, additional information is required to be reported by the taxable person in order to collect detailed data on specific transactions declared. According to the PwC VAT specialists it is not clear whether VAT audits are triggered by the information required and to what extent the information provided is reviewed/used by the tax authorities.

- More details and appendices to be provided in and/or alongside the national VAT return

176 Currently some Member States, including France, Italy, Hungary and Belgium require the completion of more boxes in the VAT return and/or the submission of appendices alongside the national (periodic) VAT return, in order to collect additional data with regards to specific transactions already reported in the VAT return. The Hungarian VAT return contains a large number of boxes for a more detailed reporting of specific transactions. Furthermore appendices are to be provided for import VAT, the VAT refund, specific adjustments of deductions, specific VAT reclaims and the sales of new means of transport. The common EU standard VAT return does not intend to include detailed information with respect to these transactions, nor is a separate box foreseen for revisions.

177 The Polish and Belgian VAT return contain a large number of boxes for a more detailed reporting of specific transactions.

- Appendices to be provided alongside the national VAT return

178 In France, the appendix to the VAT return includes information on additional taxes that have to be paid at the same time as any VAT due to facilitate the collection of these taxes (same collection procedure). It concerns specific taxes laid down in the French legislation for e.g. transactions performed in Corsica, publicity and agriculture.

- Annual VAT returns

179 In Germany, most information is required to be reported in both periodic VAT returns and the annual VAT return.

180 Italy is using an annual VAT return that requires very extensive information as regards to the transactions reported. Specific sections of the VAT return are dedicated to the provision of detailed information on certain transactions, e.g. purchases of goods coming from San Marino, withdrawals of goods from VAT warehouses and consignment stock and purchases of investment gold. The detailed information is not limited to the sale and purchase transactions, but also relates to the balance. Furthermore, separate information has to be provided by means of an appendix e.g. suppliers and customers, usual exporters' communication and black list communication.

- No appendices to be provided alongside the national VAT return

181 In Finland, the United Kingdom, Poland and Belgium, no appendices are to be provided alongside the VAT return. However, based on the information provided in the VAT return, the tax authorities might ask the taxable person to provide underlying documentation for specific transactions reported in the VAT return.

5.1.2.3 Results of analysing the gaps between the national correction procedures and the common approach for corrections of errors in the common EU standard VAT return

Figure 12– Corrections of errors in the common EU standard VAT return

7. Corrections							
Period		Under-declared VAT		Over-claimed VAT		Total	
711		721		731		741	Intelligent box
712		722		732		742	Intelligent box
713		723		733		743	Intelligent box
71x		72x		73x		74x	Intelligent box
Total						75	Intelligent box

5.1.2.3.1 Corrections before the deadline for filing VAT returns

182 When errors are discovered before the filing due date, only Belgium and Italy mention that taxable persons are allowed to re-file the national VAT return. It means that the original filed VAT return is totally replaced by the new one, i.e. as if it never existed.

183 Poland, the United Kingdom, Germany and Hungary explicitly do not allow taxable persons to re-file the VAT return before the filing due date. Finland allows certain corrections to be made in a subsequent VAT return (see below) but does not allow to re-file the VAT return.

5.1.2.3.2 Corrections after the deadline for filing VAT returns

184 The rule in the 8 Member States is that errors made in VAT returns have to be corrected as soon as the error is discovered, i.e. in the VAT period in which the error is discovered. The mechanisms used to perform corrections differ slightly from one Member State to another.

185 In Finland, Germany, Poland, Italy, Hungary and France, the correction is to be made by re-filing the VAT return (i.e. same format is used) of the period to which the correction relates. In other words, all information related to the respective VAT period is to be re-filed taking into account the required corrections. Re-filing is to be done as soon as the errors have been spotted.

- To indicate that it concerns a correction, Poland and Germany require that a specific box is ticked in the re-filed VAT return. Furthermore, in Poland, a disclosure letter is to be included to state the reason for the correction, whereas in Germany, it is advisable to include an explanation letter informing the tax authorities of the reason for the correction(s) made.
- France requires a reference indicating that the re-filed VAT return cancels and replaces the previous VAT return filed for that period. No explanations are required, but on the first page of the new VAT return the taxable person may provide certain explanations to avoid the application of some penalties (bad faith penalty).
- In Hungary, the VAT payable balance of the initial VAT return and the VAT payable balance of the corrective VAT return have to be reported in separate boxes in the corrective VAT return.
- In Germany, only corrections of errors with regard to under-declared VAT or over-claimed VAT are to be included in the re-filed VAT return. In the other Member States, corrections are possible (e.g. the United Kingdom) or required for over-declared and under-claimed VAT.
- In Italy a new VAT return is to be submitted within the deadline for the submission of the VAT return related to the fiscal year subsequent to the one to which the original return relates in the case of amendments in favour of the taxable person or by 31 December of the fourth year subsequent to the one in which the return was submitted in the case of amendments in favour of the State.

186 Note that in some Member States in practice small corrections are incorporated in the subsequent/current VAT return (e.g. France). In Finland, if the error is made in favour of the tax authorities, the correction can be made in the subsequent VAT return.

187 In Belgium, if the error is discovered after the filing due date, the error can be corrected in a subsequent VAT return.

188 The United Kingdom requires disclosure of corrections exceeding a threshold of £10,000 or between £10,000 and £50,000 exceeding 1% of the net outputs. The separate disclosure form needs to include the reference period, an indication of the type of error and the related VAT amount. For corrections not exceeding the threshold, the correction is to be reported by amending the output tax reported in the subsequent VAT return.

189 In principle, if VAT returns are re-filed due to corrections made, the VAT return is a basis for the calculation of penalties (if any).

- In Poland, the taxable person is responsible for the self-calculation of the penalty.
- In Hungary, the penalty increases if the same VAT return is filed several times due to several errors discovered relating to the same period at different times.
- Due to the fact that, in Belgium, errors can be corrected in the subsequent VAT return, it is difficult for the tax authorities to use the VAT return in practice as a basis for the calculation of penalties. Like in the United Kingdom, the VAT return merely serves as an indication to support the calculation of the penalties.

- Germany only applies VAT penalties if the periodic VAT return is not duly filed for a given VAT period and does not apply VAT penalties for unduly filing of corrective VAT returns.

5.1.2.3.3 Materiality threshold

190 Whereas the common EU standard VAT return imposes a disclosure of corrections above a certain threshold, currently 7 out of the 8 Member States within the scope of our analysis do not have a threshold for disclosure of errors, i.e. all errors must be corrected as soon as they are discovered and this according to the national correction procedures, regardless of the (tax/taxable) amounts at stake. The United Kingdom is the only Member State that applies a materiality threshold above which corrections must be disclosed separately (£10,000, or between £10,000 and £50,000 exceeding 1% of the net output).

5.1.2.4 Results of analysing the gaps between the national submission procedures and the common approach for submission of the common EU standard VAT return

5.1.2.4.1 Submission procedure

191 The proposed common EU standard VAT return requires the taxable person to file the VAT return electronically. The table below represents an overview of the current submission procedures in the 8 Member States.

Table 11 - Submission procedure

Only electronic submission	Electronic and paper submission
Germany	Finland
Belgium*	Poland
United Kingdom (as from 1/4/12)	
Italy	
Hungary**	
France***	

* However, an explicit exemption can be provided by the tax authorities allowing paper filing if certain requirements are fulfilled.
** Companies registered only for VAT and having no employees or any IC transactions in Hungary may submit VAT returns on paper.
*** For all companies with a yearly turnover higher than €230,000 net of VAT.

5.1.2.4.2 Submission period

192 The proposed common EU standard VAT return requires the taxable person to submit the VAT return on a calendar month basis. The table below gives an overview of the current submission period in the 8 Member States.

Table 12 - General rule submission period

Calendar month filing as general rule	**Calendar quarter filing as general rule**
Belgium	Germany*
Finland	Hungary
France	United Kingdom**

*where the amount of VAT due in previous year is less than €1,000: annual filing
** in the UK, a 3-month period is the general rule, which does not necessarily correspond to a calendar quarter

193 As previously mentioned, in Italy the VAT return has to be submitted on a yearly basis. The VAT balance is, however, to be settled on a monthly/quarterly basis (depending on the turnover).

194 In Poland, it is up to the taxable person to decide whether he prefers filing the VAT return on a monthly or a quarterly basis. In practice, monthly filing is the preferred submission period for taxable persons.

195 The below tables show until /as from when a taxable person has the option to/should submit the national VAT return according to a derogating rule provided for in the national VAT legislation.

Table 13 - Switching submission period from monthly to quarterly***

Calendar month filing as general rule	**Rule to apply the quarterly derogation**
Belgium*	Annual turnover < €1,000,000 p.a. and intra-Community supplies < €400,000 p.a.
Finland**	Annual turnover < €50,000 p.a.
France**	VAT payable < €4,000 p.a.

Table 14 - Switching submission period from quarterly to monthly***

Calendar quarter filing as general rule	**Rule to switch between the general rule and the monthly derogation**
Germany**	VAT payable > €7,500 p.a. and in the first two years after registration
United Kingdom**	Permission required from the tax authorities for businesses in repayment position
Hungary**	Accumulated VAT position reaches threshold of HUF 1,000,000 (approx. €3,500) VAT payable in current year

*Exceptions exist for certain sectors – see Appendix 9.
** Annual derogation exists – see Appendix 9.
***As mentioned, Italy has a yearly filing period and in Poland, it is up to the taxable person to decide on the monthly or quarterly filing period.

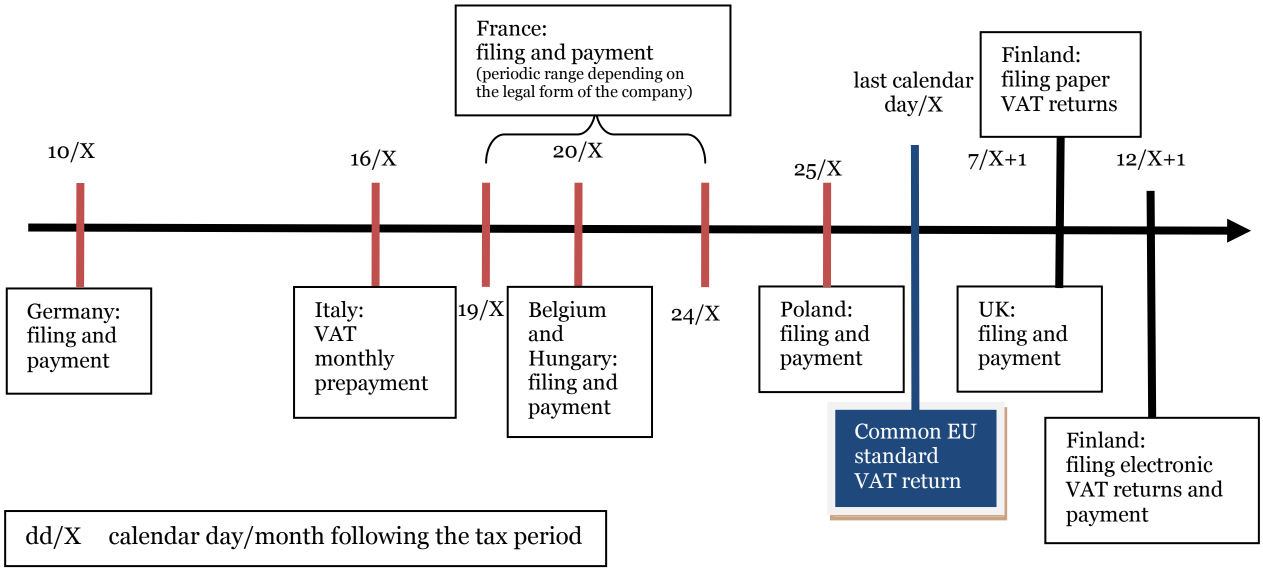
5.1.2.4.3 Submission date

196 For the common EU standard VAT return, the idea is that the VAT return is to be filed by the last calendar day of the month following the tax period, with consequently no delays for e.g. Sundays or national holidays.

197 Italy has no monthly or quarterly VAT returns. The yearly Italian VAT return should be submitted by 30 September following the reporting year and will be postponed until the next working day if the 30th day is a weekend day or national holiday. It should be noted that even though the VAT return is to be submitted on a yearly basis, VAT prepayments are to be made on a monthly/quarterly basis (depending on the annual turnover of the taxable person).

198 Please find below an overview of the submission and payment dates.

Figure 13– National submission and payment dates compared with the proposed common EU standard



5.1.2.4.4 Payment date

Prepayments

199 It is proposed in the common EU standard VAT return that quarterly filers will have to make prepayments by the last day of the first and the second month of the calendar quarter. The prepayments are calculated as 1/3rd of the VAT due of the previous quarter (see chapter 3).

- Currently, in Germany, Finland, Hungary and France, no prepayments are required for quarterly (annual) filers.
- In Belgium and Poland, quarterly filers will have to make prepayments by the 20th and 25th calendar day, respectively, of the second and the third month of the calendar quarter (i.e. the month following the month to which the prepayment refers to). The prepayments are generally calculated as 1/3rd of the VAT due of the previous quarter (or based on real transactions performed in a given month).
- Payments on account are required in the United Kingdom if VAT liability exceeds £2,300,000 in less than 12 months. The payments should be made by the last working day of the second and third month of every quarterly VAT period.
- Taxable persons in Italy that are in a VAT payable position (both on a quarterly and on a monthly basis) are required to perform monthly or quarterly prepayments. Monthly payments are due on the 16th day of the month following the end of the tax period. Quarterly payments are due on fixed dates and subject to 1% interest (see Appendix 9).

5.1.3 Preliminary conclusions

200 In general, and despite the differences in the VAT rules underlying the reporting requirements, a core set of information is uniformly requested in all Member States in scope. The details related to this core set of information that are required to be reported differ from one Member State to another.

201 Yet it seems that amongst the VAT returns mapped, the Hungarian and Italian VAT returns are the ones requesting more information from taxable persons while the Polish VAT return requests the largest amount of detailed "explanatory" information. Other Member States like the United Kingdom and Finland are on the contrary requesting the least detailed information in the VAT return itself, knowing that additional information may be required through other reporting obligations.

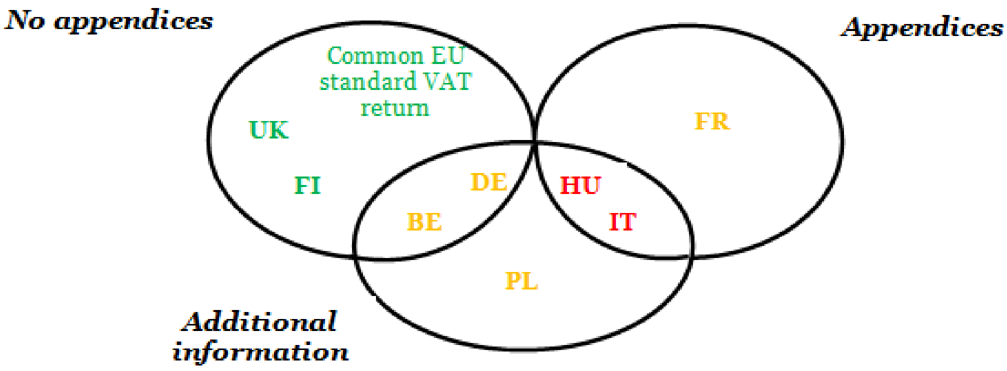
202 As regards the additional information to be provided alongside VAT returns and transactions to be included in the VAT return (in terms of both the number of transactions and taxable/VAT amount to be included), a comparison of the national VAT returns with the proposed common EU standard VAT return allows us to generally state that taxable persons (established) in countries such as the United Kingdom and Finland will face a more complex VAT return while taxable persons in countries such as Italy and Hungary will benefit from a leaner VAT return.

203 Poland specifically indicated that some of the boxes introduced in their national VAT return serve to provide more detailed information on transactions already reported in other boxes of the VAT return. In Belgium, some boxes are required to enable reconciliation with the accounts of the taxable persons, reconciliation with import data from customs and/or verification of calculations of output or input VAT. Therefore the primary intent of the provision of more detailed information in separate boxes is to serve as "control boxes" and not to verify the correctness of the calculation of the VAT due.

204 Another set of information requirements is not directly linked to the calculation of the net VAT due by the taxable person but is information needed for other purposes. One example is France and the link made in the VAT return with the other taxes to be reported in the appendix to the VAT return. This set of information could be collected through other means than the VAT return itself.

205 The below Figure 14 compares the complexity of the national VAT returns (in terms of detailed information regarding the transactions to be included in the VAT return) with the common EU standard VAT return and whether appendices need to be provided alongside the VAT return. Finland and the United Kingdom (indicated in green) require no additional detailed information compared to the common EU standard VAT return and do not require appendices. Hungary and Italy (indicated in red) require additional information and also require appendices to be filed alongside the VAT return.

Figure 14 - Complexity of the national and common EU standard VAT return (in terms of appendices and additional information to be provided)



5.1.4 Results of analysing the IT data collected

5.1.4.1 Analysis of the national filing mechanisms

206 We categorised the results of the GAP analysis, based on questionnaires (refer to the approach above mentioned), into the 4 major aspects of the IT filing system (similar to the requirements management analysis) as outlined below:

5.1.4.2 Platform

207 Based on the sample review to perform the GAP analysis, it can be stated that all countries already have available an online platform for VAT return submission.

208 However, in some Member States VAT return forms have to be filed on the online platform via installed software, which is no longer required in the proposed solution:

- In Hungary, Italy and Poland, software has to be installed in order to file VAT return forms via the online platform.

5.1.4.3 VAT return form

209 In some Member States there is only a possibility to upload structured data onto the platform, while in others only manual input on the platform is allowed. However, our proposed solution is to enable both:

- In this respect, the existing platforms in Finland and France do not facilitate the upload of structured data onto the platform.
- In Hungary, Italy and Poland, exports from the installed software are uploaded onto the platform. No direct manual input on the platform is enabled.
- In the United Kingdom, both manual input and structured data import are enabled on the platform.

5.1.4.4 Authentication & signing

210 Based on the sample review to perform the GAP analysis. we can state that some sort of controls are in place to ensure that only authorised people can register as submitters on the online platform (proposed solution on authentication control to be further defined). Moreover, based on the sample review, we noted that authority to file VAT return forms can be granted to proxies.

211 In some Member States, authentication on the platform is circumvented by allowing automatic uploads from ERP/ VAT- packages to the platform. Strong password requirements and registration procedures for authorised people could therefore be circumvented by bypassing the logon onto the platform:

- In Germany and the United Kingdom, automatic data-uploads are performed from accounting packages without additional authorisation requests from the platform.
- In Italy and Poland, the authentication is performed at the installed software level and no additional authentication is required at the level of the platform (however, no direct manual input is allowed).

212 In some Member States, proxies have to logon with a different user ID every time they submit a VAT return form for another company, while our proposed solution is that for convenience purposes. a single user ID and password for filing several VAT return forms is allowed:

- In this respect, Finland, Germany and the United Kingdom require a new logon onto the platform for every new VAT return filing.

213 In some Member States, authentication by means of token or eID is required where our proposed solution is to use authentication based on unique user IDs and strong passwords:

- In Finland, authentication via a Finnish e-banking account is allowed.
- In Germany and Poland, a smartcard and/or token are used as an authentication method in addition to logon via user ID and password.

214 In some Member States, electronic signing of VAT returns is required whereas in our proposed solution, this is not required due to the other secure authentication controls in place:

- In this respect, in Germany and Poland electronic signatures of the VAT return are required.

5.1.4.5 Archiving & proof of receipt

215 In some Member States, the proof of receipt of the VAT return is not in the proposed format of a signed copy of the submitted VAT return form:

- In all aforementioned countries, except for Finland and Germany, the proof of receipt does not include the submitted VAT data. In Finland and Germany, the proof of receipt consists of the submitted VAT data and a timestamp of the moment of receipt by the VAT administration.

216 In Poland, the previously submitted VAT return forms cannot be consulted on the online platform by the submitter after the return has been filed as these are not stored.

5.2 Economic impact assessment from a business perspective

5.2.1 Introduction

217 In this section, the results of the economic data analysis are presented. The depth and breadth of the data collected vary across the businesses. We tried to use all the data received from the businesses. If a certain business could not complete certain parts of the questionnaires, we only excluded that business for the purposes of analysing the results in connection with those specific parts.

218 All in all, business representatives found it less difficult to provide qualitative feedback based on their personal assessment of the current situation. We considered the qualitative data to represent anecdotal evidence supporting interpretation of the quantitative data.

219 This section is structured as follows:

- Cost of VAT: non-exhaustive review of the literature
- Costs of the current VAT return obligation
- Impact of introduction of the common EU standard VAT return

220 The detailed methodology, calculations and sample considerations on which the analyses in this section are based can be consulted in Appendix 1.

5.2.2 Cost of VAT: Non-exhaustive review of the literature

221 Several studies have looked at the compliance costs of VAT obligations for business. A non-exhaustive review of the literature sheds some preliminary light on how VAT obligations impact business:

- From the Paying Taxes 2011 study of the World Bank and PwC,[25] we learn that time devoted to VAT obligations is less, on average, in countries where business uses online filing and payment. Furthermore, it appears that the frequency with which VAT returns are required impacts the time for compliance (on average 125 hours on an annual basis for monthly filing and 81 hours for bi-monthly or quarterly filing). Also, the more information that is required in the VAT return, the more time that is needed, and the requirement to submit invoices or other documents along with the return adds to overall compliance time. The Paying Taxes 2012 study finds that, on average, it takes a typical company longer to comply with VAT than it does for corporate income tax (a typical company requires 123 hours to comply with VAT compared to 74 hours for corporate income tax). In addition, the time to comply with VAT varies considerably across EU countries: from 24 hours in Finland and Luxembourg to 195 in Bulgaria.
- In The Impact of VAT Compliance on Business by PwC,[26] which draws on the Paying Taxes 2010 study, we find that the average time needed to comply with VAT per return is 12 hours. Moreover, in countries where the tax return has more than 20 boxes to be completed, the average compliance time per return is more than twice as much as in countries where the return has fewer than 20 boxes. Thus, the more extensive the tax return, the longer it takes to comply.
- A KPMG investigation of administrative burden in the UK,[27] commissioned by the UK government and published in 2006, finds that, based on tax and other obligations in the UK, the total compliance burden can be quantified at £5.1 billion (or about 0.42% of GDP). Costs attributable to VAT amount to about £1 billion, or 0.08% of GDP. The research also finds that smaller businesses (if subject to VAT obligations) typically bear a disproportionately large share of the total burden.
- In the Detailed Recommendation on the Tax Law (VAT) Priority Area,[28] which was published in 2009 in the context of the EU Project on Baseline Measurement and Reduction of Administrative Costs, it is estimated that the submission of periodic VAT returns in the EU costs businesses approximately EUR 20 billion annually or 0.16% of European GDP (€12,638 billion).[29] The total administrative burden of completing VAT obligations is estimated at EUR 69 billion,[30] representing 0.55% of European GDP. A

[25] http://www.doingbusiness.org/reports/thematic-reports/paying-taxes/.

[26] http://www.pwc.com/gx/en/tax/indirect-taxes/impact-vat-compliance-business.jhtml.

[27] Administrative Burdens – HMRC Measurement Project, KPMG, 2006.

[28] http://ec.europa.eu/dgs/secretariat_general/admin_burden/meas_data/meas_data_en.htm.

[29] GDP in current prices, 2011. Basic figures on the EU Summer 2012 edition – Eurostat €12 629 billon.
[30] http://ec.europa.eu/dgs/secretariat_general/admin_burden/meas_data/meas_data_en.htm (Detailed Recommendation on the Tax Law (VAT) Priority Area, p. 38).

detailed comparison of the results of this study and our results is provided in Appendix 2.

- An information note by the OECD's Forum on Tax Administration – Taxpayer Services Sub-Group – entitled "Programs to Reduce the Administrative Burden of Tax Regulations in Selected Countries", from 2008 finds that VAT is consistently identified as the major tax-related culprit in terms of administrative burdens on business.
- A study commissioned by DG TAXUD entitled "A Retrospective Evaluation of Elements of the EU VAT System"[31] and published in 2011 finds that VAT compliance costs are high and significant for individual businesses. Additionally, the research finds that compliance costs are regressive in the sense that small businesses are more than proportionally burdened by compliance requirements. Also, in the absence of concrete policy actions, it is found that compliance costs do not to fall over time. Interestingly, the study also finds that the Member States that joined the EU in 2004 have fewer mutual administrative differences in their VAT regimes than the older EU Member States.
- A working paper by the International Center for Public Policy of Georgia State University from 2012 entitled "The Costs of VAT: A Review of the Literature" corroborates the big lessons of the DG TAXUD study. First, compliance costs associated with VAT are high and significant. Second, compliance costs of VAT fall with exceptional severity on small businesses.
- Finally, and moving beyond the compliance costs of VAT and other taxation, the High Level Group of Independent Stakeholders on Administrative Burdens 2011, under the chairmanship of Dr. Stoiber, concludes that reducing burdensome implementation of regulation would contribute decisively to improving the life of business in the EU and to strengthening the EU's economy and its competitiveness.[32]

5.2.3 Costs of the current VAT return obligation

5.2.3.1 Introduction

222 This section of the final report discusses the findings of our research in terms of the administrative costs that are incurred by businesses due to VAT compliance in the current situation. An overview of the methodology used and sample of businesses that completed the AS IS questionnaires is presented in Appendix 1.

223 There is no harmonisation in the EU with respect to filing VAT returns, the content of VAT returns, the correction of VAT return errors, submission mechanisms and deadlines among Member States. Therefore, most businesses that participated in this study find it difficult (and costly) to understand and manage the cross-country differences. More often than not, businesses rely on the assistance of external consultants or appoint local representatives to assist with the filing process.

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[31] http://ec.europa.eu/taxation_customs/common/publications/studies/index_en.htm.

[32] "Europe can do better" High Level Group of Independent Stakeholders on Administrative Burdens, 2011.

224 The overall average time spent on preparing and submitting periodic VAT returns in the AS IS situation for large sample companies and for the eight Member States in scope is 705 minutes, or 12 hours, corresponding to an overall average cost of €826. Internal time spent is somewhat higher and total costs are somewhat lower for large sample companies not using external consultants compared with large sample companies using external consultants. For the former group, internal time spent is on average 803 minutes and costs amount to an average of €576. For large sample companies using external consultants, internal time spent is only 504 minutes with an average cost of €1,487.

225 We observe that, considering the whole sample of companies (i.e. both companies using and not using external consultants), the average time spent on preparation and submission is close to 660 minutes, or 11 hours, for the majority of the Member States in scope (i.e. France, Germany, Italy, Poland and the United Kingdom). Average time spent is somewhat lower for Finland (close to 360 minutes, or 6 hours) and somewhat higher for Belgium and Hungary (close to 960 minutes, or 16 hours, and close to 1,060 minutes, or 17.5 hours, respectively).

226 It appears that the majority of the time is spent on the 'gather information', 'prepare the VAT return' and 'reconcile data from accounting, intra-Community sales/acquisition listings and Intrastat' activities.

227 No detailed time and cost data is available for sample SMEs. Costs are, however, somewhat lower than for large sample companies. We estimate costs of €453 and €244 for the preparation and submission of periodic VAT returns in the AS IS situations for sample SMEs and sample micro companies, respectively. We notice a significant difference between the costs for sample SMEs and the costs for large sample companies, so this difference is taken into account to calculate the total AS IS cost for the EU-27 later in this section.

228 The fact that there is no harmonisation in the process for preparation and submission (e.g. no harmonisation of format, language, method for correction and submission) hampers job rotation within shared service centres. All the Member States have different requirements and request different additional documents. Employees working in shared service centres are often trained and specialise in one particular VAT return, which makes job rotation extremely difficult. Given this, there will be a need to hire and fire people in the case of structural changes.

229 SMEs typically do not have dedicated VAT departments with specialists for every Member State in which they file VAT returns. Usually, all VAT-compliance knowledge has to be acquired by one person or very few persons. Therefore, outside consultants are very often required for VAT compliance abroad.

230 However, some businesses do not encounter significant problems across Member States when filing VAT returns in multiple Member States. These are typically larger businesses, with VAT registrations all over Europe. They express the view that, once local requirements are understood and knowledge and expertise has been acquired by the company, the procedures do not pose major difficulties. In some cases, businesses are partly or completely decentralised and make use of local people for VAT filing. These local staff members are typically familiar with the requirements, are fluent in the local language and can therefore easily communicate with the local tax authorities.

231 On the following pages, we present the findings of our research in more detail. The section is structured as follows:

- Set-up costs
- Recurring costs
- Generic costs
- Additional costs
- Qualitative findings

232 After consideration of the quantitative and qualitative results, we draw some conclusions.

5.2.3.2 Set-up costs

233 Costs in this category cover eight dimensions:

1. purchase price/development cost of software for VAT compliance;
2. cost to adjust software to specific VAT needs;
3. cost to map the VAT-compliance requirements in an additional EU Member State;
4. cost to understand the local VAT return of an additional EU Member State;
5. cost to adjust software to be able to complete the local VAT return in an additional EU Member State;
6. cost to adjust software to be able to report one additional type of purchase or sale in the local VAT return in an EU Member State;
7. cost of initial VAT training per new staff member;
8. cost of initial software training per new staff member.

234 Many sample companies found it difficult to estimate set-up costs. The main reasons they cited were that the costs in question had typically been incurred too long ago and/or the responsible staff members no longer work for their organisation. Some sample companies also struggled to express monetary values for (some) set-up costs.

235 In general, sample companies' estimates of set-up costs show high variance. This is due to the fact that every sample company is organised differently and/or employs different software systems and training methods for employees.

236 In light of these data limitations, we present the average, minimum, maximum, median, 25-percentile[33] and 75-percentile[34] of each of the categories of set-up costs for the sample companies in Table 15. These values should be interpreted together in order to get an idea of the distribution of the values quoted by the sample companies. The sample size column denotes the number of sample companies that provided estimates of the respective set-up costs. Please note that the sample for the analysis of set-up costs is limited to large companies as SMEs were not able to provide this kind of data.

Table 15: AS IS - Set-up costs for large businesses

	Set-up cost	Sample size	Average	Minimum	Maximum	Median	25-percentile	75-percentile
1	Purchase price/development cost of software for VAT compliance	10	€945,500	€10,000	€2,000,000	€850,000	€86,250	€1,875,000
2	Cost to adjust software to specific VAT needs	8	€494,875	€2,000	€2,000,000	€113,500	€20,000	€525,000
3	Cost to map the VAT-compliance requirements in an additional EU Member State	13	€5,386	€0	€16,500	€4,000	€1,000	€5,120
4	Cost to understand the local VAT return of an additional EU Member State	13	€3,879	€0	€16,500	€1,280	€1,000	€4,000
5	Cost to adjust software to be able to complete the local VAT return in an additional EU Member State	12	€81,660	€0	€500,000	€4,500	€1,563	€80,000
6	Cost to adjust software to be able to report one additional type of purchase or sale in the local VAT return in an EU Member State	11	€100,946	€0	€1,000,000	€1,000	€100	€3,500

33 The value below which 25% of the observations may be found.

34 The value below which 75% of the observations may be found.

Set-up cost		Sample size	Average	Minimum	Maximum	Median	25-percentile	75-percentile
7	Cost of initial VAT training per new employee	10	€5,691	€0	€30,000	€2,000	€972	€2,875
8	Cost of initial software training per new employee	11	€1,954	€0	€15,000	€750	€0	€1,000

237 Sample companies found it difficult to estimate the set-up costs of software (i.e. the cost categories 'purchase price/development cost of software for VAT compliance' and 'cost to adjust software to specific VAT needs') given that large companies typically use a global IT system and it is comparatively difficult to sift out the costs linked to VAT compliance. This may also explain the wide range of cost data in the sample.

238 Costs to map and understand the local VAT return in an additional EU Member State and to adjust software accordingly vary considerably. Whereas some sample companies indicated considerable costs, other sample companies explained that the required knowledge is available in-house. This partially depends on the number of EU Member States in which companies are already registered. It is reasonable to assume that the marginal cost related to an additional VAT registration is lower for companies that are registered in multiple Member States than for companies that are registered in only a few EU Member States. Some sample companies explained that the cost to adjust the software system is covered in their service contract with the software provider. In such cases, costs register close to zero because accurate cost estimation is impossible for the sample companies interviewed.

239 With regard to training, sample companies report great variance in VAT-compliance training, but less variance in software training. Some sample companies appear to hire experienced people, while others invest considerable resources in providing (external) training and development support in addition to on-the-job training.

5.2.3.3 Recurring costs

240 The questionnaire sent to the businesses covers nine activities:

1. gather information;
2. prepare the VAT return;
3. reconcile data from accounting, intra-Community sales and other listings[35] and Intrastat;
4. review the VAT return;
5. sign the VAT return;

[35] Recapitulative statement for intra-Community supply of goods, including deemed supplies, and services, as provided for in article 262 of Directive 2006/112/EC.

6. submit the VAT return;
7. store a copy of the VAT return;
8. answer any specific questions from the tax authorities; and
9. other recurring costs identified.

241 The data collected from our sample allows us to compute the recurring costs incurred by large companies and SMEs. However, SMEs were not able to provide us with data to the same level of detail as large companies. Therefore, we perform our analysis on the data received from large sample companies. Afterwards, the average cost data provided by the sample of SMEs is compared with the results from the large sample companies.

242 Recurring costs for large sample companies are analysed both in terms of time spent (minutes) and in terms of monetised costs (€). We consider both. Please note that the samples for the two analyses are not identical.[36] That is, not all businesses were able to provide us with detailed time and wage level estimates for all the activities mentioned above; they typically provided an overall cost estimate per Member State. Other businesses provided us with time estimates, but did not wish to disclose wage levels for reasons of confidentiality.

243 Some companies in our sample rely on external consultants, while others perform all activities in-house. We analyse the recurring time and cost spent for each of those two groups of companies in order to understand the differences.

244 Please note that several external factors[37] may influence the recurring time spent and cost per activity and per Member State as reported by businesses. First, there are differences in VAT-compliance requirements between Member States (we refer to section 5.1 in that respect). Second, as each Member State has its own VAT return form, the numbers of boxes vary among Member States. For example, the Hungarian VAT return consists of 99 boxes whereas the UK VAT return form only consists of nine boxes. The approximate number of boxes in the national VAT returns of the eight Member States in scope is shown in Table 16. This number does not take into account boxes with respect to the identity of the taxable person, signing and the date. The sample businesses report that, in Hungary and Italy, the VAT returns are relatively complex. Of course, another dimension that can affect the time necessary to comply with VAT obligations is the filing period. In that respect, we refer to Appendix 5

[36] For sample considerations, we refer to Appendix 1.

[37] Factors that cannot be influenced by businesses.

Table 16: AS IS – Approximate number of boxes in periodic and annual VAT return

	Approximate number of boxes in periodic VAT return[38]	Approximate number of boxes in annual VAT return[39]
Belgium	34	N/A
Finland	25	N/A
France	43	N/A
Germany	45	45
Hungary	99	N/A
Italy	586	N/A
Poland	52	N/A
UK	9	N/A

245 This section is structured as follows:

- Analysis of time spent
- Analysis of cost
- Cross-analysis of time spent and cost
- Analysis of time spent and cost on/of the summarising annual VAT return
- Total recurring cost for the EU-27

Analysis of time spent

246 Data regarding time spent on the preparation and submission of periodic VAT returns is only available for the sample of large businesses. SMEs were not able to provide us with time data. Therefore, this analysis is limited to large sample companies.

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[38] Boxes with respect to the identity of the taxable person, signing and the date are excluded. Although the real number of boxes is expected to be close to this number, small deviations may exist due to, say, recent changes (e.g. boxes that have been removed/added) that had not yet been taken into account. The boxes were counted in August 2012. Changes after this date are not taken into account.

[39] Boxes with respect to the identity of the taxable person, signing and the date are excluded. Although the real number of boxes is expected to be close to this number, small deviations may exist due to, say, recent changes (e.g. boxes that have been removed/added) that had not yet been taken into account. The boxes were counted in August 2012. Changes after this date are not taken into account.

247 We analyse the following issues:

- Average time spent per Member State
- Average time spent per activity
- Impact of filing periodicity on average time spent
- Impact of level of automation on average time spent
- Impact of number of transactions on average time spent

Average time spent per Member State

248 The overall average time spent on preparing and submitting periodic VAT returns for large sample companies and for the eight Member States in scope is 705 minutes, or 12 hours. However, a difference in time spent is noted between the sample of companies performing all activities in-house and those relying on external consultants.

Companies that do not use external consultants

249 The overall average[40] time spent on preparing and submitting periodic VAT returns for large sample companies is 803 minutes, or close to 13 hours,[41] when sample companies do not require the support of external consultants. This figure includes the time spent on preparation, calculation and payment of the periodic prepayments[42] that are sometimes required. This can be seen in Figure 15.

250 When large sample companies assume the entire preparation and submission of VAT returns themselves (i.e. without the assistance of external consultants), we observe that the average time spent on preparation and submission for large businesses is close to 730 minutes, or 12 hours, for the majority of the Member States in scope (i.e. France, Germany, Poland and the United Kingdom). Average time spent is somewhat lower for Finland (close to 405 minutes, or 7 hours) and Italy[43] (close to 505 minutes, or 8 hours) and somewhat higher for Belgium and Hungary (close to 1,054 minutes, or 18 hours, and close to 1,538 minutes, or 26 hours, respectively). This is in line with the sample businesses' feedback: the VAT returns in Finland, Ireland, France and the UK are comparatively user-friendly and cost-effective. The VAT returns for these countries are viewed as relatively straightforward.

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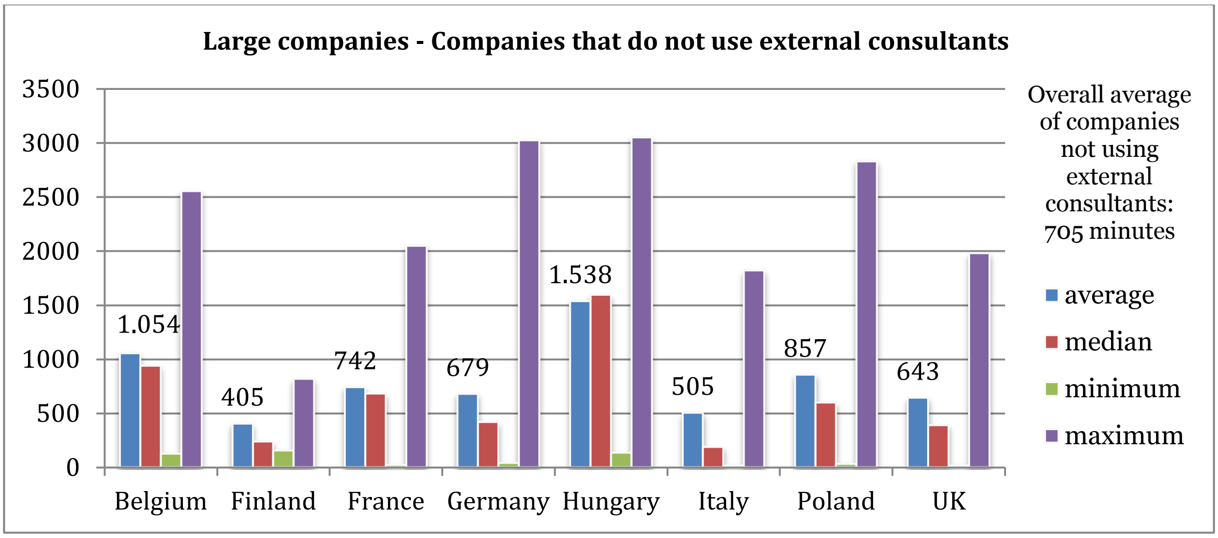
[40] Average of the average time spent by large sample companies as calculated for the eight Member States in scope

[41] In Appendix 3 an overview of the recurring time data per Member State and per recurring activity for the large sample companies is presented.

[42] Further to the annual VAT return, taxpayers in Italy have to submit an Annual Communication of VAT Data (the so-called "Comunicazione Annuale Dati IVA"). This is a yearly statement listing the supplies made and received and the services rendered and purchased within the scope of Italian VAT. Taxpayers do not have to submit an Annual Communication of VAT Data if the yearly VAT return is filed by the end of February following the reporting period. Taxable persons in Italy that are in a VAT-payable position (on both a quarterly and a monthly basis) are required to make monthly or quarterly prepayments. Monthly payments are due on the 16th day of the month following the end of the tax period. Quarterly payments are due on fixed dates and subject to 1% interest.

[43] For Italy, this average time represents the total time spent in connection with the preparation, calculation and payment of the periodic prepayments as well as the preparation and submission of the annual VAT return.

Figure 15– AS IS – Time spent by sample of large businesses in minutes per Member State for preparation and submission of a periodic VAT return[44] – Companies not using external consultants



Companies that use external consultants

251 The overall average[45] time spent on preparing and submitting periodic VAT returns for large sample companies is 504 minutes, or close to 8 hours,[46] when sample companies require the support of external consultants. This figure includes the time spent on preparation, calculation and payment of the periodic prepayments[47] that are sometimes required. This can be seen in Figure 16.

252 Only Finnish businesses seem to spend significantly less time (i.e. 305 minutes, or 5 hours). The lower internal time spent is of course offset by the time spent by external consultants, for which a consultancy fee has to be paid. Consultancy fees are discussed below (as from paragraph 280).

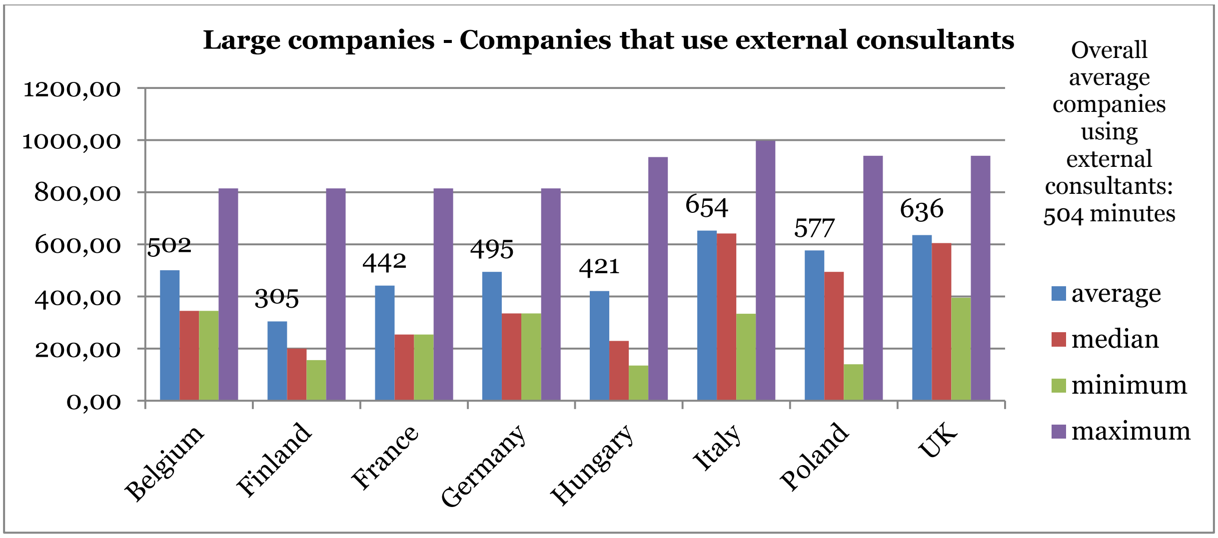
[44] For Italy, this average time represents the total time spent in connection with the preparation, calculation and payment of the periodic prepayments as well as the preparation and submission of the annual VAT return. The time for preparation and submission of the annual VAT return is divided by 12 in order to distribute it evenly and obtain the same periodicity as assumed for the periodic prepayments.

[45] Average of the average time spent by large sample companies as calculated for the eight Member States in scope.

[46] In Appendix 3, an overview is presented of the recurring time data per Member State and per recurring activity for large sample companies.

[47] Further to the annual VAT return, taxpayers in Italy have to submit an Annual Communication of VAT Data (the so-called "Comunicazione Annuale Dati IVA"). This is a yearly statement listing the supplies made and received and the services rendered and purchased within the scope of Italian VAT. Taxpayers do not have to submit an Annual Communication of VAT Data if the yearly VAT return is filed by the end of February following the reporting period. Taxable persons in Italy that are in a VAT-payable position (on both a quarterly and a monthly basis) are required to make monthly or quarterly prepayments. Monthly payments are due on the 16th day of the month following the end of the tax period. Quarterly payments are due on fixed dates and subject to 1% interest.

Figure 16– AS IS – Time spent by sample of large businesses in minutes per Member State for preparation and submission of a periodic VAT return[48] – Companies using external consultants



253 The sample businesses indicate that, in Poland, the local VAT return is very detailed and they characterise the procedure for corrections as "difficult". With regard to Belgium, dissatisfaction with the VAT return is rooted in the time-consuming process for electronic submission, the separate reporting of credit notes, the high level of detail, no direct relationship between the taxable basis and the VAT amount, and the impossibility of submitting automatically, as an XML file has to be created first. These difficulties are greater for foreign taxpayers performing economic activities in those Member States.

254 Not considering Italy, we notice a weak correlation (below 50%) between the number of boxes in the periodic VAT return and the time spent on its preparation and submission. Considering both businesses that use external consultants and those that do not, the coefficient of determination is 44%. Excluding businesses that rely on external consultants, the coefficient of determination increases to 70%, which denotes a relatively strong correlation (higher than 50%). There is no correlation for the sample of businesses that do rely on external advisers.

Average time spent per activity

255 In Figure 17 and Figure 18, an overview is provided of the distribution of average time spent on preparing and submitting periodic VAT returns. For this analysis, the total sample of businesses is considered, including companies not using external consultants and companies using external consultants. It appears that the majority of the time goes on the first three activities in the process of preparing and submitting a VAT return:

[48] For Italy, this average time represents the total time spent in connection with the preparation, calculation and payment of the periodic prepayments as well as the preparation and submission of the annual VAT return. The time for preparation and submission of the annual VAT return is divided by 12 in order to distribute it evenly and obtain the same periodicity as the periodicity assumed for the periodic prepayments.

- gathering information;
- preparing the VAT return;
- reconciling data from accounting, intra-Community sales/acquisition listings and Intrastat.

256 Preparing the VAT return itself is the most time-consuming activity.

257 From Figure 18, it can be seen that, on average, ‘Answering specific questions from tax authorities’ takes up 12% of the time spent. The average time of 85 minutes spent on this activity (see Figure 17) is nevertheless biased as a number of sample businesses are not faced with specific questions from tax authorities and, consequently, indicate zero minutes of time spent. Therefore, the average time spent on answering specific questions from authorities (where a company is really obliged to answer such questions) is closer to 173 minutes instead of 85 minutes. The 173 minutes figure is obtained by taking the average for all data entries for time spent on this activity that are other than zero.

258 Specific questions from tax authorities arise in all Member States. The results are shown in Table 17 – A IS – Frequency and time spent on specific questions from tax authorities. Somewhat more sample companies point to the existence of specific questions in Hungary (71%). The Italian tax authorities seem to ask the fewest number of specific questions (38%). The time spent on specific questions is highest in France, followed by Hungary and Poland. The lowest time is spent on specific questions from the Finnish tax authorities, followed by the Italian tax authorities.

259 Without taking Italy into account, there is no clear correlation (coefficient of determination, R^2 = 49%) between the number of boxes in the VAT return and the percentage of companies indicating that questions were asked or between the number of boxes in the VAT return and the time spent on answering questions from tax authorities (coefficient of determination R^2 = 42%).

Figure 17 – AS IS – Average time spent in minutes per activity – total sample of large businesses

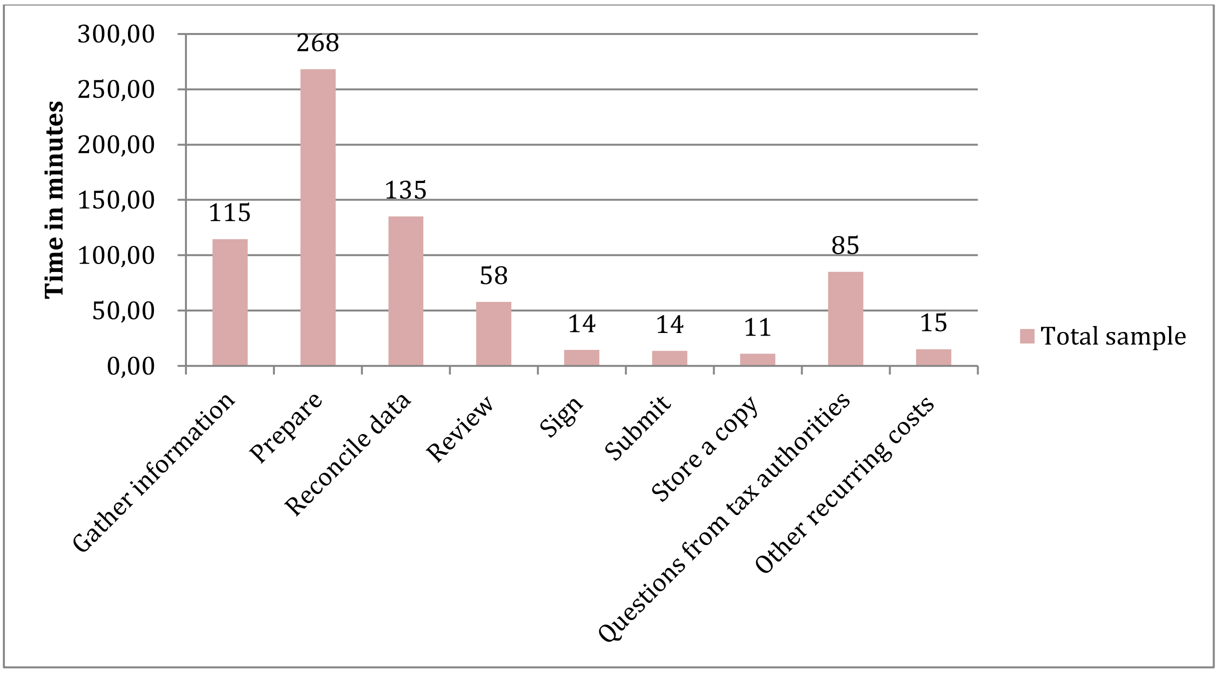


Figure 18 – AS IS – Distribution of total time spent – total sample of large businesses

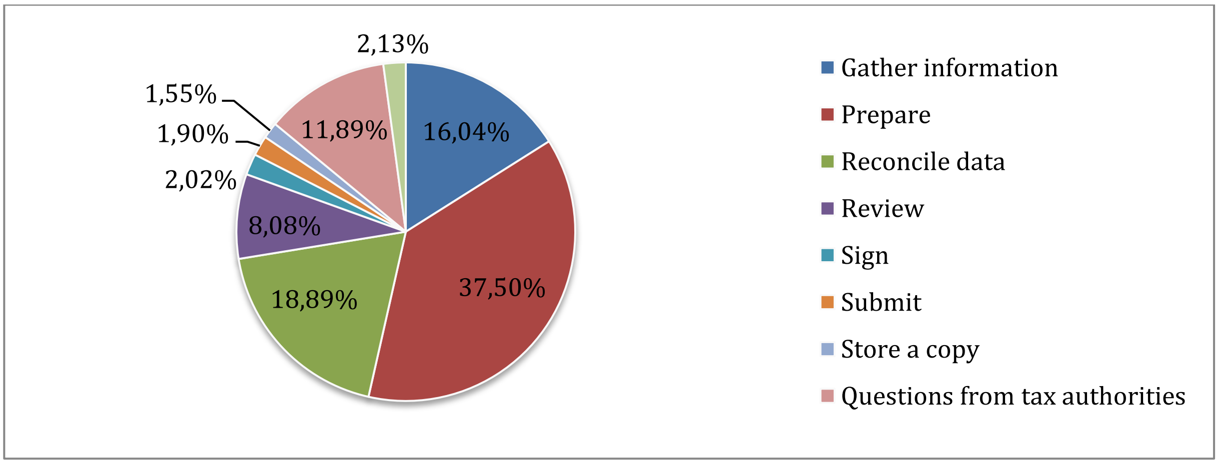


Table 17 – A IS – Frequency and time spent on specific questions from tax authorities for the sample of large businesses

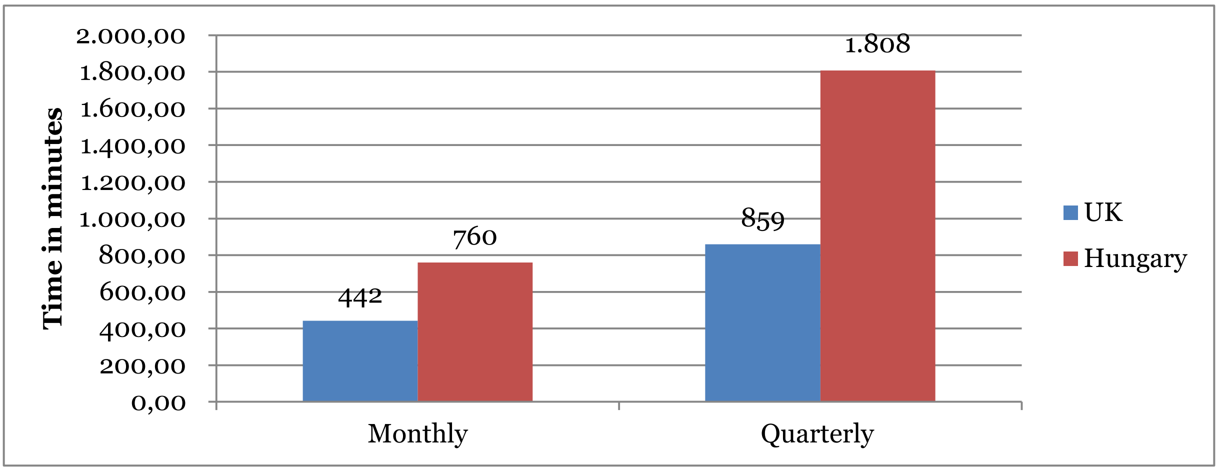
Member State	Number of companies indicating questions were asked	Total sample size	% of companies indicating questions were asked	Average time spent on specific questions from tax authorities
Belgium	10	18	56%	150
Germany	11	22	50%	41
Finland	4	10	40%	39
France	9	20	45%	350
Hungary	10	14	71%	308
Italy	5	13	38%	58
Poland	4	10	40%	245
UK	12	25	48%	136

260 The sample companies were also asked to indicate which staff member was tasked with carrying out the different activities. In general, it appears that the activities 'gather information', 'prepare the VAT return', 'reconcile data from accounting, intra-Community sales/acquisition listings and Intrastat' are performed by junior staff members (e.g. a junior accountant or junior VAT analysts). The activities 'review' and 'sign' are generally performed by senior staff members (e.g. a VAT manager or finance director). The activities 'store a copy' and 'answer specific questions from the tax authorities' are typically performed by both junior and senior staff members.

Impact of filing periodicity on average time spent

261 The total annual time spent on the preparation and filing of periodic VAT returns is impacted by the periodicity of the national VAT return. We refer to Appendix 2 for the periodicity of each Member State. For the United Kingdom and Hungary, we further analysed the impact of filing intervals on the time spent on preparing and submitting VAT returns. The results are shown in Figure 19 for both of these Member States and for the large sample companies. It appears that the time spent on preparing and submitting a quarterly VAT return is considerably higher than that spent on a monthly VAT return. The time spent on a quarterly VAT return is almost twice as much and two-and-a-half times as much as the time spent on monthly VAT returns for the UK and Hungary, respectively. This is not proportional to the filing interval, which is three times lower for quarterly filers than for monthly filers. As a consequence, quarterly filing appears, on average, to be less time-consuming than monthly filing on a yearly basis.

Figure 19 – AS IS – Comparison of time spent on preparing and submitting monthly and quarterly VAT returns for the UK and Hungary for the sample of large businesses



Impact of level of automation on time spent

262 In the AS IS questionnaire, we also considered the processes and software systems used by the sample businesses for preparing and submitting periodic VAT returns. Based on the information received, we can assess the level of automation for preparing and submitting VAT returns.

263 To assess this level of automation, we consider whether a specific software system is used for VAT compliance and whether or not the process for gathering information and submission is automated. Based on these inputs, we can allocate the sample businesses to one of three automation categories: 'low', 'medium' or 'high' level.

264 The result of this analysis is shown in Figure 20. For this analysis, the total sample of businesses is considered, including businesses both using and not using external consultants. The average time spent on preparing and submitting periodic VAT returns is considerably lower for sample businesses in the 'high level of automation' group than for sample businesses in the 'low level of automation' group.

265 If we consider each activity separately, the same result holds true for the 'gather', 'prepare', 'reconcile' and 'answer specific questions from tax authorities' activities. The time spent on 'sign', 'submit', 'store a copy' and 'other' is comparatively limited, regardless of the level of automation.

266 When considering the sample of businesses using external consultants, we notice that the majority of companies relying on external consultants were classified in the 'medium' or 'low' level of automation categories. However, two companies belonging to the outsourcing segment were classified in the 'high' level of automation category. It should be noted that the consultancy fees paid by these sample companies were very low (on average, sample companies in the 'high' level of automation category pay €43 of consulting fees per VAT return, whereas sample companies in the 'medium' and 'low' level of automation category pay on average €1,195 and €1,627 of consulting fees per VAT return). Consultancy fees are discussed further in paragraphs 280-285.

Figure 20 – AS IS – Average total time spent per level of automation for the sample of large businesses

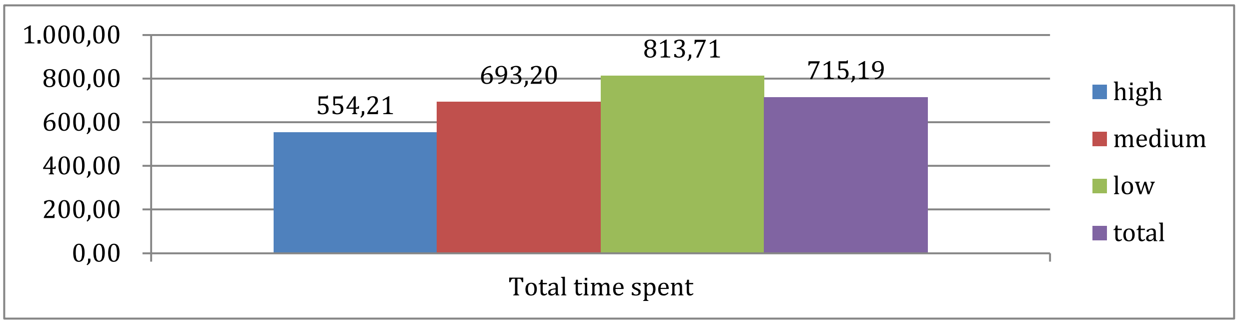
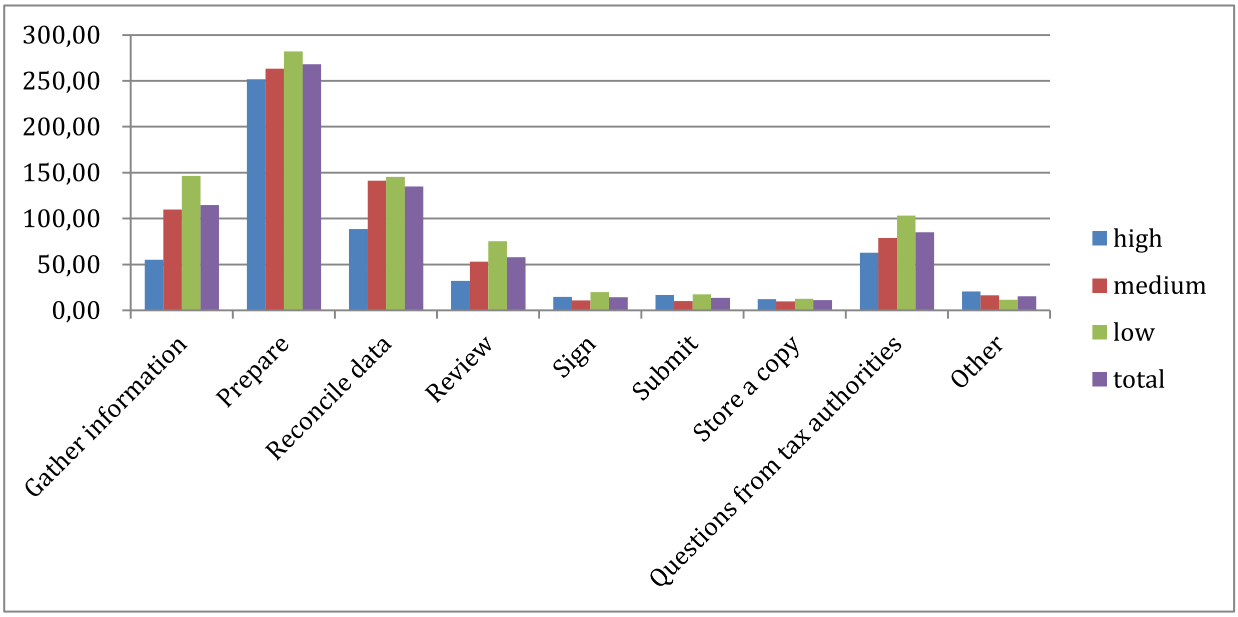


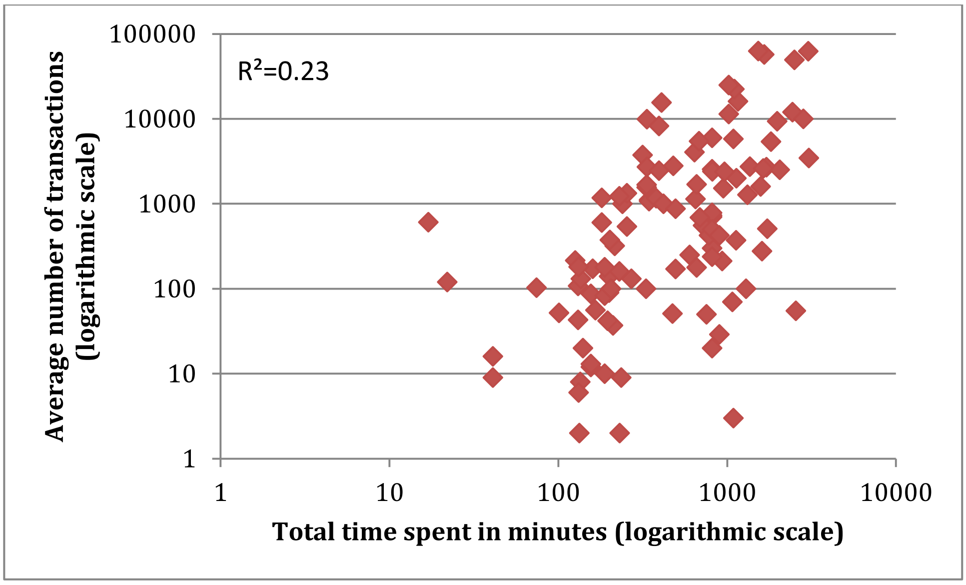
Figure 21 – AS IS – Average time spent per activity and per level of automation for the sample of large businesses



Impact of number of transactions on time spent

267 The total time spent is also influenced by the number of transactions that need to be reported in the periodic VAT return. Figure 22[49] shows the relationship between total time spent and average number of transactions. It appears there is no direct relationship (R^2 below 0,5 or 50%) between the number of transactions and the time spent (coefficient of determination of 23%). This result was also confirmed by the businesses in the follow-up calls.

Figure 22 – AS IS – Time spent per activity and average number of transactions for the sample of large businesses



268 Finally, the time spent per VAT return also depends on the internal organisation of the business. This includes the level of knowledge within the firm and the organisation of its VAT department. Due to the limited sample, this factor cannot be analysed in depth.

Analysis of costs

269 Data regarding the costs spent on the preparation and submission of periodic VAT returns is available both for the sample of large businesses and for the sample of SMEs. However, the level of detail of the cost data for the sample of SMEs is lower than the level of detail of the cost data we have for the sample of large companies.

270 We analyse the following issues:

- Average cost for the sample of large companies and for the sample of SMEs
    - Sample of large companies not using external consultants

[49] Data is presented on a logarithmic scale because the number of transactions and the time spent cover a large range of values. A logarithmic scale is a scale of measurement that displays the value of a physical quantity using intervals corresponding to orders of magnitude, rather than a standard linear scale. In this case, both the horizontal and vertical axis have equally spaced increments that are labelled 1, 10, 100, 1000, instead of 1, 2, 3, 4.

- Sample of large companies using external consultants
- Sample of SMEs

- Analysis of consulting fees

Average cost for the sample of large companies and the sample of SMEs

271 The overall average cost for preparing and submitting a periodic VAT return in the AS IS situation is different according to the type of company (sample of large companies vs. sample of SMEs vs. sample of micro companies, as well as for the sample of companies using external consultants vs. the sample of companies not using external consultants.

272 The most important cost drivers are the internal time spent on the preparation and submission of periodic VAT returns and the fees paid to outside consultants. Moreover, costs are greatly influenced by reported wage levels for each activity that is performed. The difference in wages among EU Member States remains significant and has a considerable impact on the real costs for businesses.

273 The costs presented in this section represent the real cost (i.e. cash out) for sample businesses, including consulting fees. An overview of these costs is provided in Table 18.

Table 18 – Overview of recurring cost for the sample of large companies and SMEs

Company size	Average recurring cost estimate for companies not using external consultants	Average recurring cost estimate for companies using external consultants
Large companies	€576[50]	€1,487[51]
SMEs[52]	€453	
Micro companies[53]	€244	

[50] Average of the average recurring cost estimates for companies not using external consultants calculated for each of the eight Member States in scope.

[51] Average of the average recurring cost estimates for companies not using external consultants calculated for each of the eight Member States in scope.

[52] Due to the data limitation, only an average cost per VAT return can be estimated for the SMEs.

[53] Due to the data limitation, only an average cost per VAT return can be estimated for the micro companies.

Sample of large companies not using external consultants

274 Table 18 shows that the total average recurring cost per Member State for the sample of large companies that do not use external consultants is lower than the total average recurring cost per Member State for the sample of large companies using external consultants.

275 The average cost per Member State was calculated as follows:

$$Average\ cost\ per\ MS = \frac{1}{N}\sum_{N}\sum_{AC}\left(\mathrm{time}_{\mathrm{N,AC}} * \text{wage level}_{\mathrm{N,AC}}\right),$$

With N the number of data entries per Member State and AC the nine activities for preparing and submitting a VAT return (gather information, prepare the VAT return, reconcile data from accounting, intra-Community sales and other listings[54] and Intrastat, review the VAT return; sign the VAT return, submit the VAT return, store a copy of the VAT return; answer any specific questions from the tax authorities, and other recurring costs identified).

276 Considering the sample of large companies not using external consultants, costs vary between €453 and €806 per VAT return. Costs vary around €500 for most Member States (i.e. Finland, Germany, Italy, Poland and the UK). Costs are considerably higher for Belgium and Hungary (i.e. close to €800 and €730 respectively) and somewhat higher for France (i.e. close to €630).

Sample of large companies using external consultants

277 The average cost per Member State was calculated as follows:

$$Average\ cost\ per\ MS = \frac{1}{N}\sum_{N}\sum_{AC}\left(\mathrm{time}_{\mathrm{N,AC}} * \text{wage level}_{\mathrm{N,AC}} + \text{consulting fee}_{\mathrm{N,AC}}\right),$$

With N the number of data entries per specific Member State and AC the nine activities for preparing and submitting a VAT return (gather information, prepare the VAT return, reconcile data from accounting, intra-Community sales and other listings[55] and Intrastat, review the VAT return; sign the VAT return, submit the VAT return, store a copy of the VAT return; answer any specific questions from the tax authorities, and other recurring costs identified).

278 Costs from the sample of large companies that use external consultants vary more considerably than those from the sample of large companies not using external consultant. For this segment, the lowest costs are incurred in Finland, followed by Hungary, Germany, France, Belgium and the UK. Costs are considerably higher for Italy and Poland.

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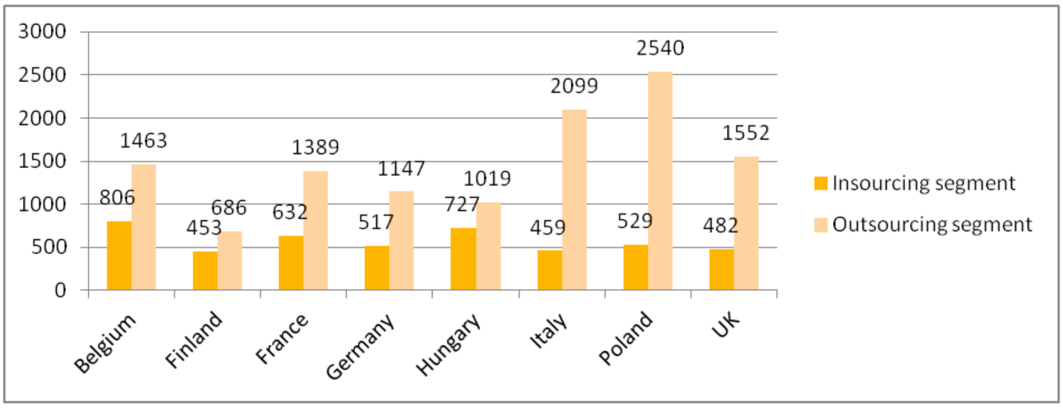
[54] Recapitulative statement for intra-Community supply of goods, including deemed supplies, and services, as provided for in article 262 of Directive 2006/112/EC.

[55] Recapitulative statement for intra-Community supply of goods, including deemed supplies, and services, as provided for in article 262 of Directive 2006/112/EC.

Figure 23– AS IS – Total average recurring cost per Member State in euro for the sample of large businesses



Sample of SMEs and micro companies

279 We compared the cost data from the large companies with the cost data provided by the only SME that completed the questionnaire. In addition, we sense-checked the cost estimate during the telephone interviews with four other SMEs and micro companies, registered in one or more Member States. This, together with our own expert judgement, resulted in the cost estimates for SMEs and micro companies. The limited data available and the low level of detail of the data we have, do not allow separate cost estimates for SMEs and micro companies that do and do not use external consultants. The data did not allow separate cost estimates per Member State, either. An overall cost estimate is made. For SMEs, the cost per VAT return is estimated at €453. For micro companies, the cost per VAT return is estimated at €244.

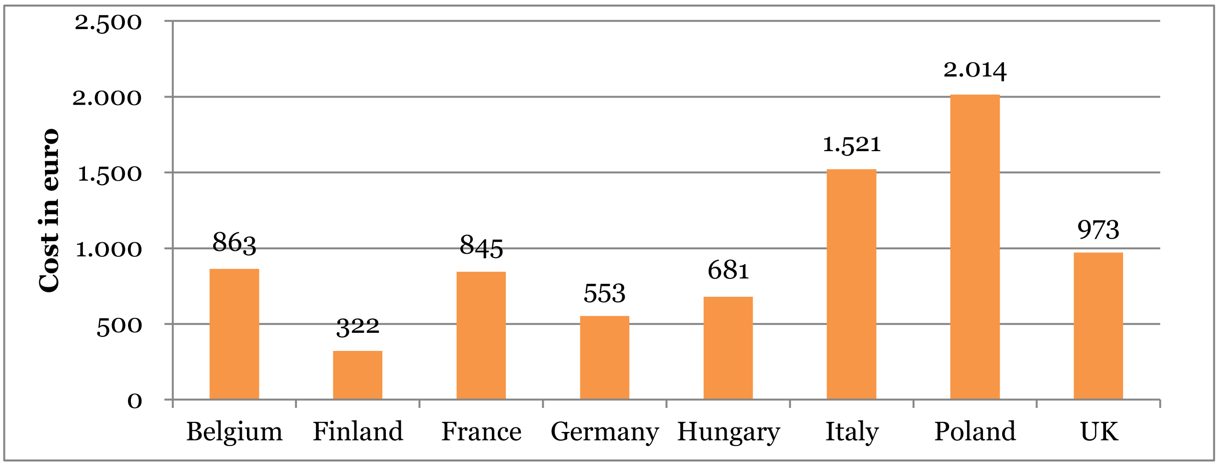
Consulting fees

280 In this section, an analysis is done of the frequency and amount of consulting fees for the Member States in scope. There are two major reasons for sample businesses to engage external consultants. First, they may choose to outsource certain activities. Second, they may be obliged to rely on external consultants for VAT compliance. This obligation can be imposed by law (e.g. local identity card required for electronic submission of VAT returns) or by language barriers (e.g. communication only possible in a local language that is not available in-house).

281 Six companies out of our sample of large businesses indicated that they use outside consultants and consultancy fees appear in 33 data entries for the submission of periodic VAT returns. The average consultancy fees per VAT return are shown in

282 Figure 24. SMEs registered in more than one Member State indicated in the telephone interviews that they also make frequent use of external consultants. These SMEs were not able to specify the amount of consulting fees per Member State, however.

Figure 24 – AS IS – Average amount of consultancy fees per VAT return for the sample of large businesses and per Member State if outside consultants are used



283 In Table 19, we present an overview of the frequency and average amount of consulting fees per VAT return and per Member State. Sixty-three percent of the companies in our sample use outside consultants in Poland. Around 40% of the companies rely on outside consultants in Finland and Hungary, and 33% of the companies rely on them in Italy.[56] Only around 15% of the companies rely on outside consultants in Belgium, France, Germany and the UK.

284 From the follow-up calls with businesses, we know that outside consultants are often relied upon in Hungary, Italy[57] and Poland for linguistic reasons. In Finland, a local identity card is required to submit VAT returns electronically. In the event that a company has no such local representatives in that country, it has to rely on outside consultants for submitting its VAT returns electronically. In Poland, a similar system is in place, since only a local representative with a special registration number can file VAT returns electronically for companies not established in Poland. In Hungary, outside consultants are often used by non-established companies to file VAT returns electronically; otherwise personal registration with the Hungarian authorities would be necessary for those companies.

285 The complexity is increased by the fact that VAT returns (e.g. Hungary) and/or instructions from the tax authorities (e.g. Germany) are often only available in the local language of the Member State. If the language capabilities are not available in-house, the business is obliged to use local consultants.

[56] For Italy, external consultants are used for the preparation, calculation and payment of the periodic prepayments as well as for the preparation and submission of the annual VAT return.

[57] For Italy, external consultants are used for the preparation, calculation and payment of the periodic prepayments as well as for the preparation and submission of the annual VAT return.

286 In the last column of Table 19, we present the approximate number of boxes in the VAT return of the eight Member States in scope. We learn that there is no strong correlation (R^2 above 0,5 or 50%) between the percentage of sample companies using external consultants and the approximate number of boxes in the VAT return (coefficient of determination R^2 = 26%) or between the average amount of consulting fees and the approximate number of boxes in the VAT return (coefficient of determination R^2 = 13%).

Table 19 – Frequency and amount of consulting fees per VAT return and per Member State for the sample of large businesses

Sample size without outliers	Total sample size (without outliers)	Companies relying on outside consultants	% of companies relying on outside consultants	Average amount of consulting fees paid per periodic VAT return	Approximate number of boxes in VAT return
Belgium	19	3	16%	€863	34
Finland	12	5	42%	€322	45
France	19	3	16%	€845	25
Germany	22	3	14%	€553	43
Hungary	16	6	38%	€681	99
Italy[58]	12	4	33%	€1,521	-
Poland	8	5	42%	€2,014	52
UK	25	4	16%	€973	9

Comparison of analysis of time spent and costs

287 Figure 24, Figure 26 and Figure 27 compare the time spent and monetary costs for preparing and submitting periodic VAT returns. On average, the costs for the sample of large enterprises not using external consultants are lower than for the sample of large enterprises using external consultants whereas the internal time spent is somewhat higher for the sample of large enterprises not using external consultants than for the sample of large enterprises using external consultants.

288 Considering the two segments together, the highest average costs are incurred in Poland, although the actual time spent on the preparation and submission of periodic VAT returns matches the averages of other Member States. We also know that wage levels in Poland are considerably lower than in other EU Member States, which should have a positive (i.e. downward) impact on costs. However, we know from Table 19 that 63% of the companies rely on outside consultants in Poland and that consultancy fees there are fairly high. This negatively impacts costs and may explain the Polish results.

[58] For Italy, outside consultants used for preparation, calculation and payment of periodic prepayments as well as for the preparation and submission of the annual VAT return.

289 The same is true for Italy. Although the time spent on periodic prepayments and the preparation and submission of the annual VAT return is fairly small, the cost in monetary values is comparatively high. We know from that consultancy fees in Italy are considerable and that one third of the large sample businesses rely on consultants. This may explain the deviation between time spent and total costs in Italy.

290 Finland is characterised by the lowest average time spent on the preparation and submission of periodic VAT returns. The average amount of consulting fees is fairly low, but a significant number of large sample businesses (42%) rely on consultants for filing their VAT returns electronically (see paragraph 284). This has a negative impact on the average cost incurred in Finland.

291 In Belgium, France, Germany and the United Kingdom, time spent and costs incurred are in line with each other. In these Member States, consulting fees are fairly average and only a low proportion of companies make use of them. Wage levels have no direct impact since they are relatively close to the average European wage level.

292 In Hungary, wage levels are considerably lower than in other EU Member States, which caused us to expect lower costs compared to time spent. This effect is mitigated by the fairly high percentage of businesses that make use of outside consultants.

Figure 25 – AS IS – Comparison of average time spent and average cost of preparing and submitting periodic VAT returns[59] for large sample companies not using external consultants

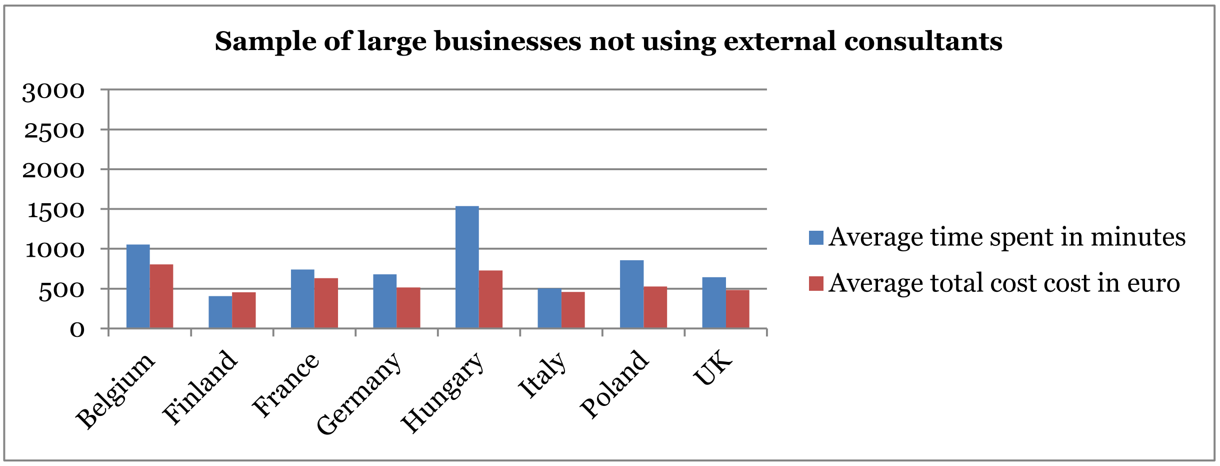
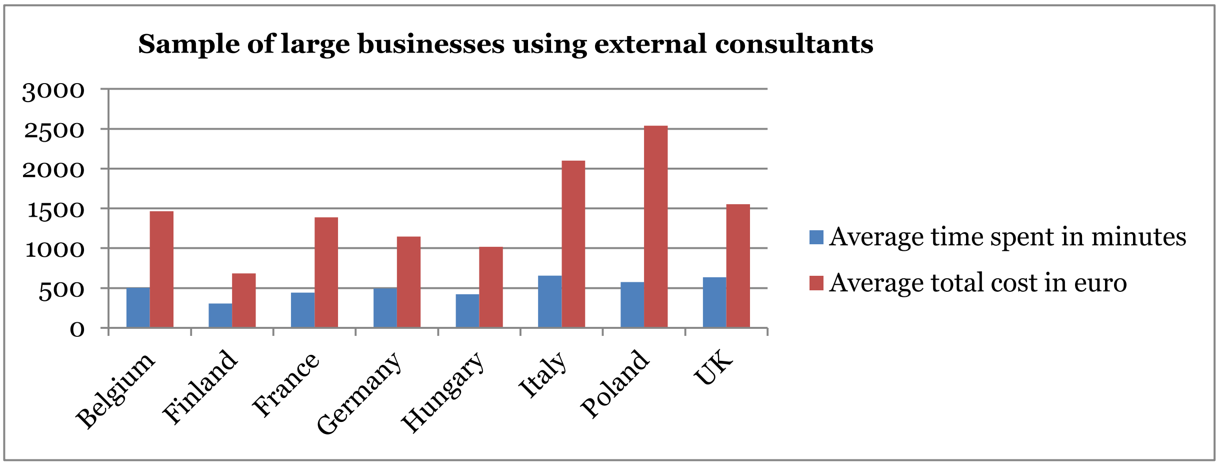


Figure 26– AS IS – Comparison of average time spent and average cost of preparing and submitting periodic VAT returns[60] for the sample of large companies using external consultants



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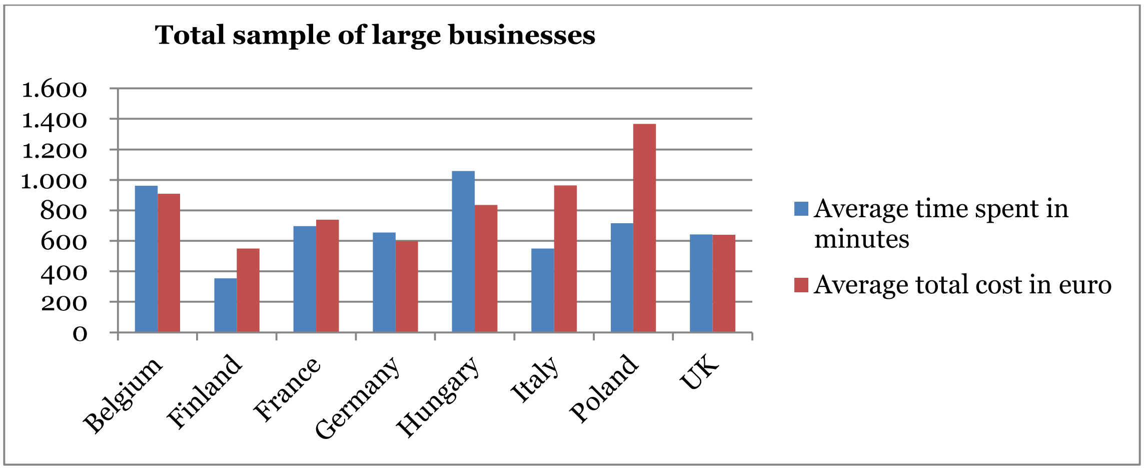
[59] For Italy, the time spent and cost in monetary values relate to preparation, calculation and payment of periodic prepayments as well as for the preparation and submission of the annual VAT return.

[60] For Italy, the time spent and cost in monetary values relate to preparation, calculation and payment of periodic prepayments as well as for the preparation and submission of the annual VAT return.

Figure 27 – AS IS – Comparison of average time spent and average cost of preparing and submitting periodic VAT returns[61] for total sample of large companies (i.e. both companies using external consultants and not using external consultants)



Analysis of time and cost spent on summarising annual VAT returns

293 Businesses have to submit summarising annual VAT returns in some Member States, such as Germany.

294 Figure 28 gives an overview of the time spent on and costs of summarising annual VAT returns for Germany for the total sample of large companies (including both the insourcing segment and the outsourcing segment). The figures also show the time and costs spent on the periodic VAT return for Germany for the total sample of large companies (including both the insourcing segment and the outsourcing segment).

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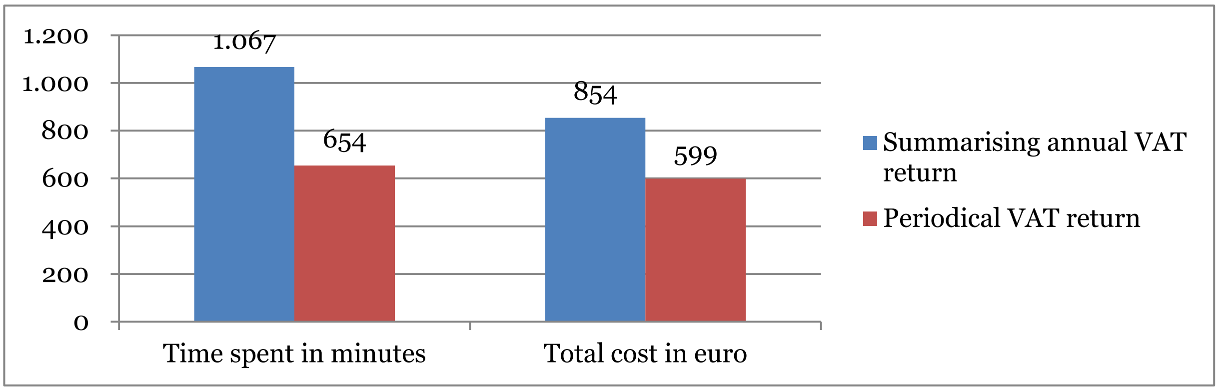
[61] For Italy, the time spent and cost in monetary values relate to preparation, calculation and payment of periodic prepayments as well as for the preparation and submission of the annual VAT return.

Figure 28 – AS IS – Time spent in minutes and cost in euro per summarising annual VAT return and per periodic VAT return in Germany



295 Both the time spent on and the cost of annual VAT returns in Germany is higher than for periodic VAT returns. The percentage of sample companies relying on outside consultants and the average amount of consulting fees paid per VAT return are comparable in the case of periodic and annual VAT returns. The number of boxes in the annual VAT return in Germany is comparable to the number of boxes in the periodic VAT return.

Table 20 – Frequency and amount of consulting fees for Germany for filing summarising annual VAT returns

Sample size without outliers	Total sample size (without outliers)	Companies relying on outside consultants	% of companies relying on outside consultants	Average amount of consulting fees paid per summarising annual VAT return	Approximate number of boxes in annual VAT return
Germany	12	2	17%	€825	45

Total recurring costs for EU-27

Population

296 Considering the total number of taxpayers per type of company in each Member State and the periodicity for each type of company (i.e. large vs. medium-sized vs. small vs. micro), 148,333,589 periodic VAT returns are submitted on a yearly basis in the EU-27.

297 The table below provides the total number of periodic VAT returns that are submitted in the EU-27)[62] for each Member State. The detail of the calculation is provided in the appendix (see Methodology).

[62] The periodicity for each type of company comes from national legislation. The numbers of each type of company are obtained by applying the representativeness percentage of each type of company in Europe (i.e. 0.2% for large companies, 1.1% for medium-sized companies, 6.5% for small companies and 92.2% for micro companies). Moreover, some Member States experience different periodicities for certain types of companies (mainly for micro companies). In that case, data collected from the tax authorities via the questionnaire is used to make the split. For some Member States, additional assumptions have been considered (see footnotes in the table).

Table 21 – Total population and total number of VAT returns in EU-27

Member State	Periodicity for companies						Number of companies[63]						Total number of VAT returns submitted on an annual basis
	Large	Medium-sized	Small	Micro			Large	Medium-sized	Small	Micro			
Austria	12	12	12	12	4		1,340	7,370	43,550	497,740	120,000		7,080,000
Belgium	12	12	12	12	4		1,366	7,513	44,394	48,228	581,486		3,543,956
Bulgaria	12	12	12	12			429	2,361	13,953	197.917			2,575,920
Cyprus	4	4	4		4		172	946	5,590		79,292		344,000
Czech Republic[64]	12/4	12/4	12/4	12	4		1,006	5,531	32,681	65,472	398,093		2,846,988

[63] The number of each type of company is obtained by applying company type representation in Europe from Eurostat, 2009 (i.e. 0,2% far large companies, 1,1% for medium-sized companies, 6,5% for small companies and 92,2% for micro companies) to the number of taxpayers that submit periodic VAT returns in each Member State.

[64] The non-established taxpayers in Czech Republic have to submit quarterly VAT returns. As we know that there are 2,647 non-established taxpayers, we consider that 0,2% are large companies (i.e. 6), 1,1% are medium-sized companies (i.e. 29), 6,5% are small companies (i.e. 72) and 92,2% are micro companies (i.e. 2,441) and we apply a periodicity of four for the non-established taxpayers.

Member State	Periodicity for companies						Number of companies[63]						Total number of VAT returns submitted on an annual basis
	Large	Medium-sized	Small	Micro			Large	Medium-sized	Small	Micro			
Denmark	12	12	12		4	2	838	4,609	27,235		386.318[65]		1,937,456
Estonia	12	12	12	12			143	785	4,640	65.818			856,632
Finland	12	12	12	12	4	1	1,186	6,521	38,533	227,572	27,677	291,329	3,687,781
France	12	12	12	12	4	1	6,209	34,149	201,789	1,221,762	1,626,551	13,985	24,087,097
Germany	12	12	12	12	4		11,400	62,700	370,500		5,255,400[66]		26,356,800
Greece[67]	12/4	12/4	12/4	12	4		2,127	11,701	69,140	7,032	973,690		4,974,641
Hungary	12	12	12	12	4	1	1,101	6,055	35,778	84,428	280,524	142,541	2,792,969
Ireland	6	6	6	6	4	2 or1	487	2,681	15,842	124,806	59,013	40,997[68]	1,168,120

[65] We consider that all micro companies are filing quarterly VAT returns because no detailed data have been provided by the tax authorities.

[66] We consider that all micro companies are filing quarterly VAT returns because no detailed data have been provided by the tax authorities.

[67] The non-established taxpayers in Greece have to submit quarterly VAT returns. As we know that there are 190 non-established taxpayers, we consider that 0,2% are large companies (i.e. 0), 1,1% are medium-sized companies (i.e. 2), 6,5% are small companies (i.e. 12) and 92,2% are micro companies (i.e. 172) and we apply a periodicity of four for the non-established taxpayers.

[68] 28,269 micro companies are filing bi-annually VAT returns and the remaining micro companies are filing their VAT return on an annual basis.

Member State	Periodicity for companies						Number of companies[63]						Total number of VAT returns submitted on an annual basis
	Large	Medium-sized	Small	Micro			Large	Medium-sized	Small	Micro			
Italy	1	1	1			1	10,264	56,455	333,596			4.731.934	5,132,249
Latvia	12	12	12	12	4	2	174	959	5,669	34,161	20,107	26,151	624,298
Lithuania	12	12	12	12		2	148	815	4,815	52,298		16,000	728,912
Luxembourg	12	12	12	12	4	1	118	648	3,829	19,906	16,500	17,900	377,900
Malta	4	4	4		4	1	74	405	2,393		24,443	9,500	118,760
Netherlands	12	12	12	12	4	1	3,130	17,215	101,725	92,930	1,200,000	150,000	7,530,000
Poland	12	12	12	12	4		3,200	17,600	104,000	1,255,200	220,000		17,440,000
Portugal	12	12	12	12	4		1,464	8,054	47,595	19,056	656,055		3,538,248
Romania	12	12	12	12	4		1,136	6,250	36,932	141,334	382,537		3,757,984
Slovakia	12	12	12	12	4		393	2,162	12,774	43,733	137,456		1,258,556
Slovenia	12	12	12	12	4		206	1,133	6,694	31,703	63,248		729,824
Spain	12	12	12		4		5,685	31,269	184,771[69]		2,620,905		12,257,421

[69] 60% of the small companies are filing quarterly VAT returns and 40% of the small companies are filing monthly VAT returns.

Member State	Periodicity for companies						Number of companies[63]						Total number of VAT returns submitted on an annual basis
	Large	Medium-sized	Small	Micro			Large	Medium-sized	Small	Micro			
Sweden	12	12	12	12	4	1	2,061	11,333	66,967[70]		949,898		4,549,619
UK	4	4	4	12	4	1	3,812[71]	20,966	123,890	52,415	1,691,069	13,848	8,037,458
TOTAL							**59,670**	**328,185**	**1,939,274**	**4,283,511**	**17,770,262**	**5,454,085**	**148,333,589**
							29.834,986						

[70] 40% of the small companies are filing quarterly VAT returns and 60% of the small companies are filing monthly VAT returns.

[71] 3% of the large, medium-sized and small companies are filing monthly VAT returns.

Total recurring cost

298 The total administrative cost for the preparation and submission of periodic VAT returns in the EU-27 is **€39,347,060,790**, or 0.31% of the EU GDP.[72] France, Germany, Poland and Italy are responsible for the largest share of this cost. For these first three Member States, the reasons can be sought in the number of VAT returns that need to be submitted each year. For Italy, the high cost can be attributed to the higher cost of the procedure for businesses and the complexity of the annual VAT return. The table below shows the results for established and non-established companies for each Member State.

299 When the consulting fees are excluded from the calculation, the total recurring cost to prepare and submit periodic VAT returns in the EU-27 is estimated at €24,845,395,008 for all taxpayers. This information is relevant in order to draw a proper comparison with the TO BE cost calculations, which do not include consulting fees.

300 It appears that €606,378,330 (i.e. €289,567,727 + €66,077,555 + €250,733,048) represents the AS IS recurring cost for non-established taxpayers in the EU-27 (or 1.54% of the total AS IS recurring cost). As the total number of non-established taxpayers is 307,654, the average cost per VAT return is €1,971 on an annual basis (total cost for non-established taxpayers divided by the number of non-established taxpayers).

301 When consulting fees are excluded from the calculation, the total recurring cost to prepare and submit periodic VAT returns in the EU-27 is evaluated at €355,645,282 for non-established taxpayers in EU-27.

[72] The GDP for the EU-27 is €12,649,785,300,000 (PPP) in 2011: Eurostat.

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Table 22 – Total recurring cost (€) for AS IS per Member States (for established and non-established companies)

Member States	Companies not using external consultants (€)		Companies using external consultants (€)		Consultancy fees (€)		Total recurring cost (€)	% of the total recurring cost
	Established	Non-established	Established	Non-established	Established	Non-established		
Austria	795,063,284	171,184,495	165,079,973	35,543,248	805,170,808	173,360,738	2,145,402,545	5.5%
Belgium	879,256,090	7,970,906	78,457,842	711,260	166,539,190	1,509,763	1,134,445,050	2.9%
Bulgaria	27,273,571	48,239	6,081,405	10,756	140,708,854	248,873	174,371,698	0.4%
Cyprus	37,354,469	87,073	7,037,318	16,404	10,006,193	23,324	54,524,781	0.1%
Czech Republic	176,924,984	936,388	36,735,153	194,423	585,687,526	3,099,793	803,578,268	2.0%
Denmark	520,101,691	5,784,751	97,983,478	1,089,806	117,830,582	1,310,552	744,100,860	1.9%
Estonia	16,623,745	158,926	3,706,728	35,437	37,145,703	355,119	58,025,659	0.1%
Finland	174,116,033	1,469,686	93,829,468	792,000	166,737,882	1,407,408	438,352,477	1.1%
France	3,201,007,713	15,188,756	357,255,325	1,695,174	1,061,851,031	5,038,475	4,642,036,473	11.8%
Germany	3,783,093,357	42,076,873	435,293,169	4,841,481	1,105,287,987	12,293,395	5,382,886,261	13.7%
Greece	507,574,282	90,681	105,388,276	18,828	751,057,950	134,181	1,364,264,197	3.5%
Hungary	131,139,145	481,598	21,533,171	79,079	247,858,160	910,240	402,001,393	1.0%

Member States	Companies not using external consultants (€)		Companies using external consultants (€)		Consultancy fees (€)		Total recurring cost (€)	% of the total recurring cost
	Established	Non-established	Established	Non-established	Established	Non-established		
Ireland	90,513,420	3,117,086	17,052,088	587,237	18,992,570	654,063	130,916,463	0.3%
Italy	2,858,502,970	5,767,329	4,525,971,776	9,131,622	1,373,158,073	2,770,490	8,775,302,261	22.3%
Latvia	12,444,341	93,290	2,774,814	20,802	38,946,997	291,969	54,572,211	0.1%
Lithuania	10,680,455	79,894	2,381,506	17,814	33,465,337	250,332	46,875,339	0.1%
Luxembourg	40,176,149	12,527,084	18,188,684	5,671,304	44,044,753	13,733,331	134,341,305	0.3%
Malta	6,611,125	37,564	1,372,676	7,800	15,518,590	88,176	23,635,931	0.1%
Netherlands	701,600,811	6,789,685	156,441,503	1,513,950	388,197,437	3,756,749	1,258,300,136	3.2%
Poland	594,576,390	2,987,821	289,951,468	1,457,043	3,766,114,800	18,925,200	4,674,012,721	11.9%
Portugal	246,846,083	1,033,191	51,252,957	214,523	431,421,392	1,805,744	732,573,891	1.9%
Romania	127,167,913	242,402	26,404,031	50,330	761,664,625	1,451,854	916,981,155	2.3%
Slovakia	43,803,621	988,067	9,767,241	220,317	87,805,533	1,980,607	144,565,387	0.4%
Slovenia	40,025,914	365,541	8,924,896	81,507	39,988,425	365,198	89,751,482	0.2%
Spain	1,166,338,825	1,105,582	242,168,372	229,553	1,644,258,602	1,558,606	3,055,659,540	7.8%
Sweden	412,905,282	4,592,475	92,068,769	1,024,021	220,460,642	2,452,039	733,503,229	1.9%

Member States	Companies not using external consultants (€)		Companies using external consultants (€)		Consultancy fees (€)		Total recurring cost (€)	% of the total recurring cost
	Established	Non-established	Established	Non-established	Established	Non-established		
UK	870,861,780	4,362,345	164,064,196	821,835	191,013,091	956,828	1,232,080,075	3.1%
TOTAL	**17,472,583,444**	**289,567,727**	**7,017,166,282**	**66,077,555**	**14,250,932,734**	**250,733,048**	**39,347,060,790**	**100%**

302 The recurring cost for Italy is high, compared with the other Member States. The proportion of the recurring cost for Italy is 22% of the total recurring cost for the EU-27. This can be explained by several factors: the wage level used is high (€38.90/hour), the number of taxpayers is large (5,132,249 taxpayers that submit periodic VAT returns) and consulting fees are also high compared to the other Member States (data collected from our sample).

303 Next, the total administrative cost for recurring activities linked to the preparation and submission of periodic VAT returns and the total administrative cost for the summarising annual VAT return need to be considered: if the common EU standard VAT return is adopted in Europe, the annual VAT return will disappear.

304 Considering that seven Member States have a summarising annual VAT return,[73] the total administrative cost related to the summarising annual VAT return in the EU-27 is assessed at €3,907,848,063 (or €2,971,758,431 without consultancy fees).

Table 23 – Total recurring cost to prepare and submit summarising annual VAT returns in EU-27

Member State	Companies not using external consultants – cost (€)	Companies using external consultants – cost (€)	Consultancy fees (€)	Total cost
Austria	55,513,723	7,814,344	19,206,064	82,534,131
Germany	1,240,340,259	111,746,724	247,695,363	1,599,782,346
Greece	243,190,317	34,232,486	122,933,945	400,356,749
Luxembourg	7,883,489	3,055,735	5,674,694	16,613,918
Malta	125,334	17,643	100,508	243,485
Portugal	45,198,588	6,362,342	26,986,838	78,547,768
Spain	1,066,195,331	150,082,115	513,492,219	1,729,769,666
Total	**2,658,447,042**	**313,311,390**	**936,089,632**	**3,907,848,063**

[73] Austria, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Portugal and Spain.

305 This figure is based on the data from our sample from Germany (i.e. time spent per return, and the fees paid to these consultants). For the remaining Member States, we use the German data but, for the proportion of companies that use external consultants, we refer to the figure used for the AS IS cost calculation. The reason for this is that we consider that, if a company works with external consultants for preparation and submission of its periodic VAT return, it will also refer to these external consultants for preparation and submission of its summarising annual VAT return. Moreover, we apply a complexity factor to the average number of boxes in the summarising annual VAT return. This complexity factor is obtained by dividing the number of boxes in the summarising VAT return by the average number of boxes in the returns of the seven Member States (i.e. 136 boxes on average).

5.2.3.4 Generic costs

306 Generic costs cover audit costs (i.e. costs due to in-depth audits performed by tax authorities), recurring software costs (i.e. cost of software maintenance and licence fees), recurring training costs (i.e. cost to keep staff members abreast of changes in VAT-compliance legislation and software), costs of security requirements for e-filing, translation costs and any other relevant costs.

Audit costs

307 Although 18 sample companies provided feedback on audits, we only take into account the data from sample companies that provided estimates for both time spent and costs (this data is available from 12 sample companies), in order to be able to compare time spent and cost estimates per Member State.

308 Figure 29 and Figure 30 show the average time spent on audits and the average cost of audits for the eight Member States in scope. Please note that the time spent on audits within a Member State may differ depending on the sample company's situation and the level of detail of the audit.

309 During the data collection, several sample companies indicated that audits in Hungary and Italy tend to be fairly detailed. For the other Member States, no specific issues were raised. There is no clear link between the time spent on audits and the level of detail of the VAT return (R^2 = 10%). This is shown in Figure 31. Businesses have confirmed this finding to us during the follow-up interviews.

310 Businesses interviewed did not report any problems with regard to language requirements or difficulties with tax authorities when being audited in France, the UK, Ireland or Finland.

Figure 29 – AS IS – Average time spent on audits in days per Member State for sample companies

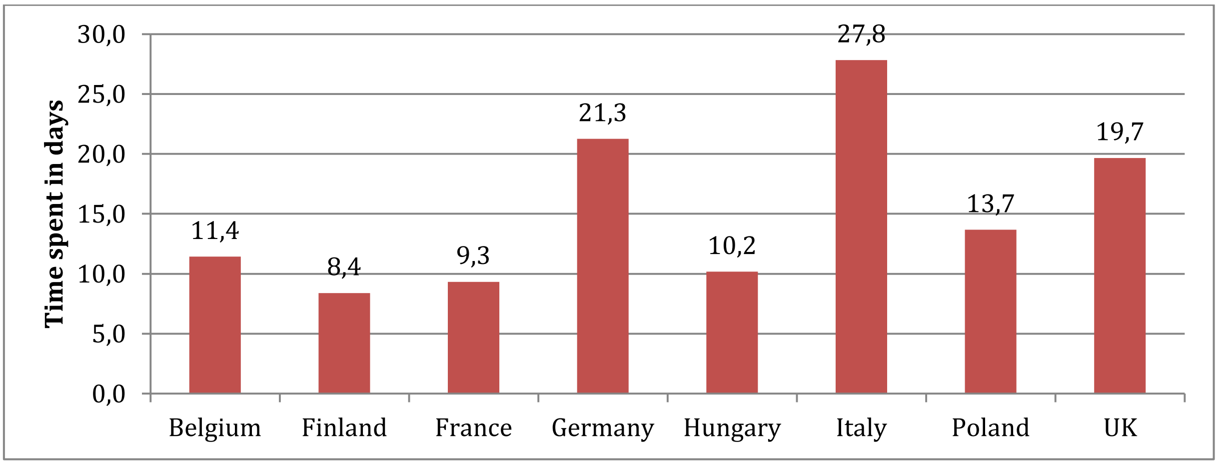


Figure 30 – AS IS – Average cost spent on audits in euro per Member State for sample companies

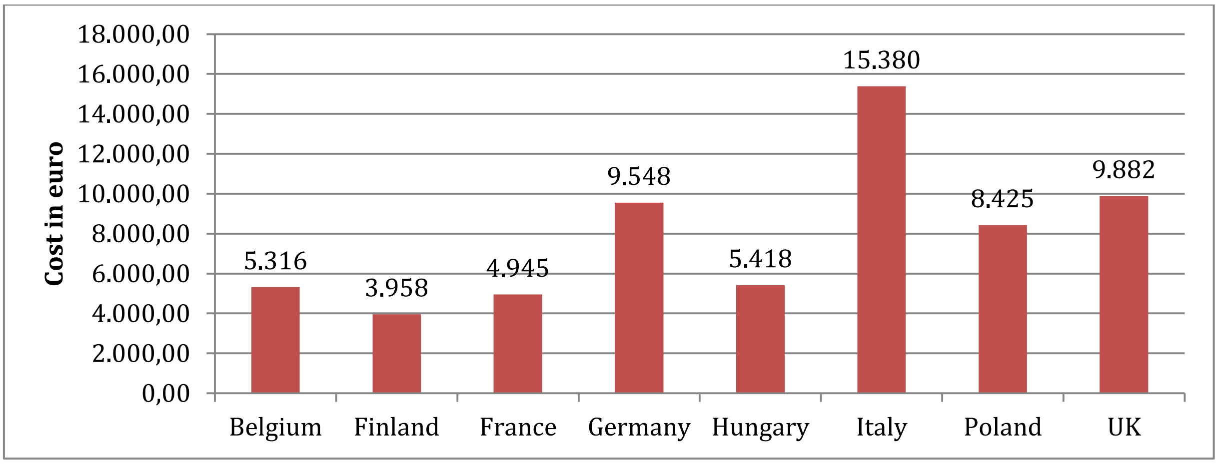
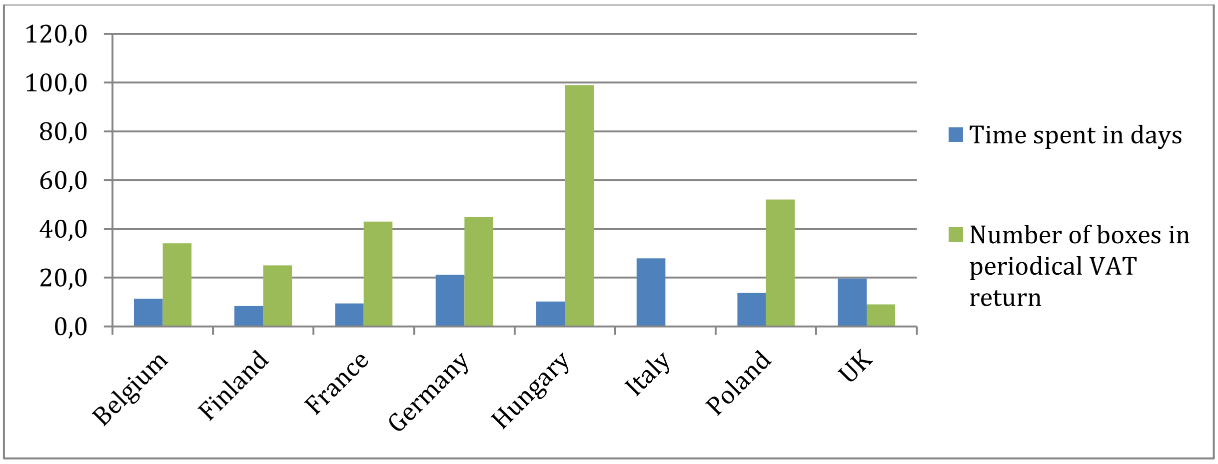


Figure 31 – AS IS – Average time spent in days on audits and number of boxes in periodic VAT return for sample companies



Recurring software costs, recurring training costs and costs to stay abreast of legal changes

311 The recurring costs for software and training and the costs to stay abreast of legal changes differ considerably between sample companies/groups. This is due to the fact that sample companies use different software systems and are typically organised differently for training and development purposes.

312 Given these considerations, we present the average, minimum, maximum, median, 25-percentile[74] and 75-percentile[75] in Table 24. The figures represent the overall recurring cost incurred by the sample company, for all its entities and including all Member States in which it submits periodic VAT returns.

Table 24 – Generic costs

Generic cost	Sample size	Average	Minimum	Maximum	Median	25-percentile	75 -percentile
Recurring annual software cost	14	€78,809	€0	€450,000	€2,500	€0	€23,330
Recurring annual training cost	18	€30,219	€0	€175,000	€13,500	€5,500	€30,000
Recurring cost to stay abreast of legal changes	16	€18,747	€750	€125,000	€10,000	€3,875	€24,000

313 Concerning recurring software costs (such as licence and maintenance fees), some sample businesses do not use specific VAT-compliance software and indicate a cost of zero. Other sample businesses use specific VAT-compliance software and indicate that the cost to maintain this software can be considerable.

314 With regard to training, we find significant variations. Training is dependent on the organisation and size of the company itself. The same applies to recurring costs to stay abreast of legal changes.

[74] The value below which 25% of the observations may be found.

[75] The value below which 75% of the observations may be found.

Costs of security requirements for e-filing

315 Sample businesses indicate that the procedures for electronic submission of periodic VAT returns differ in every Member State and are often subject to change. While the procedures are considered as relatively straightforward in some Member States (e.g. Finland, the United Kingdom, Germany), they are perceived as cumbersome and time-consuming in other Member States (e.g. Italy, Belgium). Furthermore, instructions are often only provided in the local language and seem to leave room for interpretation. Businesses would much prefer there to be one filing procedure that is applicable in all EU Member States.

316 Most sample businesses agree that electronic signatures contribute to increased security. However, it is unclear whether this increased security is strictly speaking required: one business representative indicated that filing another business's periodic VAT returns with a stolen log-on name and password is not likely to generate any benefit for the imposter (VAT refunds excluded). Therefore, theft of log-ins is unlikely and a secure log-in name and password should be sufficient.

317 Sample businesses indicate that electronic signatures are often connected to one individual staff member. This often creates complications, for example, when authorised persons are not able to leave on holiday at times when VAT returns have to be signed and/or problems arising when an authorised person leaves the company. Then, sample businesses prefer different staff members within the company to be given authorisation to submit VAT returns, rather than one dedicated staff member. Given the choice, sample companies would opt for a more flexible system for electronic submission.

318 Sample businesses specify that the upfront registration process for electronic filing varies across Member States. They indicate that, for some Member States (e.g. Belgium), the process runs fairly smoothly while, for other Member States (e.g. Luxembourg), it may take considerable time before upfront registration is completed. This can result in considerable problems, for example, when new employees are hired but are not yet authorised to submit periodic VAT returns. It seems that sample businesses do not object to upfront registration for electronic filing, as long as the underlying process is clear, efficient and effective.

319 In some cases, a local identity card is required for submitting VAT returns electronically (e.g. Poland, Finland, and Hungary). This entails an additional cost for sample businesses that are obliged to use a local representative for submission. Sample businesses expressed a strong preference for flexible systems that allow them to submit periodic VAT returns from anywhere in Europe.

320 Only limited cost data for security requirements was retrieved from sample businesses. Due to the limited sample size, we provide an overview of the security requirements and minimum and maximum values.

Table 25 – AS IS – Costs of security requirements

Member State	Security requirement	Minimum cost	Maximum cost
Belgium	ID or certificate	€0	€500
Germany	Login and password	€0	€250
Finland	ID and password	€200	€500
France	Login and password	€0	€500
Hungary	ID and password	€0	€2,000
Italy	E-signature or signature on paper	€0	€800
Poland	E-signature or signature on paper	€0	€2,000
UK	Login and password	€0	€250

Translation costs

321 Cost inputs for translation vary between €0 and €5,000. Some sample companies are established all over Europe and have the required language skills available in-house. Other sample companies face language barriers and need to use translators. Language hurdles are greatest in Poland, Hungary and Italy.

5.2.3.5 Additional costs

322 The following additional costs were mentioned by sample companies:

- In some countries, corrections have to be made via adjustments to the relevant previous VAT return. One of the businesses indicated that this increases the compliance costs by the cost of one regular monthly VAT return for each (old) VAT return to be adjusted.

- One company indicated that a number of national authorities (particularly Poland, Italy, Belgium and Germany) have the tendency to ask various (minor) questions over time, instead of asking them all at once in a tax audit. This leads to significant extra costs for preparation, communication, administration and special tax consulting services by local tax accountants.

5.2.3.6 Qualitative findings

323 In this section, we present relevant qualitative data (i.e. non-costing data). These qualitative inputs derive from the commentaries provided by the sample companies that completed the AS IS and TO BE questionnaires and underwent follow-up interviews with the PwC team. Qualitative data from SMEs is also incorporated. We want to emphasise that the opinions expressed by the sample companies do not necessarily represent the general opinion of all businesses.

Submitting VAT returns in more than one Member State is a complex job for most businesses.

324 There is no harmonisation in the EU with respect to filing VAT returns. The content of VAT returns, the correction of VAT return errors and submission mechanisms and deadlines differ among Member States. Especially for businesses registered in multiple Member States, it is extremely difficult and costly to understand all the differences, to deal with the ever-emerging changes and to follow up on all the different deadlines. The complexity is increased by the fact that VAT returns and/or instructions from the tax authorities are often only available in the local language of the Member State.

Electronic filing is preferred above manual paper-based filing, although it poses some significant difficulties.

325 Sample businesses indicate that the procedures for electronic submission of periodic VAT returns differ in every Member State and are often subject to change. While the procedures are considered relatively straightforward in some Member States (e.g. Finland, the United Kingdom, Germany), they are perceived as cumbersome and time-consuming in other Member States (e.g. Italy, Belgium). Furthermore, instructions are often only provided in the local language and seem to leave room for interpretation. Sample businesses would much prefer there to be one filing procedure that is applicable in all EU Member States.

326 Sample businesses also prefer different staff members within the company to be given authorisation to submit VAT returns, rather than one dedicated staff member, which appears to be the case in a number of Member States. In some cases, a local identity card is required for electronically submitting VAT returns (e.g. Poland, Finland, and Hungary). This entails an additional cost for businesses that are obliged to use a local representative for submission. Businesses expressed a strong preference for flexible systems that allow them to submit periodic VAT returns from anywhere in Europe.

Opinions about electronic signatures differ.

327 Most sample businesses agree that electronic signatures contribute to increased security. However, it is unclear whether this increased security is strictly speaking required: one business representative indicated that filing another business's periodic VAT returns with a stolen log-on name and password is not likely to generate any benefit for the fraudster (VAT refunds excluded). Therefore, theft of log-ins is unlikely and a secure log-in name and password should be sufficient.

328 Sample businesses indicate that electronic signatures are often connected to one individual staff member. This often creates complications, for example, when authorised persons are not able to leave on holiday at times when VAT returns have to be signed and/or problems arise when an authorised person leaves the company.

329 The time to get an e-certificate for an electronic signature may be considerable. This can result in problems when a new employee joins the company but cannot sign any VAT returns because the certificate is not in place. Moreover, different certificates have to be maintained for each Member State.

Sample businesses seem to be appreciative of the VAT-compliance procedures in Finland, Ireland, France and the UK. VAT compliance seems to be more difficult in Hungary, Poland, Italy and Belgium.

330 Sample businesses indicate that the VAT returns in Finland, Ireland, France and the UK are user-friendly and cost-effective. They do not report any problems with regard to language requirements or difficulties with tax authorities when audited. The VAT returns for these countries are viewed as relatively straightforward and fair.

331 Language difficulties are often encountered in Hungary, Poland and Italy and necessitate the services of outside consultants or local representatives.[76] In Hungary and Italy, the VAT return is reported as being relatively complex. In Poland, the local VAT return is very detailed and the procedure for corrections is characterised as difficult by businesses. With regard to Belgium, dissatisfaction with the VAT return is rooted in the time-consuming process for electronic submission, the separate reporting of credit notes, the high level of detail, no direct relationship between the taxable basis and the VAT amount, and the impossibility of submitting automatically, as an XML file has to be created first.

5.2.3.7 Conclusions

Recurring time and cost spent on the preparation and submission of a VAT return for the eight Member States in scope

Large companies

332 The overall average time spent on preparing and submitting periodic VAT returns in the AS IS situation for large sample companies and for the eight Member States in scope is 705 minutes, or 12 hours, corresponding to an overall average cost of €826. Internal time spent is somewhat higher and total costs are somewhat lower for sample companies not using external consultants compared with sample companies using external consultants. For the former group, internal time spent is on average 803 minutes and costs amount to an average of €576. For sample companies using external consultants, internal time spent is only 504 minutes, with an average cost of €1,487.

333 We observe that the average time spent, considering the whole sample of companies (i.e. both companies using and those not using external consultants) on preparation and submission is close to 660 minutes, or 11 hours, for the majority of the Member States in scope (i.e. France, Germany, Italy, Poland and the United Kingdom). Average time spent is somewhat lower for Finland (close to 360 minutes, or 6 hours) and somewhat higher for Belgium and Hungary (close to 960 minutes, or 16 hours, and close to 1,060 minutes, or 17.5 hours, respectively).

334 It appears that the majority of the time is spent on the ‘gather information’, ‘prepare the VAT return’ and ‘reconcile data from accounting, intra-Community sales/acquisition listings and Intrastat’ activities.

[76] The reference here should be read as referring to tax agents rather than tax representatives within the meaning of article 204 of the VAT Directive.

SMEs and micro companies

335 Costs for sample SMEs appear to be somewhat lower than for large sample companies. Bearing in mind the data limitations, we estimate costs of €453 and €244 for the preparation and submission of periodic VAT returns in the AS IS situations for sample SMEs and sample micro companies, respectively.

Table 26 – Overview of recurring costs for large companies and SMEs

Company size	Average recurring cost estimate for companies not using external consultants	Average recurring cost estimate for companies using external consultants
Large companies	€576[77]	€1,487[78]
SMEs[79]	€453	
Micro companies[80]	€244	

Recurring time and cost spent on the preparation and submission of VAT returns at European level

336 At the EU-27 level, the preparation and submission of periodic VAT returns represent a recurring cost (i.e. excluding set-up, generic and additional costs) of €39,347,060,790, which corresponds to 0.31% of the EU-27's GDP in 2011. The majority of this cost is incurred in France, Germany, Poland and Italy. For the first three Member States mentioned, this can be partially explained by a large number of VAT returns that need to be submitted per year. For Italy, the high cost is mainly attributed to the higher cost of the procedure for businesses and the complexity of the annual VAT return.

337 Next to the periodic VAT return, some Member States require the submission of an annual summarising VAT return. The cost linked to this specific obligation is evaluated at €3,907,848,063.

[77] Average of the average recurring cost estimate for companies not using external consultants calculated for each of the eight Member States in scope.

[78] Average of the average recurring cost estimate for companies not using external consultants calculated for each of the eight Member States in scope.

[79] Due to the data limitation, only an average cost per VAT return can be estimated for the SMEs.

[80] Due to the data limitation, only an average cost per VAT return can be estimated for micro companies.

Other costs related to the preparation and submission of VAT returns

338 Although it was not possible to calculate the set-up and generic costs at EU level, they constitute a significant cost element for businesses. The full cost will consequently be higher than the recurring cost for the preparation and submission of periodic and annual VAT returns only. An overview of the set-up and cost elements is provided in the table below. The minimum and maximum values represent an indicative range of the extent of these costs.

Table 27 – Overview of set-up and generic costs (based on the data entries[81] from the sample companies)

Set-up costs		Minimum	Maximum
1	Purchase price/development cost of software for VAT compliance	€10,000	€2,000,000
2	Cost to adjust software to specific VAT needs	€2,000	€2,000,000
3	Cost to map the VAT-compliance requirements in an additional EU Member State	€0	€16,500
4	Cost to understand the local VAT return of an additional EU Member State	€0	€16,500
5	Cost to adjust software to be able to complete the local VAT return in an additional EU Member State	€0	€500,000
6	Cost to adjust software to be able to report one additional type of purchase or sale in the local VAT return in an EU Member State	€0	€1,000,000
7	Cost of initial VAT training per new employee	€0	€30,000
8	Cost of initial software training per new employee	€0	€15,000
Generic costs		**Minimum**	**Maximum**
9	Recurring annual software cost	€0	€450,000
10	Recurring annual training cost	€0	€175,000
11	Recurring annual cost to stay abreast of legal changes	€750	€125,000
12	Cost per audit	€3,958	€15,380
13	Cost related to security requirements for e-filing	€0	€2,000
14	Recurring annual translation cost	€0	€5,000

[81] For a detailed overview of the number of data entries per cost element we refer to the respective sections in this report and to Appendix 1

Main cost drivers for preparation and submission of VAT returns

339 There are two important cost drivers:

- decentralisation and/or outsourcing of VAT-compliance processes; and
- lack of standardisation.

Decentralisation and/or outsourcing of VAT-compliance processes

340 The first cost drivers that are considered by the sample businesses relate to decentralisation and/or outsourcing of some parts of the VAT-compliance processes in the light of local legislation and/or language barriers. In addition to the extra costs involved, the cost represents a more general cause for frustration on the part of businesses.

341 An example is the process for submitting VAT returns. This seems to be less costly if the VAT return can be submitted electronically and if there is no need to have a local identity card to submit it. If those conditions are met, the company can do the submission itself, from anywhere and using an employee of its choice. Costs arise when manual submission and/or a local ID is required, for example. In the case where the business has local employees working in the Member States in question, the submission process can be decentralised and performed in-house. Where no local employees are available, the business has to rely on outside consultants, thereby incurring consulting fees.

342 Not every company suffers from language problems. If total VAT compliance is outsourced, or if the business has local branches or subsidiaries in the Member States where it has to submit VAT returns, there seem to be no problems with local languages at all. The problems arise when the VAT compliance is done in-house and local language knowledge is not available in-house. First of all, businesses struggle with understanding the local VAT-compliance legislation. Once the local legislation is understood, they have to stay abreast of legal changes and they have to communicate regularly with tax authorities. This situation forces businesses to rely on outside consultants and translators.

Lack of standardisation

343 A second major cost driver is the lack of standardisation. If the VAT return is not standardised, people working in a centralised VAT department or shared service centre have to be educated and trained to become experts in preparing and submitting periodic VAT returns for one specific Member State. This not only results in considerable training costs, it also has other costly consequences such as the difficulty for employees to back each other up. The lack of standardisation is a logical consequence of the fact that each Member State applies its own local legislation and non-harmonised EU VAT legislation.

5.2.4 Impact of the introduction of the common EU standard VAT return

5.2.4.1 Introduction

344 This section of the final report discusses the findings of our research in terms of the administrative costs that are expected to be incurred by businesses when the common EU standard VAT return is introduced.

345 This section is structured as follows:

- Set-up costs
- Recurring costs
- Generic costs
- Additional costs
- Cost estimate for EU-27
- Qualitative impacts
- Conclusions

5.2.4.2 Set-up costs

346 Costs in this category are:

- Costs to adjust software systems;[82] and
- Initial training costs for VAT compliance and software.

347 The input received from large sample companies regarding the expected set-up costs required to use the common EU standard VAT return varies greatly, as can be seen in Table 28. This is due to the fact that each sample company is organised differently and uses different software, systems and training methods for its employees.

[82] Systems at the highest level are composed of hardware, software and operating instructions (documentation). Software systems here are interpreted as software (as such) and the set up of its documentation.

Table 28 – Adjustment set-up costs for the large companies

	Cost to adjust software systems if submission via on-line web form opted for	Cost to adjust software systems if submission via structured data opted for	Cost for initial VAT and software training
Data entries	12	12	11
Average	€2,083	€12,167	€27,655
Minimum	€0	€0	€0
Maximum	€25,000	€50,000	€250,000
Median	€0	€0	€0
25-percentile	€0	€0	€0
75-percentile	€0	€19,000	€10,400

Software set-up costs

348 On average, the sample of large businesses incurs a set-up cost of €41,905 (i.e. the sum of the average cost to adjust software and systems and the average cost for initial VAT and software training). In order to calculate the set-up cost for the three other types of companies, we based our reasoning on experts' opinions: the set-up cost will be 40% lower for medium-sized companies, 80% lower for small companies and 95% lower for micro companies. This assumption is based on the fact that small and micro companies do not generally use ERP systems. This yields the following range of set-up costs:

- €41,905 for large companies;
- €25,143 for medium-sized companies;
- €8,381 for small companies;
- €2,095 for micro companies.

349 None of the sample businesses expects to adopt a new accounting software system or new software system for preparing and submitting periodic VAT returns if a common EU standard VAT return is introduced. Current software systems will have to be adjusted to the layout of the new VAT return. All sample businesses agree that new tax codes will have to be created for a number of Member States (e.g. the UK) in order to cope with certain additional information requirements in the proposed standardised VAT return compared to the national VAT return in those Member States. Furthermore, a mapping exercise will have to be done between the (new and/or existing) tax codes and the boxes in the standardised VAT return. Most sample businesses estimate the costs of mapping and creating additional tax codes as limited or even zero. These costs are often covered in the service level contracts companies have with their software providers.

350 There will be two options for submitting the common EU standard VAT return. The first is to complete an online web form. The second is to upload the return in a structured data file.

351 Only one sample company indicated a cost other than zero for adjusting its software system under the option of completing the VAT return online via a web form. The estimated cost to this sample business is €25,000. The sample businesses that estimate the cost to be zero said that they would complete the web form manually and that no changes would be required to their software systems.

352 In addition, the cost to adjust the software system under the option of uploading the return in a structured data file (e.g. an XML file) is estimated by most sample businesses as being limited or zero. The most important reason sample companies cite for this is that they already use structured data files and that the cost to adapt them to the new format is limited. Only four sample businesses report significant set-up costs in this respect, with estimates ranging between €15,000 and €50,000 to create the relevant metadata file.

353 Besides the businesses that already exist today and will have to adjust their software systems as discussed above, there will also be new businesses in the future situation, which will have to acquire or develop a software system for VAT compliance. These set-up costs are not expected to be different from the set-up cost for acquisition and development of a new software system in the current situation.

Training set-up costs

354 Six of the sample businesses indicate that initial training costs will be zero, due to the fact that processes will not change at all or training will be limited to on-the-job training. The other five sample businesses believe that initial software and VAT training will be required. The cost estimates for this training vary considerably. This is due to the differences in size of the sample businesses and the different ways in which they organise training sessions. The cost estimates vary between €4,800 and €250,000.

5.2.4.3 Recurring costs

355 Sample businesses were asked to estimate the impact of the introduction of a common EU standard VAT return in reference to the costs incurred for VAT compliance in the current situation.[83] More specifically, they were invited to estimate and express this impact as a percentage increase or decrease compared to the current situation.

356 The introduction of the common EU standard VAT return is expected to result in a decrease in time and cost spent on the preparation and submission of a periodic VAT return for large sample enterprises compared with the AS IS situation. The expected time savings are estimated between 0.5 and 5.4% of the AS IS time, whereas the expected cost savings are between 1.4 and 3.8% of the AS IS cost.

[83] The nine activities in the previous section are still applicable: gather information, prepare the VAT return, reconcile data, review the VAT return, sign the VAT return, submit the VAT return, store a copy of the VAT return, answer any specific questions from the tax authorities and other recurring costs.

357 In this section, we first discuss the high-level impact identified by the sample companies. Then, we analyse the cost impact for the sample of large companies that completed the TO BE questionnaire. In the third subsection, we apply this impact on the whole sample of companies that completed the AS IS questionnaire.

358 The section is structured as follows:

- Expected high level impact;
- Detailed impact on time and cost for large enterprises;
- Identification of the TO BE time for SMEs.

Expected high-level impacts[84]

359 Although most sample businesses do not expect an increase or decrease in the number of employees working in their VAT compliance department or of their wage levels, they point to some other impacts that might influence the recurring cost for preparing and submitting a periodic VAT return. The three most important impacts are:

- Standardisation:

  One of the most important direct advantages that sample companies (31%) see in introducing the common EU standard VAT is the opportunity for standardisation and automation in the process of preparation and submission of VAT return. This means simplification and results in efficiency and effectiveness gains. Fewer errors will be made and the quality of the work done is likely to increase. The percentage of sample companies indicating this effect can be seen in Figure 32 under the category “Companies expecting an impact by the introduction of the common EU standard VAT return due to the possibility to standardise the process for preparation and submission”.

  Due to the standardisation, job rotation will be also facilitated and employees will be able to act as back-up for each other. This will increase the flexibility and efficiency of the working processes and result in cost gains. Furthermore, some sample companies expect that their risk management will be enhanced due to standard processes and controls, standard metrics for reporting and greater visibility for reviewers. Moreover, less effort will be needed to monitor legislative changes in the process and format for preparation and submission from 27 Member States. In addition, the sample companies are in favour of the standardised process for correction of errors in the subsequent period and standardised submission processes for which no local identity cards will be required.

[84] A detailed description of the qualitative findings is presented in Appendix 4.

- Complexity:

  Some sample companies (15%) also expect an impact due to increased or decreased complexity between the common EU standard VAT return and national VAT returns. They expect that if more/fewer boxes need to be completed, more/less time will be spent on preparation and submission of the periodic VAT return, too. The percentage of sample companies indicating this effect can be seen in Figure 32 under the categories "Companies expecting an impact by the introduction of the common EU standard VAT return due to an increase or decrease of the complexity of the return compared with the local return" and "Companies expecting an impact by the introduction of the common EU standard VAT return due to an increase or decrease of the complexity of the return compared with the local return and the possibility to perform all activities in-house".

- Consulting fees:

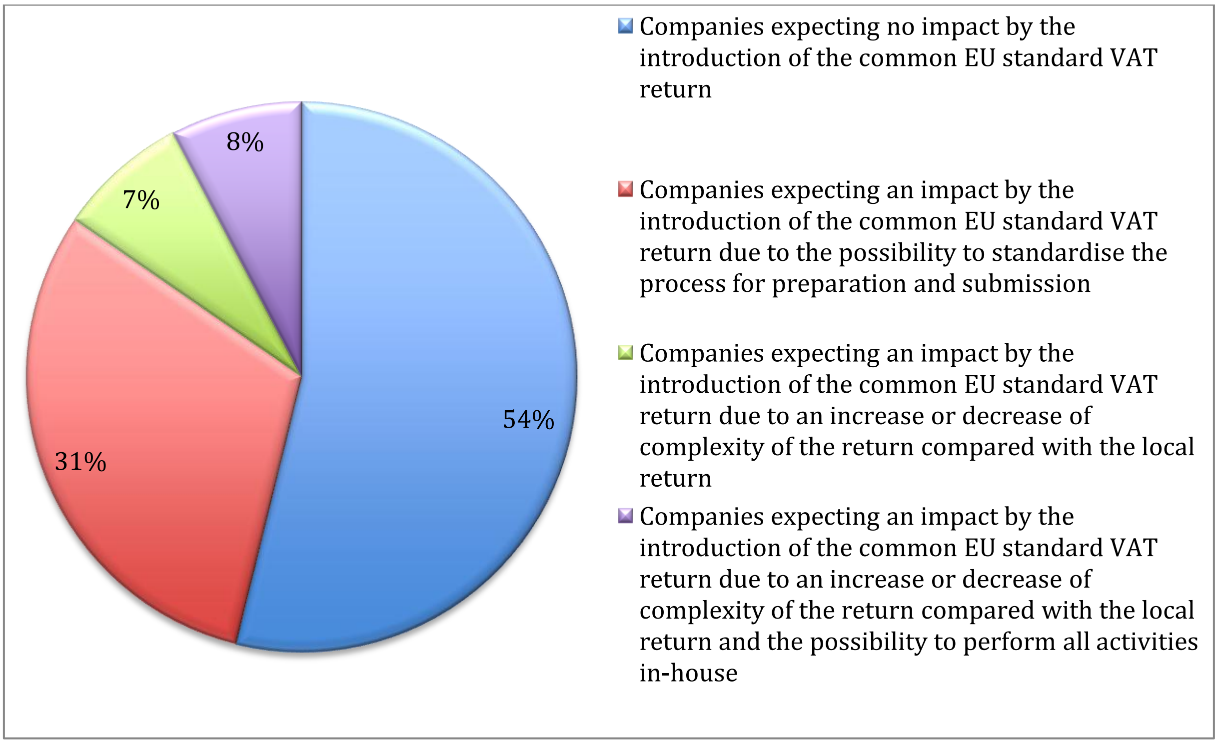
  In addition to the impacts of standardisation and complexity, some sample companies (8%) currently relying on external consultants expect that they will be able to perform all activities for the preparation and submission of VAT returns in-house in the TO BE situation. The percentage of sample companies indicating this effect can be seen in Figure 32 under the categories "Companies expecting an impact by the introduction of the common EU standard VAT return due to an increase or decrease of the complexity of the return compared with the local return and the possibility to perform all activities in-house".

- No impact:

  Not all sample companies expect an impact from the common EU standard VAT return, however. The majority of companies (54%) do not expect there to be an effect on the recurring time spent and cost for preparing and submitting periodic VAT returns. This can be seen in Figure 32 under the category "Companies expecting no impact by the introduction of the common EU standard VAT return". Those sample companies point to the fact that, if the common EU standard VAT return cannot be used for all their legal entities, the benefits from standardisation will be lost. Moreover, they point to the fact that harmonisation of the underlying legislation will also be required to create cost savings.

360 The high level impacts and their importance for the TO BE sample of large enterprises are shown in Figure 32.

Figure 32 – TO BE – Importance of possible impacts of the common EU standard VAT return on the cost of preparation and submission



Detailed impact on time and cost for large enterprises

361 We calculate the expected average time and cost in the TO BE situation based on the cost estimates made for the AS IS situation and the expected impact on these costs (expected range of percentage increase or decrease in time spent and consultancy fees per activity). For this, we perform an analysis of the best-case scenario and worst-case scenario. In the best-case scenario, we take the upper limit of the expected range if a sample business expects a positive impact and the lower limit of the expected range if the sample business expects a negative impact on time and costs. In other words, the best-case scenario is the scenario with the highest expected decrease in costs and the lowest expected increase in costs. In the worst-case scenario, we do exactly the opposite.

362 We calculate the expected average time and cost in the TO BE situation for the total sample of businesses that completed the TO BE questionnaire based on the expected impact each sample business indicated in its questionnaire. However, given the different opinions on the expected impact of introducing the common EU standard VAT return, the positive impact some sample businesses expect will be averaged out by the fact that half of the sample businesses do not expect any impact.

363 We first provide an overview of the results of the analysis of time spent. Next, we present the results of the analysis of costs. Please note that a detailed impact analysis is only performed for the sample of large companies because this kind of data is not available for the sample of SMEs.

Analysis of time

364 In both the best and worst-case TO BE scenarios, the average time for preparation and submission is slightly less than in the AS IS[85] situation. The average time for preparation and submission decreases from 724 minutes in the AS IS to 686 minutes and 721 minutes in the TO BE for the best and worst-case scenarios, respectively. This corresponds to decreases of 5.4% and 0.5%, respectively. These results are shown in Table 29 and Figure 33.

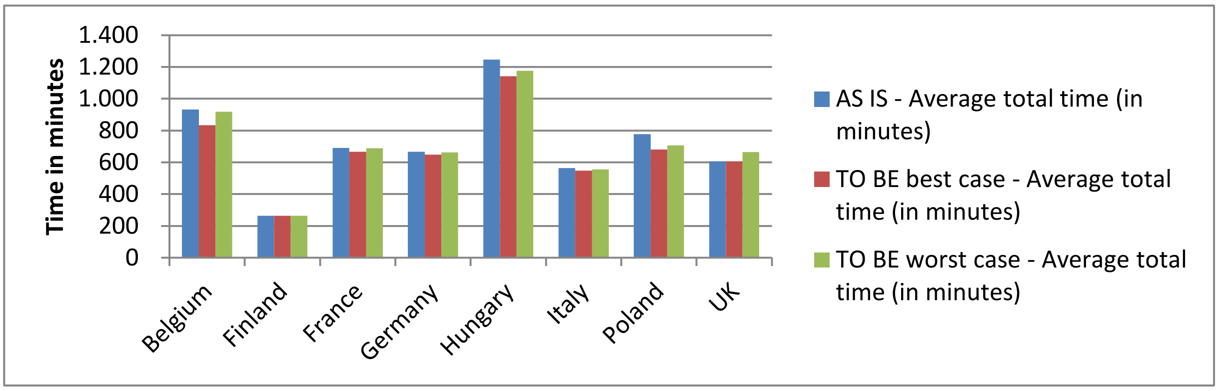
Table 29 – Comparison of average total time in AS IS and TO BE situation for large companies

	AS IS[86]	TO BE - Best case scenario		TO BE - Worst case scenario	
	Average total time (minutes)	Average total time (minutes)	% difference with AS IS	Average total time (minutes)	% difference with AS IS
Belgium	931	834	-10.4%	918	-1.4%
Finland	264	263	-0.2%	264	0.0%
France	691	667	-3.5%	688	-0.5%
Germany	667	649	-2.8%	663	-0.6%
Hungary	1245	1141	-8.4%	1175	-5.7%
Italy	563	547	-2.8%	557	-1.1%
Poland	777	681	-12.3%	707	-9.0%
UK	606	607	0.1%	665	9.7%
Average	724	686	**-5.4%**	721	**-0.5%**

[85] Please note that the results for the AS IS situation in this section differ slightly from the results in section 5.2.3.3 because the sample in this section is limited to companies that provided data regarding the TO BE situation.

[86] Please note that the results for the AS IS situation in this section differ slightly from the results in section 5.2.3.3 because the sample in this section is limited to companies that provided data regarding the TO BE situation.

Figure 33 – Comparison of average total time in AS IS and TO BE situation for large companies



Analysis of cost

365 In both the best and worst-case TO BE scenarios, the average cost for preparation and submission is slightly less than in the AS IS situation. The average cost for preparation and submission decreases from €797 in the AS IS to €767 and €786 in the TO BE for the best and worst-case scenarios, respectively. This corresponds to decreases of 3.8% and 1.4%, respectively.[87] These results are shown in Table 30 and Figure 34.

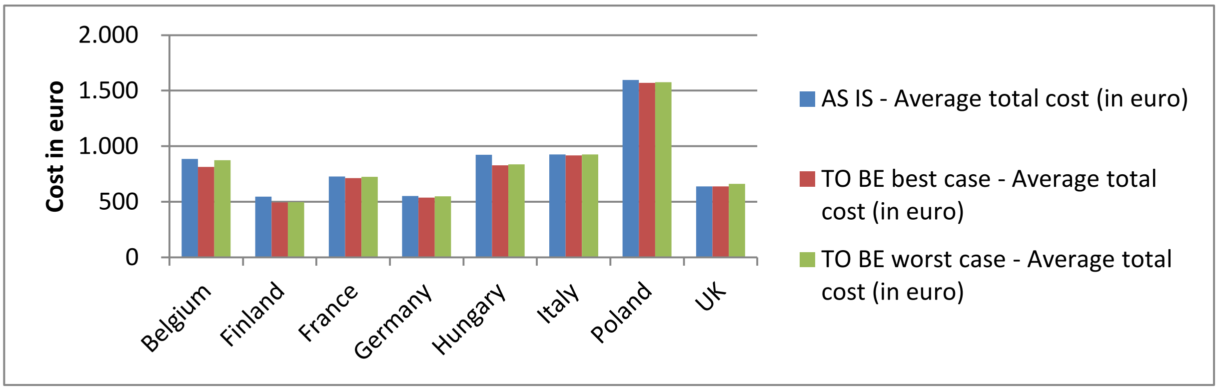
Table 30– Comparison of average total cost in AS IS and TO BE situation

	AS IS[88]	TO BE - Best case scenario		TO BE - Worst case scenario	
	Average total cost (euro)	Average total cost (euro)	% difference with AS IS	Average total cost (euro)	% difference with AS IS
Belgium	886	813	-8.2%	874	-1.3%
Finland	547	496	-9.2%	497	-9.2%
France	728	714	-1.9%	725	-0.4%
Germany	551	538	-2.4%	548	-0.6%
Hungary	924	828	-10.4%	838	-9.3%
Italy	927	917	-1.1%	925	-0.2%
Poland	1,597	1,570	-1.7%	1,577	-1.2%
UK	638	638	0.0%	663	3.8%
Total	797	767	**-3.8%**	786	**-1.4%**

[87] The cost increase or decrease expected by a company is applied to the AS IS cost of only the company itself. This allows us to calculate the TO BE costs for each of the sample companies.

[88] Please note that the results for the AS IS situation in this section differ slightly from the results in made in section 5.2.3.3 because the sample in this section is limited to businesses that provided data regarding the TO BE situations.

Figure 34 – Comparison of average total cost in AS IS and TO BE situation



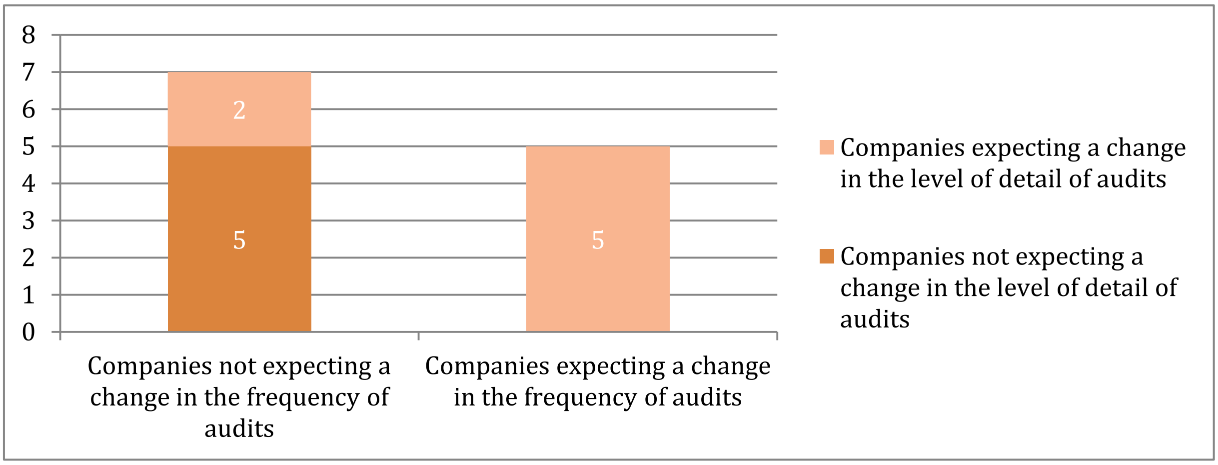
5.2.4.4 Generic cost

366 This last section of the recurring costs covers audit costs (i.e. costs due to in-depth audits performed by tax authorities), recurring software costs (i.e. cost of software maintenance and licence fees) and recurring training costs (i.e. cost to keep staff members abreast of changes in VAT-compliance legislation and software).

Audit costs

367 The sample of audit costs contains 12 companies as one company declined to provide feedback on audit costs. An overview of the expected impact of the common EU standard VAT return on frequency and level of detail is given in Figure 35.

Figure 35 – TO BE – Impact of common EU standard VAT return on audits



368 The majority of the sample companies (seven out of 12) believe that the introduction of the common EU standard VAT return will not have an impact on the frequency of audits performed by tax authorities. They argue that tax authorities will base their decision to undertake an audit on other factors, such as the refund position of businesses. Five out of those seven sample companies also believe that the level of detail of audits will not change and will also be based on other criteria.

369 The other five sample companies expect a change in the frequency of audits. They believe that, if Member States receive less information through the common EU standard VAT return than through the national return, more audits will be performed by the authorities. Companies expect the frequency of audits to especially increase in Hungary, Poland and Italy.

370 The sample companies apply the same reasoning to gauge the impact on the level of detail of audits. Thus, companies expect the level of detail of audits to increase particularly in Poland, Hungary and Italy.

371 Sample companies expect the cost of audits to be in line with the level of detail (e.g. if the level of detail is expected to increase, the cost is expected to increase, too). One company argues, however, that costs of audits may decrease in the future situation, regardless of the level of detail of the audit performed. As a reason, they point to the fact that the introduction of the common EU standard VAT return allows for standardised processes for preparation and submission. VAT departments will become more specialised and fewer errors will be made. Due to the increased quality of data, audits will be easier and less time-consuming to perform.

Recurring software costs

372 Seven out of 13 sample companies believe that the recurring cost of software will remain the same – see Figure 36. They argue that their software systems will not change and that they will have to pay the same fees for licences and maintenance.

373 The other sample companies expect a decrease in recurring software costs. There are two major reasons for this expected decrease. Some sample businesses argue that they will be able to use only one software system instead of different software systems for every Member State. The licence fees they have to pay will consequently reduce considerably. Other sample companies point to the fact that, if they use only the common EU standard VAT return, they will be faced with fewer changes in VAT return format and, consequently, there will be fewer costs to adapt software to these changes.

Recurring training costs

374 Nine out of 13 sample companies expect no changes in training costs (Figure 36). They point to the fact that staff members in their VAT departments will still need to be trained with regard to national VAT rules and rates and software, irrespective of implementation of the common EU standard VAT return.

375 The other four sample companies expect a decrease in training costs due to the fact that less training will be required if only the common EU standard VAT return is used. Furthermore, training will not have to be Member State-specific. This will reduce the number of training sessions and the corresponding costs.

376 All sample companies expect the costs to stay abreast of legal changes to be the same if the common EU standard VAT return is introduced. This is due to the fact that the underlying legislation in the different Member States will not be harmonised.

Figure 36 – *TO BE – Impact of common EU standard VAT return on recurring software costs*

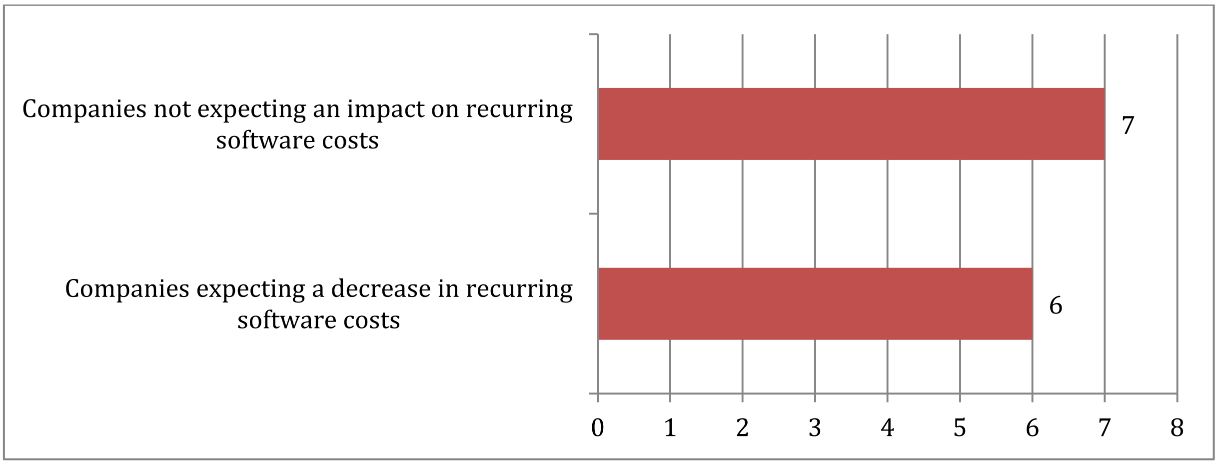
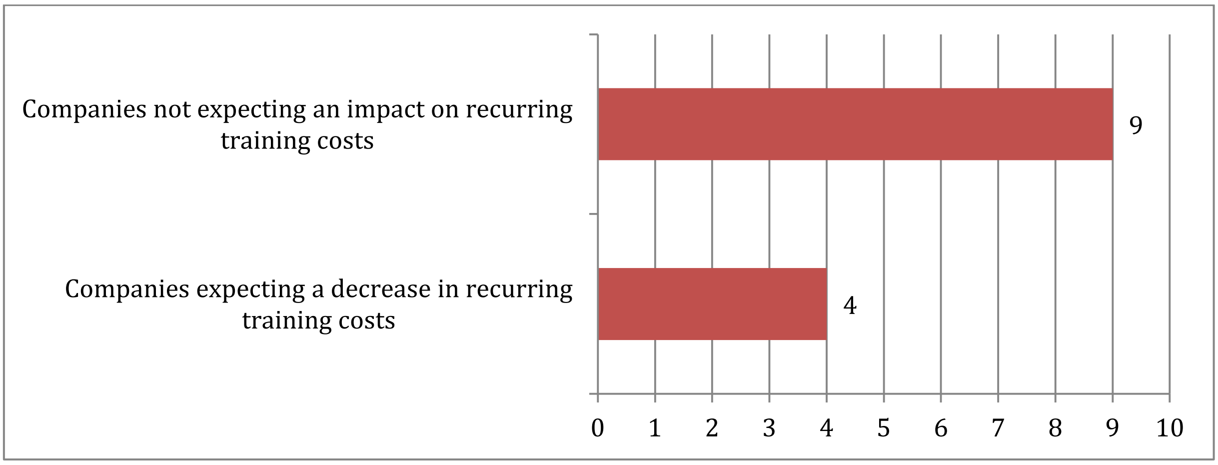


Figure 37 – *TO BE – Impact of common EU standard VAT return on recurring training costs*



5.2.4.5 Additional costs

377 Costs in this category cover:

- costs of security requirements;
- translation costs;
- cost of quarterly filing;
- other costs.

Costs of security requirements for e-filing

378 If the common EU standard VAT return is used, companies will have to register to obtain a log-on and password. There are two possible situations. In a first situation, the company has to register once to obtain one log-on and password, which can be used to submit VAT returns in every Member State. In the second situation, the company has to register in every Member State where it wants to submit VAT returns in order to obtain a different log-on and password for that Member State.

379 Eight out of 13 sample companies expect that the first option, i.e. single registration, will have a positive impact on the costs incurred. They argue that the current processes to obtain a log-on or password in some Member States are time-consuming and they hope that this single process will be more efficient. Moreover, they will have to register only once.

380 One sample company points to the fact that one registration to obtain only one log-on and password may also result in a cost increase. In its organisation, it wants to limit user access by employees and this would not be possible if there were only one log-on and password. Consequently, they would have to set up an internal system to guarantee user access controls. This would result in increased internal costs.

381 The other four sample companies do not expect any cost impact from a single registration compared to the current situation.

382 With regard to the second situation, only two sample companies expect a cost increase. This cost increase is due to the fact that these companies submit VAT returns manually in the current situation. If they have to register in order to obtain a log-on and password in the future situation, this will result in additional costs.

383 The other 11 sample companies do not expect any cost impact from the second situation compared to the current situation.

384 Using electronic certificates for authentication on the different e-VAT platforms can be an alternative to using a username and password, but the user will still have to register on one or more platforms, as the electronic certificate is not always linked to the company he/she works for. Requiring electronic certificates in this context is then only an additional cost.

Translation costs

385 Eleven out of 13 sample companies expect that translation costs will decrease if a common EU standard VAT return is introduced. VAT returns will be available in all EU languages and boxes will be standardised. Therefore, no external translators will be required to translate VAT returns.

386 One sample company does not expect any impact on the cost for translations since translators will still be needed for communication with the tax authorities and for other reports such as intra-Community sales/acquisition listings and Intrastat. This particular company stresses the fact that these other documents require to be harmonised in order to decrease overall translation costs.

Cost of quarterly filing

387 Sample companies were asked to estimate the impact of quarterly filing with monthly prepayments as this option is proposed in the standards (see section 3.3) for companies fulfilling certain criteria.

388 Most sample companies (seven out of 13) agree that the cost of quarterly filing with monthly prepayments will be the same as the cost for monthly filing. This is due to the fact that there are monthly prepayments and the VAT calculation exercise will have to be gone through anyway. Two companies indicate that the cost will be slightly lower as the costs for submission will have to be borne only once every three months instead of every month.

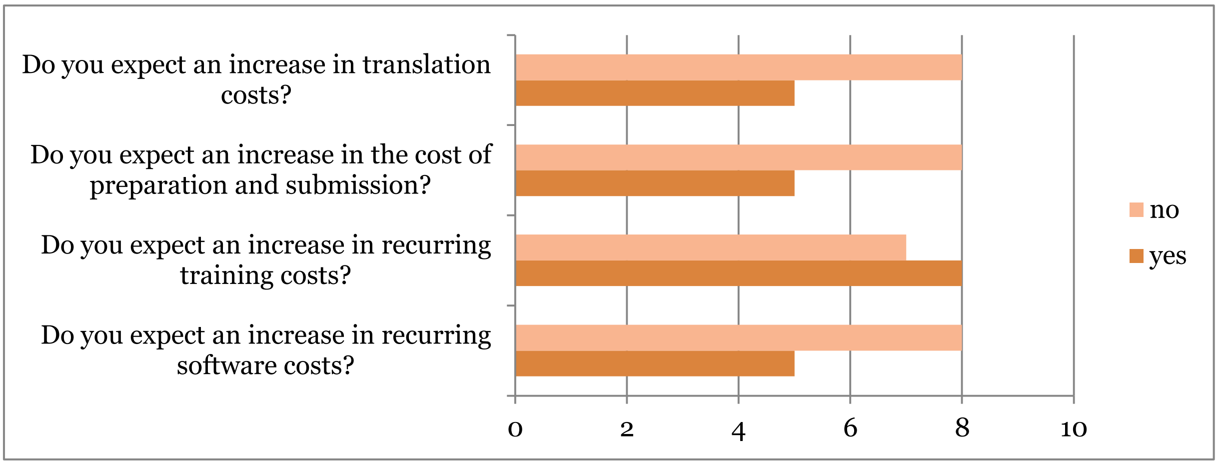
389 Four sample companies expect a cost increase. Companies identify two reasons for this cost increase. Two companies are in a refund position. For them, quarterly filing would be a disadvantage. The two other companies point to the fact that intra-Community sales/acquisition listings and Intrastat need to be filed on a monthly basis. Quarterly VAT returns would mean double work.

390 Sample SMEs also mention that monthly prepayments would increase their costs. Especially for SMEs, this could be a reason for not opting for the standard.

Other costs

391 Some sample companies foresee a cost increase if they are not allowed to use the common EU standard VAT return for all of their VAT registrations. In that case, they will have to maintain and operate two systems in parallel. This can result in increased costs for software, training, preparation and submission and translation. The sample businesses expressed a range of the expected cost decreases of 0-100%, 0-33%, 0-25% for software, training and preparation and submission, respectively. No estimations of the range of cost decrease for translation were provided by the sample businesses. However, not every sample company expects an increase in costs when both the national and the common EU standard VAT return are used. Three sample companies do not expect a cost increase i.e. they foresee that the costs will remain the same. The other sample companies expect a cost increase in one or more cost drivers. The results are provided in Figure 38.

Figure 38 – TO BE – Cost impact of using the national VAT return alongside the common EU standard VAT return



392 Some sample companies would consider in-sourcing activities that are currently done by external service providers. This means that more responsibility is assumed by the business itself. Still, if employees in the in-house VAT department encounter problems or raise questions that cannot be solved internally, they will have to rely on an outside consultant. Indeed, one sample company points out that, because more activities will be performed in-house, there will be more daily problems and questions concerning VAT issues that cannot be solved internally. These problems or questions may be addressed to outside consultants, resulting in additional consulting fees.

5.2.4.6 Total recurring costs for EU-27

Targeted population

393 If we consider that the common EU standard VAT return is fully optional, meaning that any taxable person can choose whether to use the common EU standard VAT return or the national VAT return, the targeted population is estimated at 29,834,896.[89]

394 However, given that the common EU standard VAT return is not mandatory, it is safe to say that not all taxable persons in the EU will opt for it. One reason could be the fact that some Member States are perceived as having comparatively straightforward national VAT returns and, thus, businesses may not be inclined to adopt the common EU standard VAT return. Equally, micro and small businesses that do not operate outside their respective Member States are not likely to immediately adopt the new VAT return.

395 Second, we consider that use of the common EU standard VAT return is of particular interest to businesses that have to file VAT returns in more than one Member State.

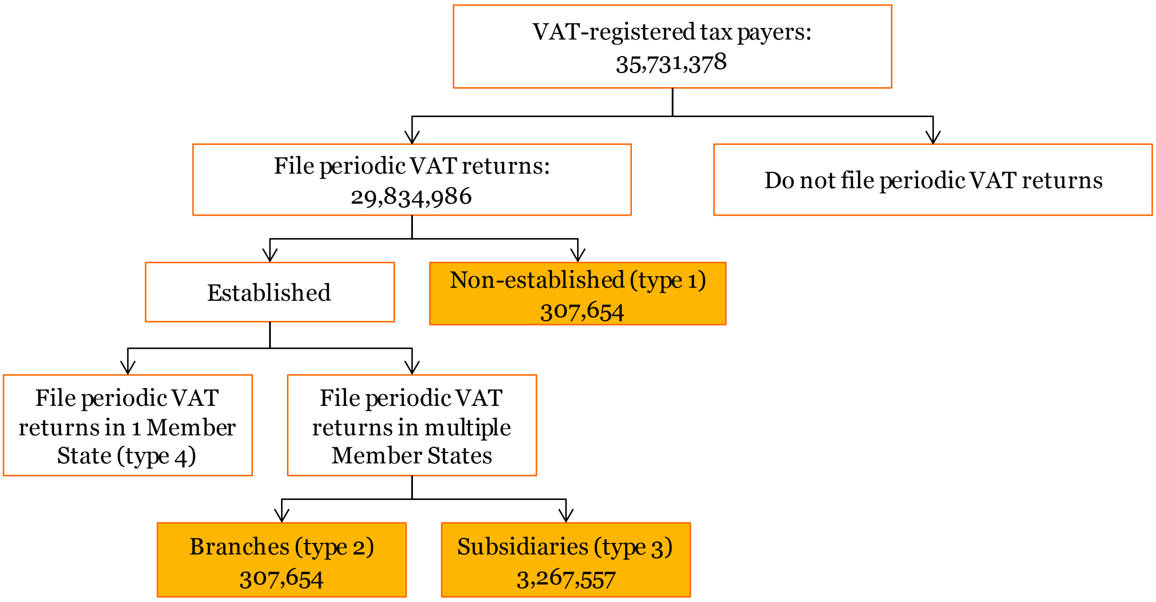
396 Considering the above, the population affected by use of a common EU standard VAT return includes businesses that have VAT registrations in several Member States (i.e. in at least two Member States). Of course, businesses can be organised differently. We consider three major types of organisations that can have several VAT registrations in several Member States:

- Type 1: The business has a VAT number in one or more Member States other than the Member State of its main place of establishment. The business is registered as a non-established taxpayer in those Member States as it does not have a fixed establishment in those other Member States.
- Type 2: The business operates through a fixed establishment (or branch) in one or more Member States in addition to the Member State of its main place of establishment.
- Type 3: The business operates through several legal entities across the EU, all of which are registered in their Member States of establishment.

397 The following graph shows the three categories considered for the targeted population calculation.

[89] Number of taxpayers that file periodic VAT returns in Europe (data provided by tax authorities and fiscal attachés).

Figure 39 – Targeted population



398 In order to estimate the population linked to the first type of organisations and second type of organisations mentioned in paragraph 396, we rely on data from tax authorities and fiscal attachés. To calculate the number of subsidiaries and parent companies in the EU, an additional data source, the Amadeus database[90] was used. According to the Amadeus database, 14,149,459 active companies are established in the EU. Of these, 5,442,235 are in corporate groups. The majority of these companies are considered as SMEs (5,207,063 companies), meaning that 235,172 are considered as large or very large companies in the database. Of these companies included in corporate groups in the EU, 65,741 large or very large companies are considered as ultimate owners and 365,439 small and medium-sized companies are considered as ultimate owners. As, on average, large parent companies have 21 subsidiaries[91] located in the EU and small and medium-sized companies have, on average, four subsidiaries[92] in the EU, we can estimate the total number of subsidiaries at 2,836,647 (or the sum of 1,461,756 subsidiaries linked to small and medium-sized parent companies and 1,374,891 subsidiaries linked to large parent companies).

Table 31 – Population – Calculation of number of subsidiaries and parent companies in the EU

	Total	large companies	small and medium-sized companies
All EU-27 active companies	14,149,459		
European companies included in a corporate group	5,442,235	235,172	5,207,063
European companies included in a corporate group and considered as an ultimate owner	430,910	65,741	365,439
Total number of subsidiaries (large companies and SMEs)	2,836,647	1,374,891	1,461,756
Ultimate owner + subsidiaries (large companies and SMEs)	**3,267,557**	**1,440,362**	**1,827,195**

[90] The Amadeus database contains comprehensive information on around 19 million companies across Europe. The database was consulted via the UCL (Université Catholique de Louvain) in August 2012. The Amadeus database covers 43 countries: Austria (AT), Albania (AL), Belarus (BY), Belgium (BE), Bosnia and Herzegovina (BA), Bulgaria (BG), Croatia (HR), Cyprus (CY), the Czech Republic (CZ), Denmark (DK), Estonia (EE), Finland (FI), France (FR), Germany (DE), Greece (GR), Hungary (HU), Iceland (IS), Ireland (IE), Italy (IT), Latvia (LV), Liechtenstein (LI), Lithuania (LT), Luxembourg (LU), Macedonia (MK), Malta (MT), Republic of Moldova (MD), Monaco (MC), Montenegro (ME), The Netherlands (NL), Norway (NO), Poland (PL), Portugal (PT), Romania (RO), The Russian Federation (RU), Serbia (RS), Slovakia (SK), Slovenia (SI), Spain (ES), Sweden (SE), Switzerland (CH), Turkey (TR), Ukraine (UA) and the United Kingdom (GB).

[91] Subsidiaries are located in one or more Member States.

[92] Subsidiaries are located in one or more Member States.

In conclusion, the total population affected by the implementation of a common EU standard VAT return (considering that businesses that at least have to file a VAT return in more than one Member State are liable to opt for it) is equal to the non-established taxable persons estimated by fiscal attachés plus the number of fixed establishments plus the number of ultimate owners and subsidiaries established in the EU, or 307,654 + 307,654 + 3,267,557 = 3,882,865, which represents 13% of the total estimated number of taxable persons in EU that file periodic VAT returns (i.e. 29,834,986).

Expected cost savings following four different scenarios

399 According to our sample, the recurring cost decrease is limited to 1.4% (worst-case scenario) and 3.8% (best-case scenario) of the total cost of preparation and submission of periodic VAT returns. In order to quantify the impact at a macro level, i.e. at the level of EU-27, we consider four main scenarios:

- Scenario 1: no change (i.e. the common EU VAT standard is not implemented);
- Scenario 2: obligatory for Member States and obligatory for all businesses;
- Scenario 3: obligatory for Member States and optional for all businesses;
- Scenario 4: obligatory for Member States and optional for businesses that are registered for VAT in multiple Member States.

400 The below analysis is limited to the set-up costs and the recurring costs linked to the nine activities that need to be undertaken to prepare and submit periodic VAT returns. Of course additional cost impacts are expected on the other recurring activities such as audit cost and translation costs. However, their quantification is extremely difficult and their impact can be considered as limited. Therefore, they are not included in the following analysis of the expected impact at EU-27 level.

401 Finally, the data collected for the TO BE situation does not allow us to draw a distinction between companies that do not use external consultants and those that do. Consequently, there is no distinction between the insourcing companies and the outsourcing companies.

Scenario 1: no change

402 If the common EU standard VAT return is not put in place, the total recurring cost for the AS IS situation remains the same. On an annual basis, the administrative cost for European businesses is €39,347,060,790 for the periodic VAT return and €3,907,848,063 for the summarising annual VAT return. No cost saving is expected (i.e. €0) and no additional set-up cost is expected.

Scenario 2: obligatory for Member States and obligatory for all businesses

403 This second scenario implies that all companies in the EU-27 will submit the common EU standard VAT return. These are both companies with multiple VAT registrations in Europe and companies with only a single VAT registration in Europe. Below, we first calculate the total cost for the companies with multiple VAT registrations in Europe. Next, we do the same for the companies with only a single VAT registration in Europe. By adding the costs calculated for both groups of companies, we obtain the total cost for scenario 2.

Companies with multiple VAT registrations in Europe (i.e. targeted population)

First of all, the data collected from our sample allows us to determine the average time spent by large companies with multiple VAT registrations in Europe. The expected cost savings for the sample of large companies with multiple VAT registrations are discussed in the paragraphs 359 to 361. Based on the difference between the cost per VAT return in the AS IS situation for each type of company (i.e. cost is 45% lower for SMEs and 70% lower for micro companies), we estimate the average time spent for the small and medium-sized companies as well as for the micro companies in the TO BE situation (see table below).

Table 32 – Average time spent in the TO BE situation for the eight Member States in scope

Member States in scope	Average time spent in the TO BE situation (best case scenario) – in minutes			Average time spent in the TO BE situation (worst case scenario) – in minutes		
	Large companies	SMEs	Micro companies	Large companies	SMEs	Micro companies
Belgium	834	457	246	918	504	271
Finland	263	144	78	264	145	78
France	667	366	197	688	377	203
Germany	649	356	192	663	364	196
Hungary	1,141	626	337	1.175	644	347
Italy (periodicity of 12)	547	300	162	557	305	164
Poland	681	374	201	707	388	209
UK	607	333	179	665	365	196

404 Based on the data and the spread of the targeted population per Member State (see Appendix 1), the expected cost in the TO BE situation for companies that have multiple VAT registrations in Europe is assessed as €2,261,934,413 in the best-case scenario and €2,350,998,090 in the worst-case scenario.

405 This calculation is based on the following assumptions:

- the wage level is as provided by the ISCO 2[93] classification for each Member State;
- the targeted population is divided into three types of companies according to Eurostat[94] (0.2% large companies, 7.6% SMEs and 92.2% micro companies);
- data from our sample are used for the eight Member States in scope;

[93] ISCO is a tool for organising jobs into a clearly defined set of groups according to the tasks and duties undertaken in the job. (http://laborsta.ilo.org/applv8/data/isco88e.html) ISCO 2 represents the 'Professionals' group. The data on the ISCO 2 wage level for the 27 Member States is provided by Eurostat.

[94] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Small_and_medium-sized_enterprises&printable=yes.

- for the remaining 19 Member States, data has been extrapolated based on a complexity factor (defined by the number of boxes in the current VAT return compared to the number of boxes in the common EU standard VAT return. The number of boxes in the common EU standard VAT return is 36);
- in the TO BE situation, large companies and SMEs will submit monthly VAT returns whereas micro companies will submit quarterly VAT returns.

Companies with a single VAT registration in Europe

406 Second, companies with a single VAT registration in Europe will experience a cost increase or decrease due to implementation of the common EU standard VAT return. The cost impact will depend on level of complexity (i.e. the increased or decreased number of boxes) and periodicity (i.e. Estonian micro companies will submit their periodic VAT returns on a quarterly basis rather than a monthly basis as is currently the case). In order to take into account the impact of the complexity of the common EU standard VAT return relative to the complexity of the current national VAT return, the cost is multiplied by the reverse factor of complexity for each Member State (i.e. the number of boxes in the common EU standard VAT return divided by the number of boxes in the current national VAT return). This means that the data on average time spent per VAT return used for the AS IS cost calculation is still applicable for those companies.[95] The reverse factor of complexity allows one to differentiate the average time spent per VAT return across the Member States.

407 By applying the same assumptions as for calculation of the total cost for companies with multiple VAT registrations in Europe and considering the average time spent for the AS IS calculation, we obtain a total cost of €15,902,582,613 for companies with a single VAT registration in Europe in both case scenarios.

Total costs incurred in scenario 2

408 The total cost incurred is estimated at €18,164,517,026 in the best-case scenario and €18,253,580,703 in the worst-case scenario. Considering the AS IS cost without consulting fees (i.e. 24,845,395,008), the total cost saving (without considering the consulting fees) is then estimated at €6,680,877,982 in the best-case scenario and at €6,591,814,309 in the worst-case scenario.

409 In addition to that, the cost of the summarising VAT return (without considering consulting fees) will disappear, i.e. €2,971,758,431.

410 The cost saving related to the consulting fees is evaluated at €7,589,164,210. Moreover, the consulting fees related to the preparation and submission of annual summarising VAT returns will disappear (i.e. €936,089,632).

411 Finally, we get a total cost saving of €17,241,800,623 for scenario 2, which represents 39.9% of the AS IS cost calculation in the best-case scenario and €17,152,736,946 in the worst-case scenario (39.7% of the AS IS cost calculation).

[95] This assumption is supported by the fact that the majority of companies that were interviewed indicated there would be no impact on the time spent per VAT return in the TO BE situation.

Table 33 – Expected cost savings under scenario 2

	Best case scenario			Worst case scenario		
	Monetised value (€)	% of the AS IS cost (i.e. € 43,254 billion)	% of EU GDP	Monetised value (€)	% of the AS IS cost (i.e. € 43,254 billion)	% of EU GDP
Cost savings due to the level of complexity, the new periodicity and standardisation (without consulting fees)	6.680.877.982	15.4%	0.05%	6,591,814,305	15.2%	0.05%
Cost savings due to the summarising VAT return (without consulting fees)	2.971.758.431	6.9%	0.02%	2,971,758,431	6.9%	0.02%
Cost savings due to the consulting fees	7.589.164.210	17.5%	0.06%	7,589,164,210	17.5%	0.06%
Total cost savings	17.241.800.623	39.9%	0.14%	17,152,736,946	39.7%	0.14%

Scenario 3: obligatory for Member States and optional for all businesses

412 In the third scenario, only companies that have an interest (for financial and/or organisational reasons) will opt for the common EU standard VAT return. The following economic reasoning is at play: if the TO BE cost is lower than the AS IS cost (plus the summarising annual VAT return cost),[96] companies will opt for the common EU standard VAT return (see details of the calculation in Appendix 1). When we apply this reasoning to companies, it appears that, in 19 Member States, companies will shift away from national VAT returns (see Table 35) in both scenarios (best case and worst case).

Table 34 – Member States in which taxpayers will opt/will not opt for the common EU standard VAT return

Member states in which taxpayers will opt for the common EU standard VAT return	Member states in which taxpayers will NOT opt for the common EU standard VAT return
Austria	Cyprus
Belgium	Denmark
Bulgaria	Finland
Czech Republic	Ireland
Estonia	Malta
France	Netherlands
Germany	Sweden
Greece	UK
Hungary	
Italy	
Latvia	
Lithuania	
Luxembourg	
Poland	
Portugal	

[96] Only for the Member States that impose the submission of a summarising annual VAT return (Austria, Germany, Greece, Luxembourg, Malta, Portugal and Spain).

Member states in which taxpayers will opt for the common EU standard VAT return	Member states in which taxpayers will NOT opt for the common EU standard VAT return
Romania	
Slovakia	
Slovenia	
Spain	

413 For the 19 Member States in which companies will opt for the common EU standard VAT return, we consider that all the targeted population and 80% of the companies with a single VAT registration will use the common EU standard VAT return. The total cost for companies in those Member States in the TO BE situation is €7,948,391,345 in the best-case scenario and €8,002,199,840 in the worst-case scenario. The remaining 20% will keep the current VAT return, meaning that the AS IS will be applicable. The cost for those companies is estimated at €2,535,203,044.

414 For the other Member States, companies do not have a marked interest in switching to the new VAT return. However, it is safe to assume that companies with multiple VAT registrations in Europe will have an interest in adopting the common EU standard VAT return: the potential gains from standardisation would give them sufficient incentive to adopt it. This is borne out by the data collected from our sample: all the companies interviewed mention an expected cost decrease, or at least a status quo. Nevertheless, we consider that 80% of these companies will opt for the common EU standard VAT return, given that some companies may be simply reluctant to change.

415 The expected cost for the companies in the other Member States in the TO BE situation is €3,494,927,404 in the best-case scenario and €3,523,181,549 in the worst-case scenario. These figures are obtained by summing the TO BE cost for 80% of the companies with multiple VAT registrations active in these Member States and the AS IS cost for the other companies.

416 Companies in six out of the seven Member States where a summarising VAT return needs to be submitted indicated an economic interest to opt for the common EU standard VAT return. The cost saving related to the annual VAT return (without considering the consulting fees) is €2,611,614,250 in both scenarios.

417 Next to these cost savings, the impact on consulting fees will lead to an additional cost saving of €7,146,091,243.

418 The total expected cost saving in this third scenario is €20,624,578,709 in the best case and €20,542,566,068 in the worst case.

Table 35 – Expected cost savings in scenario 3

	Best case scenario			Worst case scenario		
	Monetised value (€)	% of the AS IS cost (i.e. € 43,254 billion)	% of EU GDP	Monetised value (€)	% of the AS IS cost (i.e. € 43,254 billion)	% of EU GDP
Cost savings due to the level of complexity, the new periodicity and standardisation (without consulting fees)	10.866.873.216	25,1%	0,09%	10,784,860,576	24.9%	0.09%
Cost savings due to the summarising VAT return (without consulting fees)	2.611.614.250	6,0%	0,02%	2,611,614,250	6.0%	0.02%
Cost savings due to the consulting fees	7.146.091.243	16,5%	0,06%	7,146,091,243	16.5%	0.06%
Total cost savings	20.624.578.709	47,7%	0,16%	20,542,566,068	47.5%	0.16%

Scenario 4: Obligatory for MS and optional for businesses that are registered for VAT in multiple Member States

419 The last scenario implies that only companies with multiple VAT registrations (i.e. the targeted population defined above) can opt for the common EU standard VAT return. Considering our assumptions for the third scenario, the total population affected by the implementation of a common EU standard VAT return is equal to the non-established taxable persons estimated by fiscal attachés plus the number of ultimate owners and subsidiaries established in the EU plus the number of branches, or 3,882,865 taxpayers.

420 As described in the previous scenario, some companies located in Member States where the total AS IS cost is still lower than the TO BE cost can be considered as reluctant to change. Consequently, we consider that 100% of the companies with multiple registrations located in Member States where the cost related to the common EU standard VAT return is lower than the AS IS cost will opt for the common EU standard VAT return whereas only 80% the companies with multiple VAT registrations will actually opt for the common EU standard VAT return if those companies are located in Member States where the cost related to the common EU standard VAT return is higher than the AS IS cost.

421 The TO BE cost for the companies with multiple VAT registrations is €2,173,463,577 in the best-case scenario and €2,255,476,218 in the worst-case scenario. These figures can be divided between the cost for non-established companies and the cost for established companies with multiple VAT registrations as presented in the table below.

Table 36 – TO BE cost for the companies with multiple VAT registrations (scenario 4)

	Non-established companies (€)	Established companies (branches) (€)	Established companies (subsidiaries) (€)	Total cost for the companies with multiple VAT registration (€)
Cost (€) in the TO BE situation (scenario 4) – best case	199,931,151	169,826,299	1,803,706,127	2,173,463,577
Cost (€) in the TO BE situation (scenario 4) – worst case	207,245,776	176,254,209	1,871,976,234	2,255,476,218

422 The other companies which are considered as having only one VAT registration in Europe must keep on using the national VAT return. For them, the TO BE cost will equal the AS IS cost and is €15,818,458,655 in both scenarios. Consequently, the total cost incurred by all European companies will be €17,991,922,232 in the best-case scenario and €18,073,934,873 in the worst-case scenario.

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423 We also need to consider the cost decrease due to the summarising annual VAT return: companies with multiple VAT registrations which opt for the common EU standard VAT return will no longer submit summarising annual VAT returns. This represents a cost saving of €1,168,773,665 under the best and worst-case scenarios.

424 The cost saving related to the consulting fees is €1,511,963,136 under the best and worst-case scenarios.

425 The total cost saving is less than for the two previous scenarios: €9,534,209,576 a year (and €9,452,196,936 for the worst-case scenario).

Table 37 – Expect cost savings under scenario 4

	Best case scenario			Worst case scenario		
	Monetised value (€)	% of the AS IS cost (i.e. € 43,254 billion)	% of EU GDP	Monetised value (€)	% of the AS IS cost (i.e. € 43,254 billion)	% of EU GDP
Cost savings due to the level of complexity, the new periodicity and standardisation (without consulting fees)	6.853.472.776	15,8%	0,05%	6,771,460,136	15.7%	0.05%
Cost savings due to the summarising VAT return (without consulting fees)	1.168.773.665	2,7%	0,01%	1,168,773,665	2.7%	0.01%
Cost savings due to the consulting fees	1.511.963.136	3,5%	0,01%	1,511,963,136	3.5%	0.01%
Total cost savings	9.534.209.576	22,0%	0,08%	9,452,196,936	21.9%	0.07%

Summary results for the TO BE situation

426 An overview of the four scenarios is provided in the table below, in terms of set-up cost and recurring total cost impact (i.e. the difference between the AS IS cost without consulting fees and the TO BE cost without consulting fees). The biggest cost savings are achieved when the use of the common EU standard VAT return is optional for all companies in Europe (€20,624,578,709 in the best-case scenario). When only those businesses that are registered for VAT in multiple Member States can opt for the common EU standard VAT return, some national VAT returns will disappear, with companies registered in a single Member State systematically choosing for the standard in those Member States because it is less complex than the national VAT return. In scenario 4, this effect will be ruled out since companies registered in only one Member State will not be able to opt for the common EU standard VAT return.

AS IS SITUATION (recurring cost)	**€43.254 billion**			
TO BE SITUATION	**Scenario 1:** Continuation of current situation	**Scenario 2:** Mandatory for Member States and for all businesses	**Scenario 3:** Mandatory for Member States and optional for all businesses	**Scenario 4:** Mandatory for Member States and optional for businesses that are registered in multiple Member States as non-established and as an established business
Set-up cost				
Set-up cost (€)	0	84,640,915,480	57,922,278,590	10,585,198,295
Recurring costs savings (best case)				
Recurring costs savings (best case) (€) – without consulting fees	0	6.680.877.982	10.866.873.216	6.853.472.776
Annual summarising VAT return savings (€) – without consulting fees	0	2,971,758,431	2,611,614,250	1,168,773,665
Consulting fees savings (€) related to the periodic VAT return	0	6,653,074,578	6,373,238,044	1,391,693,994
Consulting fees savings (€) related to the summarising annual VAT return	0	936,089,632	772,853,199	120,269,141
Total cost savings (€) per year (best case)	**0**	17,241,800,623	20,624,578,709	9,534,209,576

Recurring costs savings (worst case)				
Recurring costs savings (best case) (€) – without consulting fees	0	6,591,814,305	10,784,860,576	6,771,460,136
Annual summarising VAT return savings (€) – without consulting fees	0	2,971,758,431	2,611,614,250	1,168,773,665
Consulting fees savings (€) related to the periodic VAT return	0	6,653,074,578	6,373,238,044	1,391,693,994
Consulting fees savings (€) related to the summarising annual VAT return	0	936,089,632	772,853,199	120,269,141
Total cost savings (€) per year (worst case)	**0**	**17,152,736,946**	**20,542,566,068**	**9,452,196,936**

5.2.4.7 Qualitative impacts[97]

427 Next to the impacts discussed above, sample companies have also identified a number of other impacts not related to the cost of filing VAT returns. They are important, however:

- First of all, sample companies expect that the introduction of the common EU standard VAT return might result in increased quality in the preparation of periodic VAT returns and increased job satisfaction. Due to increased standardisation and automation, fewer errors are expected to be made and, if errors are made, they will be detected quicker. This will increase the quality of the work done, and consequently the satisfaction of employees.

[97] A detailed description of the qualitative findings is presented in Appendix 4.

- Second, most sample companies believe that introduction of the common EU standard VAT return might increase the attractiveness of Europe for businesses that are established outside Europe. They are convinced that uniformity is always viewed more favourably than fragmented or diversified compliance obligations. The decision on whether or not to establish a business in Europe, or to start activities in other EU Member States, will mostly depend on commercial and business drivers, however.

428 The sample companies expressed certain preferences regarding the following issues:

- Sample companies would like to be able to submit all VAT returns to a single point of access. This could be a centralised European platform (e.g. eVAT.eu) or a national platform of choice. Five out of 14 businesses prefer the former, five out of 14 businesses prefer the latter. Three out of 14 businesses do not have a preference between the options; what matters to them is that there should be a single point of access. One of the businesses indicates that it has no preference at all among the existing national platform, a centralised EU platform and a national platform of choice. For this particular company, the important question is whether there will be only one password or multiple passwords for all registrations. It argues that having only one password for all registrations would create challenges in maintaining a segregation of duties and limiting user access to individual roles.

- Some sample businesses would prefer an alignment among filing periods for VAT and statistical (Intrastat) reporting. It may happen that a business discovers during the VAT reporting period that it should have filed an IC list (e.g. due to the introduction of an additional flow) but that the due date for the intra-Community sales list has already passed. This is not easy to manage. One business goes as far as to mention a combined declaration process.

- Sample companies argue that, if the purpose is to decrease the VAT burden on business, intra-Community sales/acquisition listings, Intrastat and other listings should also be harmonised. This would lead to cost-savings and time-savings. Businesses feel that the common EU standard VAT return in itself will not yield significant savings as they will still be faced with the same difficulties as at present in connection with VAT returns, such as the need to rely on external consultants, the impossibility of standardising and language barriers.

5.2.4.8 Conclusions

429 Introduction of the common EU standard VAT return is expected to result in a decrease in time and cost spent on the preparation and submission of a periodic VAT return for large sample enterprises compared with the AS IS situation. The expected time savings are estimated at between 0.5 and 5.4% of the AS IS time, the expected cost savings at between 1.4 and 3.8 % of the AS IS cost.

430 The most important drivers for cost savings are standardisation and the ability to perform a larger part of or even all activities in house.

431 Standardisation leads to simplification and will result in efficiency and effectiveness gains. Fewer errors will be made and the quality of prepared VAT returns will increase. Job rotation will be facilitated, risk management enhanced and less follow-up will be required on legislative changes in so far as VAT returns and annual summarising returns are concerned. Moreover, standardisation of the processes for correcting errors and submission will further enhance the level of efficiency and effectiveness.

432 A direct consequence of the increased efficiency and effectiveness is that companies are able to perform more activities in-house. Due to standardisation of the boxes in the VAT return, there will no longer be a language barrier and a local identity card will no longer be required to submit periodic VAT returns. Therefore, businesses expect that, in some cases, external consultants will not have to be relied on as much.

433 The number of boxes also impacts the cost constellation. The number of boxes in the national VAT return of each Member State can mean either a cost increase (a move from a low number of boxes to a higher number of boxes) or decrease (a move from a high number of boxes to a lower number of boxes).

434 Although the impact on the time and cost of preparing and submitting a periodic VAT return may seem very limited, the impact on an EU level is considerable. Considering the cost impact of the four scenarios analysed in the TO BE situation, the third is the most appropriate because the cost savings for businesses are maximised (i.e. total cost savings of €20 billion). This cost saving can be explained by the reduced time spent per VAT return for certain companies (i.e. companies with multiple VAT registrations, at least) and, more importantly, by a change of periodicity and abolition of the summarising annual VAT return.

435 The common EU standard VAT return is a step in the right direction toward tackling the difficulties in the current situation for those businesses submitting VAT returns in more than one Member State. It will facilitate the VAT-compliance process, by opening up possibilities for internal centralisation and standardisation. This creates great opportunities for cost savings. Moreover, it will reduce the barrier to doing business in the single market by running a business from one Member State and serving multiple countries. Typically, larger businesses with VAT registrations all over Europe face fewer problems in the current situation than businesses that do not employ local employees across Europe. However, introduction of the common EU standard VAT return will benefit both established and non-established companies.

436 Although, overall, sample businesses are positive about the standards and are willing to adopt the common EU standard VAT return, they stress that harmonisation of the VAT return format alone qualifies as a necessary but not a sufficient condition for burden reduction. Further harmonisation will be required in order to decrease the costs businesses face in relation to VAT compliance. Harmonisation of the underlying VAT legislation in the different EU Member States and harmonisation of other VAT-related filing obligations such as IC Sales, intra-Community sales lists for goods and services and IC Acquisition Listings, plus any domestic listings and Intrastat will be required. Also, the behaviour of tax authorities with regard to additional questions and the approach to audits should be harmonised in order to expand the benefits and mitigate the concerns of businesses in connection with the potential increase in the number of questions in the TO BE situation. In respect of these additional questions, it is recommended that tax authorities should ask them all at once, instead of continuously asking questions over time. Although not strictly within the scope of this study, we cannot ignore the demand of businesses for complete harmonisation of VAT in Europe.

5.3 Economic impact assessment from a Member State perspective

5.3.1 Introduction

437 The introduction of a common EU standard VAT return will impact business stakeholders and tax authorities in the 27 EU Member States. The impact on tax authorities was assessed by means of a questionnaire (see Appendix 10), which was distributed to the tax authorities of the 27 Member States. All tax authorities completed the questionnaire (at least partially), except for Denmark and Spain. The Spanish tax authorities provided data on the number of taxpayers, but did not complete the remainder of the questionnaire. Additional follow-up interviews were done on 1 October 2012 with representatives of those of Belgium, Finland, France, Hungary, Italy, Poland and the UK attending the Fiscalis meeting of 2-4 October 2012 in Portugal. As the German tax authorities were not present at the Fiscalis meeting, no follow-up interview was done with them.

438 Qualitative findings are based on the input received from the tax authorities that completed the questionnaire and provided feedback during the interviews on the proposed common EU VAT return and during the Fiscalis seminar. The qualitative findings are supported, where necessary, with quantitative figures (i.e. indicative ranges) received from the tax authorities of the Member States in scope. As a general remark, we need to say that, although we received input from several tax authorities to the best of their abilities, we received only a limited amount of useful quantitative data from a minority of tax authorities.

439 The qualitative findings are often dependent on the Member States' specific circumstances. Consequently we will frequently refer to examples provided by the tax authorities themselves to explain these findings. All finding are kept anonymous, as agreed with DG TAXUD.

440 In the following sections we first present the main findings. In the second section, we provide an in-depth analysis of the findings. In the third section, we provide an overview of certain other issues raised during the Fiscalis meeting regarding the proposed common EU standard VAT return.

5.3.2 Findings

441 The following main findings were identified and analysed:

- Purpose of a common EU standard VAT return
- Impact on number of errors in filed VAT returns (i.e. quality of data in the filed VAT return)
- Decrease/increase in information (amount and granularity) and impact on VAT risk analysis/vat audits
- Impact on trend analysis and comparison with historical VAT data
- Need to follow up on whether or not criteria to opt for a standard VAT return are fulfilled
- Principle of subsidiarity and national flexibility
- Danger of VAT-return shopping
- VAT return as an essential step towards standardisation and harmonisation
- Set-up costs, recurring costs of running two systems and costs of change
- Budgetary impact
- Impact on communication and exchange of information between tax authorities
- Impact on behaviour of defaulters
- Impact on VAT audits
- Impact on information gathered for other purposes

442 The table below gives an overview of the main findings in terms of advantages and disadvantages of four scenarios.[98] The findings are analysed and explained in detail in the next section.

[98] These scenarios are the same as described and commented on in section 4.2.4

Table 38 – Advantages and disadvantages of implementing a (the proposed) common EU standard VAT return

	Scenario 1: "Continuation of current situation"	**Scenario 2:** "Mandatory for Member States and for all businesses"	**Scenario 3:** "Mandatory for Member States and optional for all businesses"	**Scenario 4** "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
Advantages				
High flexibility regarding the use of the national VAT return and changes in rules and legislation	Yes			
1 system, no costs for maintaining 2 separate systems	Yes, adapted to national needs (e.g. regarding strategy on risk analysis and info for other purposes)	Yes		
No new set-up costs / No cost of change	Yes			
Reduced number of errors in VAT returns in the mid/**long** term		Yes, especially for non-established taxpayers	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Improved exchange of information and comparison of VAT data at EU level		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Increase of information (amount and granularity) and impact on risk analysis and VAT audits for Member States with less information in their national VAT returns		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it

	Scenario 1: "Continuation of current situation"	Scenario 2: "Mandatory for Member States and for all businesses"	Scenario 3: "Mandatory for Member States and optional for all businesses"	Scenario 4 "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
Advantages				
Positive budgetary impact for Member States currently with a later payment date		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
High potential for realising economies of scale		Yes		
No danger of VAT-return shopping		Yes		
Step towards business's needs for more standardisation and harmonisation		Yes	Yes	Yes
Flexibility regarding the use of national VAT returns (as taxpayers can always choose the standard VAT return if changes to the national VAT return make it too costly/difficult)			Yes, some flexibility	Yes, moderate/high flexibility

	Scenario 1: "Continuation of current situation"	**Scenario 2:** "Mandatory for Member States and for all businesses"	**Scenario 3:** "Mandatory for Member States and optional for all businesses"	**Scenario 4** "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
Disadvantages				
Risk of errors in VAT returns due to difficulty for (especially non-established) taxpayers to understand national rules and VAT return legislation	Yes, high risk			
No change in behaviour of defaulters	Yes			
Does not stem business demands for more standardisation and harmonisation	Yes			
Exchange of information between Member States or between Member States and taxpayers is difficult, due to language problems and no common understanding of national VAT returns	Yes			
Operating costs of running two parallel systems			Yes	Yes

	Scenario 1: "Continuation of current situation"	**Scenario 2:** "Mandatory for Member States and for all businesses"	**Scenario 3:** "Mandatory for Member States and optional for all businesses"	**Scenario 4** "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
Disadvantages				
Agreement needed among Member States on the purpose of a common EU standard VAT return before designing content or accepting the proposed common EU standard VAT return		Yes	Yes	Yes
Loss of information (amount and granularity) and impact on risk analysis and VAT audits for Member States with more information in their national VAT returns		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Loss of information gathered for other purposes		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Negative budgetary impact for Member States currently with an earlier payment date		Yes	Yes, for taxpayers that	Yes, for taxpayers that
No immediate change in behaviour of defaulters		Yes	Yes	Yes

	Scenario 1: "Continuation of current situation"	**Scenario 2:** "Mandatory for Member States and for all businesses"	**Scenario 3:** "Mandatory for Member States and optional for all businesses"	**Scenario 4** "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
Disadvantages				
No flexibility to adapt VAT return to national needs		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Set-up costs and cost of change + start-up difficulties		Yes	Yes	Yes
Low potential for realising economies of scale			Yes, low/moderate potential	Yes, low potential
Potential difficulty in doing trend analysis between standard VAT return data and 'old' national VAT return data		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Expected higher rate of errors in VAT returns in the short term		Yes	Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Danger of VAT-return shopping			Yes, for taxpayers that opt for it	Yes, for taxpayers that opt for it
Danger that national VAT return will become obsolete for Member States with difficult ones			Yes	Yes
Need to follow up on whether or not criteria to opt for common EU standard VAT return are fulfilled				Yes

5.3.3 Analysis of findings

5.3.3.1 Purpose of a common EU standard VAT return

443 Tax authorities in the different EU Member States define the overall purpose of a VAT return differently. For some of them, it is only a means to collect VAT. For others, it is also an effective risk management tool and a means to gather additional, more detailed information about taxpayers. The different purposes that the current national VAT returns serve within Member States then impacts Member States' view on the common EU standard VAT return. In this respect, tax authorities would prefer to agree first on the purpose of the common EU standard VAT return among Member States before designing its content and introducing it.

5.3.3.2 Impact on number of errors in filed VAT returns (i.e. quality of data in the filed VAT return)

444 It is not unusual for taxpayers, especially non-established taxpayers, to make (unintentional) errors in national VAT returns due to difficulties in understanding and interpreting national rules and regulations and certain boxes. In this respect, in the current situation, tax authorities are expected to be able to accommodate requests for clarification and information in connection with the filing of national VAT returns. Tax authorities also indicate that it is relatively costly to give instructions and guidelines in another language than their native language. Consequently, they agree that the introduction of a common EU standard VAT return may result in fewer errors in filing and also fewer or no requests for information/clarification.

445 However, fewer errors do not necessarily mean that the behaviour of defaulters will change. According to some Member States, the reasons for non-compliance are mostly linked to the complexity of the underlying legislation or the difficult economic situation SMEs and micro enterprises face vis-à-vis large taxpayers. On the other hand, some Member States do believe voluntary compliance is likely to increase in the minds of foreign taxpayers (having an establishment or registered for VAT in a Member State other than that of their main establishment) when requirements are clear to them Moreover, the compliance costs for businesses are expected to decrease when all requirements are clear, resulting in a further increase in voluntary compliance according to these Member States.

5.3.3.3 Decrease/increase in information (amount and granularity) and impact on VAT risk analysis/VAT audits

446 Tax authorities are worried that the introduction of a common EU standard VAT return will negatively impact the information they currently collect from their national VAT returns. In this respect, the proposed common EU standard VAT return affects the amount (i.e. more vs. fewer boxes) and granularity (i.e. high level vs. detailed information) of the information currently collected through national VAT returns. This will impact logical checks, risk analysis, fraud detection and even the way audits are performed in some cases. Additionally, processing a less or more detailed VAT return and the consequences of that for risk analysis, audits, etc. will affect processing time and the workload of tax authorities' staff.

5.3.3.4 Impact on trend analysis and comparison with historical VAT data

447 The introduction of a (or the proposed) common EU standard VAT return may potentially result in a loss of comparison with historical data regarding individual taxpayers, as well as for aggregated national VAT data. Tax authorities are afraid that the loss of comparison of some VAT data may make it more difficult to detect fraud.

5.3.3.5 Need to follow up on whether or not criteria to opt for the common EU standard VAT return are fulfilled

448 If the option to use the common EU standard VAT return is provided only to businesses with VAT registrations in more than one Member State, additional controls will be required to check whether businesses are allowed to use the common EU standard VAT return or the national VAT return. This will cause additional costs for tax authorities.

5.3.3.6 Principle of subsidiarity and national flexibility

449 Tax authorities are concerned that it will be more difficult to make changes in information requirements and submission and correction procedures to reflect national needs at any point in time. They are afraid that this flexibility will be lost with the introduction of a common EU standard VAT return.

5.3.3.7 Danger of VAT-return shopping

450 Tax authorities are concerned that the introduction of a common EU standard VAT return may create opportunities for VAT-return shopping if use of the common EU standard VAT return is optional. Fraudsters may deliberately use the common EU standard VAT return to hide their fraudulent intents. Therefore tax authorities tend to agree to an optional regime only if the period for which the standard VAT return is used is long enough.

5.3.3.8 The VAT return as an essential step towards standardisation and harmonisation?

451 Some tax authorities doubt whether the problem of a lack of VAT harmonisation in the EU-27 can be overcome by introducing a common EU standard VAT return. They point to other means such as the EU's VAT legislation. For others, a common EU standard VAT return is but a step towards standardisation and harmonisation, but not, strictly speaking, the fundamental or first step to take.

452 In any case, no Member State believes the introduction of a common EU standard VAT return is a first priority, though they note that some kind of further standardisation and harmonisation is needed.

5.3.3.9 Set-up costs, recurring costs of running two systems and costs of change

453 If use of the common EU standard VAT return is optional for businesses, tax authorities will have to implement a new system for the common EU standard VAT return alongside their current national VAT return system. The functioning of two parallel systems will have serious budgetary consequences and will also put additional pressure on staff. Therefore, tax authorities express a clear preference for one mandatory system for all taxpayers (i.e. only the national VAT return or only the common EU standard VAT return) above an optional system for all or a segment of the taxpayer population.

454 The set-up costs due to introduction of a common EU standard VAT return and the proposed EU standard VAT return as well as the impact on recurring costs were identified and are presented in this section. Moreover, an overview of the data gathered from the tax authorities of the Member States in scope (except Germany, since no follow-up interview was performed with the German tax authorities) via the questionnaires and follow-up interviews is provided in Appendix 11.

5.3.3.9.1 Set-up costs

455 Tax authorities expect significant set-up costs due to the introduction of a common EU standard VAT return.

456 In this respect, the following costs drivers were identified:

- Set-up costs of changing the legislation and communicating and providing guidance on the new legislation to stakeholders
- Set-up costs of a new IT system or costs to change the IT system that include the following cost elements linked to the new system's features:
  - The platform
  - The VAT return
  - Authentication and signing
  - Proof of receipt and archiving
  - Interfacing with existing IT systems/processes
- Set-up costs to design and implement the necessary back-office processes/working procedures
- Set-up costs of changing existing processes for the activities performed by tax authorities for VAT-collection purposes, processing data, follow-up, refunds, storage and archiving or to provide for new ones
- Set-up costs for training

457 Each of these cost elements is discussed below and, where necessary, illustrated with figures received from the tax authorities of the Member States in scope (except Germany). Due to the different organisation and number of taxpayers in each Member State, the results differ significantly. More detailed quantitative data can be found in Appendix 11. In this appendix, the number of data entries per cost element and the average and medium values are presented per cost element for the sample of Member States in scope, except Germany. Although Germany completed the qualitative part of the questionnaire, no quantitative data was provided (except for data on the population of taxpayers). Furthermore, no follow-up interviews were performed with the German tax authorities due to the fact that they were not present at the Fiscalis meeting of 2-4 October 2012.

458 The range between the minimum and maximum values of cost data received from the Member States in scope and presented in this section is significant. The number of tax authorities from which input data was validated is limited to the Member States in scope and not each of the Member States in scope was able to provide cost data on all cost elements. As a result, the number of data entries per cost element is limited to between zero and five. For each cost element, the number of data entries, as well as the minimum, maximum, median and average value, is presented in Appendix 11.

5.3.3.9.1.1 Changing, communicating and providing guidance on new legislation

459 The set-up costs for changing, communicating and providing guidance on new legislation linked to the introduction of a common EU standard VAT return greatly depend on the legislative procedures applicable in the Member States. One of the Member States participating in this study expressed concerns about the complex processes a change in legislation brings in certain Member States and the delay this could cause.

460 Estimates received from the tax authorities of the Member States in scope providing data vary between 15 and 80 working days' internal time, whereas throughput times are estimated at up to 365 working days. The same trends can be observed in terms of estimated costs, where the figures received from the tax authorities of the Member States in scope vary between €7,500 and €40,000.

5.3.3.9.1.2 IT systems

461 The set-up of new IT systems or change to existing IT systems represents the highest expected set-up cost, even though tax authorities say they find it difficult to provide precise monetary values.

462 The estimated set-up costs for a new platform or to alter an existing platform are particularly high. One of the Member States even expects these costs could potentially exceed €120 million. However, not all Member States expect the costs to be that high. Estimated costs from the other Member States in scope range between €150,000 and 400,000. The estimated other set-up cost elements for IT systems are less pronounced. An indicative range (with minimum and maximum values) of the other IT system set-up cost elements is provided in Table 39.

463 This range is based on the data provided by the tax authorities of the Member States in scope.

Table 39 – Estimated IT set-up cost for tax authorities

IT set-up costs	Minimum	Maximum
Platform	150,000	120,000,000
VAT return	170,000	397,000
Authentication and signing	75,000	100,000
Proof of receipt and archiving	75,000	500,000
Interfacing with existing IT systems/processes	50,000	800,000

5.3.3.9.1.3 Back-office processes/working procedures

464 Back-office processes or working procedures needed if the proposed common EU standard VAT return is introduced and used alongside national VAT returns may include processes to identify new taxable persons opting to use the common EU standard VAT return (i.e. activities concerning identification, granting access to the website), processes to identify the opt-in by an existing taxpayer (i.e. transfer from national VAT-return process to the common EU standard VAT-return process) and processes to identify the opt-out of an existing taxpayer (i.e. transfer from common EU standard VAT-return process to national VAT-return process).

465 In line with all other set-up costs, the costs to design and implement the back-office processes or working procedures vary between Member States. Whereas some Member States expect fairly limited costs (e.g. one Member State expects a cost of no more than €20,000), other Member States expect these costs to be considerable (e.g. one Member State expects these costs to amount to €500,000). In any case, Member States are currently organised in different ways and each of them will need to adapt its back-office processes appropriately.

5.3.3.9.1.4 Changes to other processes with respect to VAT-collection, processing data, follow-up, refunds, storage and archiving

466 If the introduction of a common EU standard VAT return entails changes to other processes with respect to VAT collection, processing data, follow-up, refunds, storage and archiving or to provide for new ones, set-up costs will be needed. Some Member States do not expect significant costs in this respect. Others provide a range of costs, from €10,000 to €1,700,000.

5.3.3.9.1.5 Training

467 All the tax authorities of the Member States in scope that provided set-up training expect internal and/or external training costs to be incurred. These costs comprise a considerable part of the total set-up costs, with minimum and maximum values reported of €142,000 and €1,800,000, respectively.

5.3.3.9.2 Recurring costs

468 The following recurring costs incurred by tax authorities were identified:

- Recurring costs per VAT return for VAT return processing, such as submission of the VAT return, data processing, other activities linked to data analysis, refunds, storage and archiving
- Yearly recurring IT costs
- Yearly costs for training on processing VAT returns
- Recurring costs per audit

469 Most tax authorities were not able to precisely estimate the recurring costs. A large number of tax authorities only provided a qualitative assessment of the likely impact of introduction of a common EU standard VAT return.

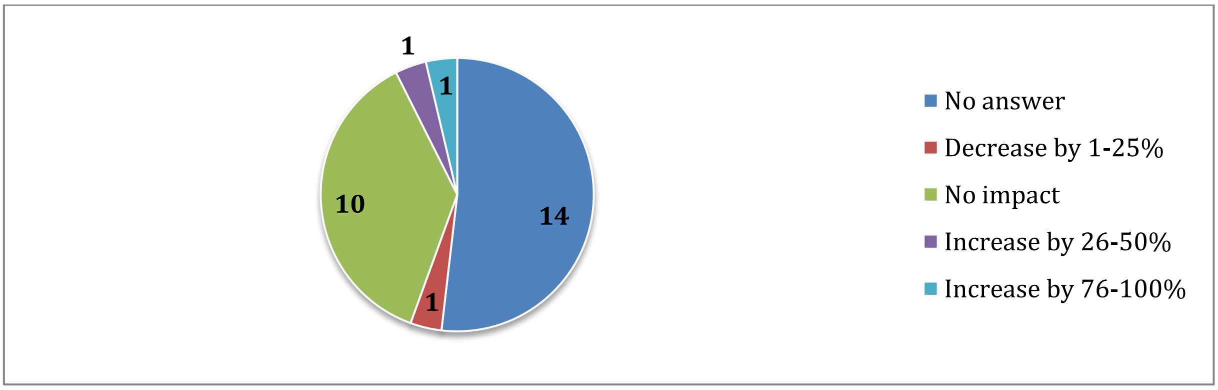
5.3.3.9.2.1 Recurring costs per VAT return for VAT-return processing such as submission of the VAT return, data processing, other activities linked to data analysis, refunds, storage and archiving

470 Considering the tax authorities that assessed the impact of introducing a common EU standard VAT return on the recurring costs per VAT return for VAT-return processing, the main trend observed is that most tax authorities do not expect any impact on these recurring costs. The only two activities where a clear deviation from this trend is noted are the activities 'request additional information from taxpayers' and 'refund audit'. For those two activities, the number of tax authorities that expect a cost increase is considerably higher than for the other activities.

- Collection of the VAT return

471 Most Member States expect no impact on the recurring costs incurred for this activity. One of the Member States expects a small cost decrease due to the fact that more submissions will be done electronically. Two Member States expect a cost increase.

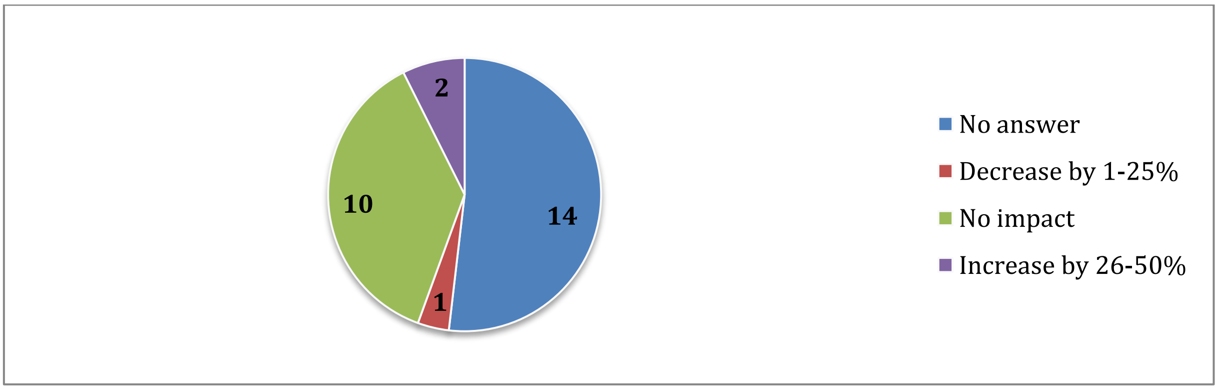
Figure 40 – Impact on costs of collecting VAT returns



- Data processing

472 Most Member States expect no impact on the recurring costs incurred for this activity. Only two Member States expect a cost increase. One Member State expects a cost decrease.

Figure 41 – Impact on data-processing costs



- Other activities linked to the data analysis

473 These activities include:

  - requests for additional information from other Member States;
  - requests for additional information from taxpayers;
  - use of data for risk analysis purposes and detection of fraud through data analytics or data mining;
  - controls or audits of refund claims;
  - comparison and matching with payments received.

474 The impact of introduction of a common EU standard VAT return on each of these activities is analysed below.

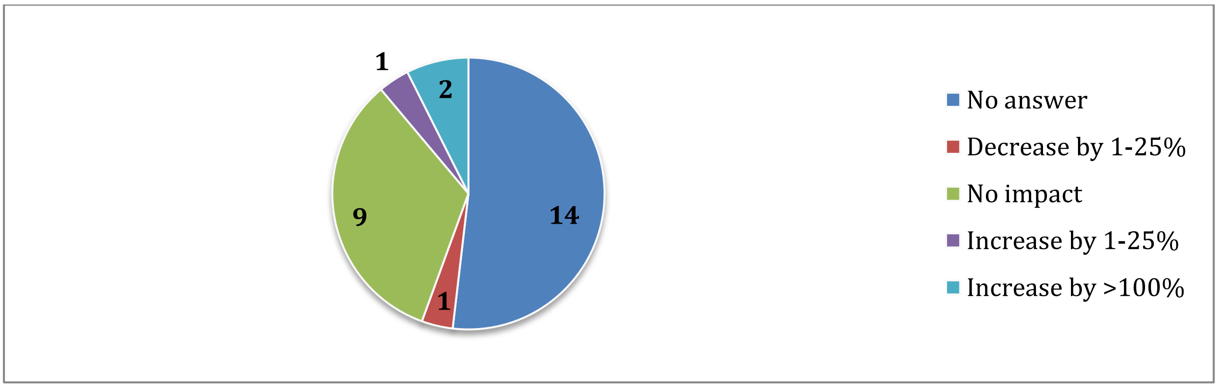
  - Requests for additional information from other Member States

475 Most Member States expect no impact on the recurring costs incurred for this activity.

476 Three Member States expect a cost increase. Tax authorities from one Member State expect that the number of information requests will increase due to the limited volume of information in the proposed common EU standard VAT return compared to national VAT returns, which will consequently increase these costs.

477 One Member State expects a cost decrease for this activity even though no immediate change is anticipated in the organisation of the activity.

Figure 42 – Impact on the costs of requesting additional information from other Member States



  - Requests for additional information from taxpayers

478 Almost half of the Member States that assessed the cost impact on this activity expect a cost increase. Three Member States expect a cost increase of more than 100%. These Member States also expect a change in the organisation of this activity, with the following remarks:

- One Member State says that if the requirement to file purchase/sale ledgers is abolished, this information will have to be requested from taxpayers during an audit/check. It will be impossible to do a preliminary cross-check of the data, which will deprive tax authorities of the opportunity to turn their attention to problematic supplies at an early stage.

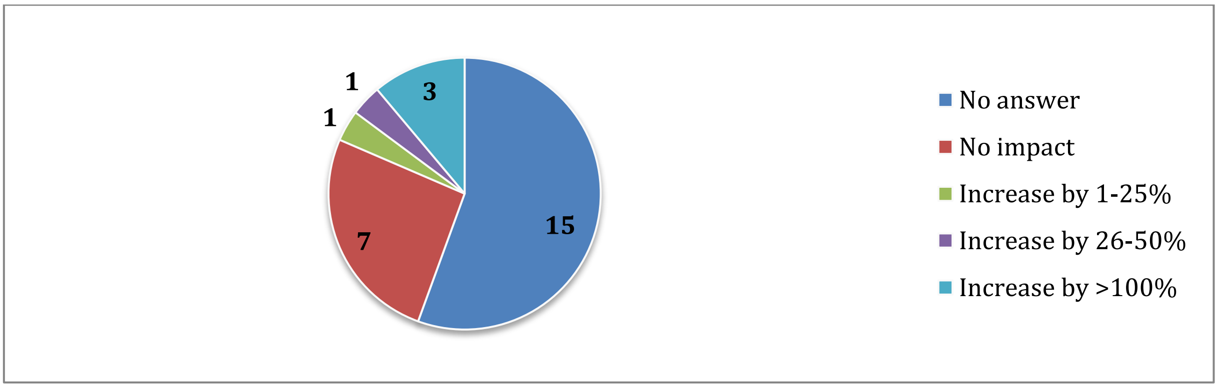
- Another Member State says that the proposed common EU standard VAT return will not include all the information which is currently available to the national tax authorities from the annexes submitted by taxpayers. Therefore, it will be necessary to request additional information from taxpayers more often and to a greater extent.

- Yet another Member State says that most of its validations and cross-checks cannot be performed with the proposed common EU standard VAT return. Therefore, taxpayers will have to be consulted more often.

479 Two Member States expect limited cost increases. However, the tax authorities from one Member State indicate that the fact there are more boxes in the proposed common EU standard VAT return than in the current national VAT return will increase the possibility of errors, even though they do not expect a change in the process for identifying and resolving logic errors.

480 The other Member States do not expect any change in recurring costs incurred for this activity.

Figure 43 – Impact on the costs of requesting additional information from taxpayers



- Risk analysis through data analytics or data mining

481 The majority of Member States that assessed the impact on the recurring costs incurred on this activity do not expect any cost impact.

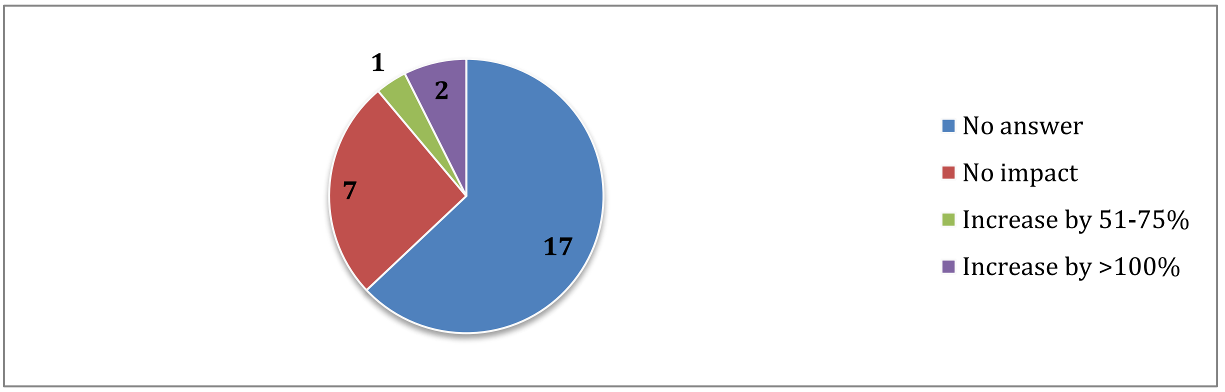
482 Three Member States expect a cost increase, however. Two of them even expect a cost increase of more than 100%.

- One Member State states that, if the requirements to file purchase/sale ledgers are abolished, a large part of the information necessary to operate the automated risk assessment information system will no longer be available.

- Another Member State says that it will not be possible to perform most of its validations and cross-checks, which will increase the time spent and costs incurred on risk analysis.

483 One Member State expects a lower cost increase, although it is still considerable (i.e. 51-75%).

Figure 44 – Impact on risk analysis costs



- Refund audit

484 Six of the 13 Member States that assessed the impact on the recurring costs of this activity expect a cost increase.

485 Three of these Member States even expect a cost increase of more than 100%:

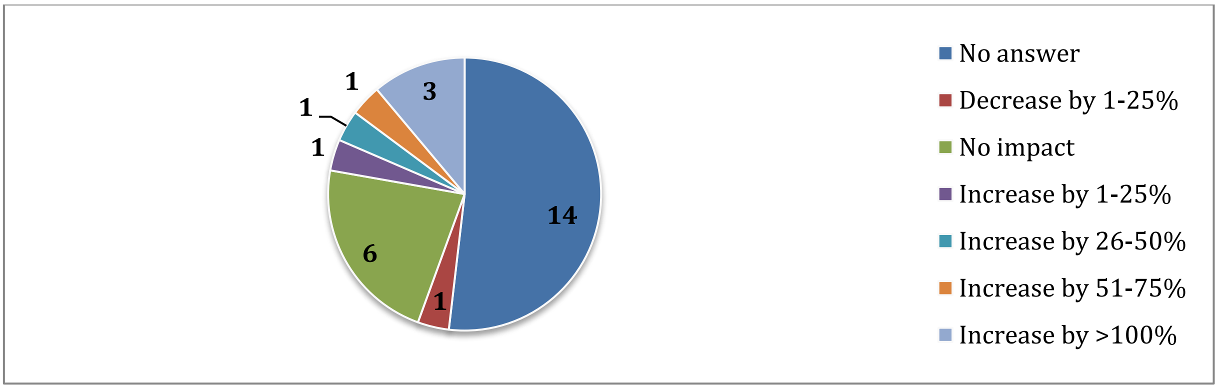
- One Member State states that the checks related to refunding will have to be performed at taxpayers' premises and that data will be required from their accounting. This is expected to create difficulties and costs for both the tax authorities and taxpayers.
- In another Member State, risk analysis follows a knowledge-based approach. Legal persons are scored against predefined risk criteria. Appropriate changes will have to be made in the relevant information systems of the tax authorities if the common EU standard VAT return is introduced.
- The tax authorities from one of the Member States are concerned that, if additional recapitulative declarations are not submitted, it will not be possible to perform their current submission validations and risk analysis.

486 Three Member States expect a limited cost increase, with the following remarks:

- The tax authorities of one Member State say that there will be a large impact on refund data analysis. New structures for the refund process will be required to maintain a link to the new VAT return.
- The tax authorities of another Member State say that, as they will have less information on the business activity of taxpayers, they will have fewer indicators, which will make the follow-up process more difficult.
- Yet another Member State does not expect any change in the activity itself, but it expects that the intervals between refund audits will drop.

487 Only one Member State expects a decrease in recurring costs of the 'refund audit' activity.

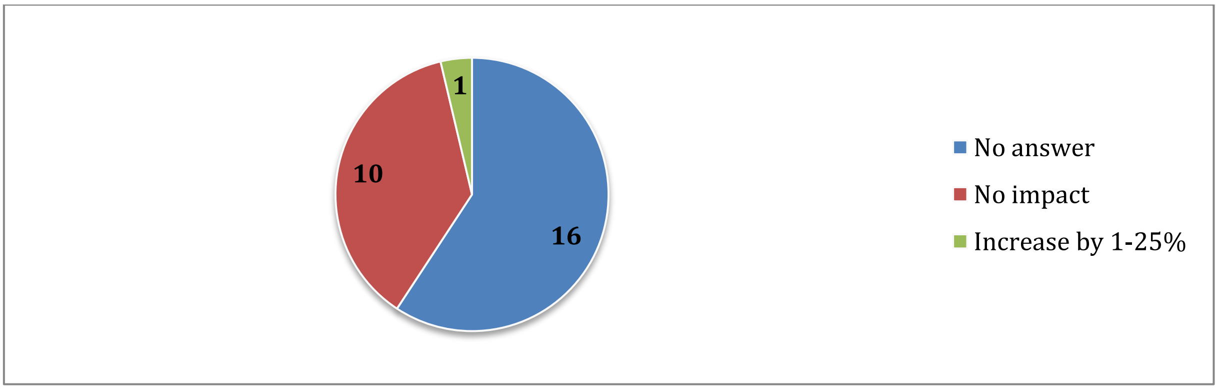
Figure 45 – Impact on the costs of refund audits



- Link and data matching between the VAT return and payment received

488 Almost all Member States that assessed the impact on the recurring costs of this activity expect no significant cost impact. Only one Member State expects a small cost increase due to the implementation of a new control structure.

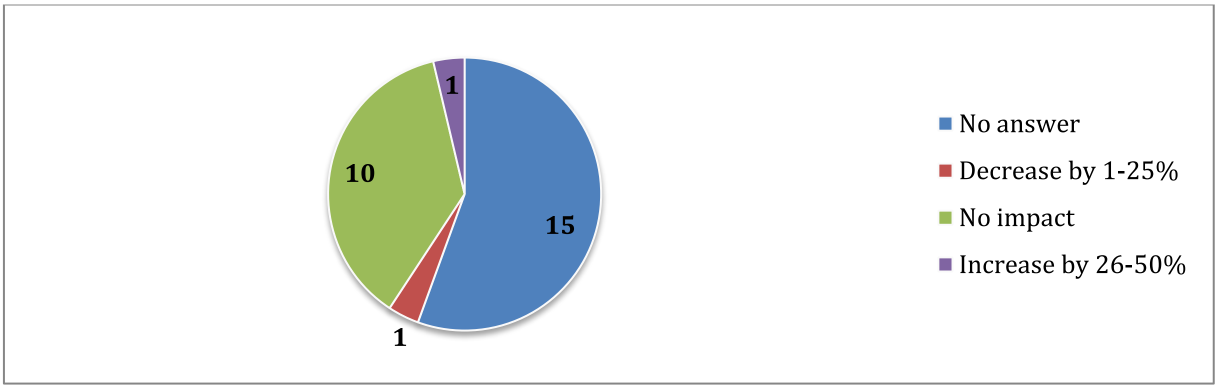
Figure 46 – Impact on the costs for link and data matching between the VAT return and payments received



- Refund costs

489 Most Member States that assessed the impact on recurring costs for this activity do not expect any cost impact. Only one Member State expects a cost increase. Another Member State expects a cost decrease. The tax authorities of the Member State expecting a cost increase say that the organisation of this activity will change due to implementation of a new structure for the evaluation and payment process. The tax authorities of the Member State expecting a cost decrease do not expect any change in the activity.

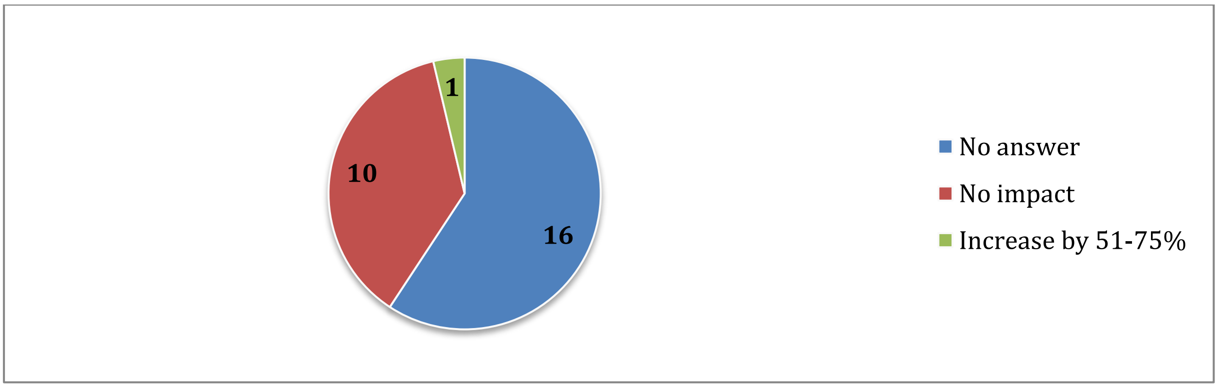
Figure 47 – Impact on refund costs



- Storage/archiving costs

490 Most Member States that assessed the cost impact on this activity do not expect any change in recurring costs. Only one Member State expects an increase in recurring costs for this activity due to the implementation of a new structure in their database, the requirement for compatibility with the previous structure and new applications for data searching.

Figure 48 – Impact on storage and archiving costs



5.3.3.9.2.2 Yearly recurring IT costs

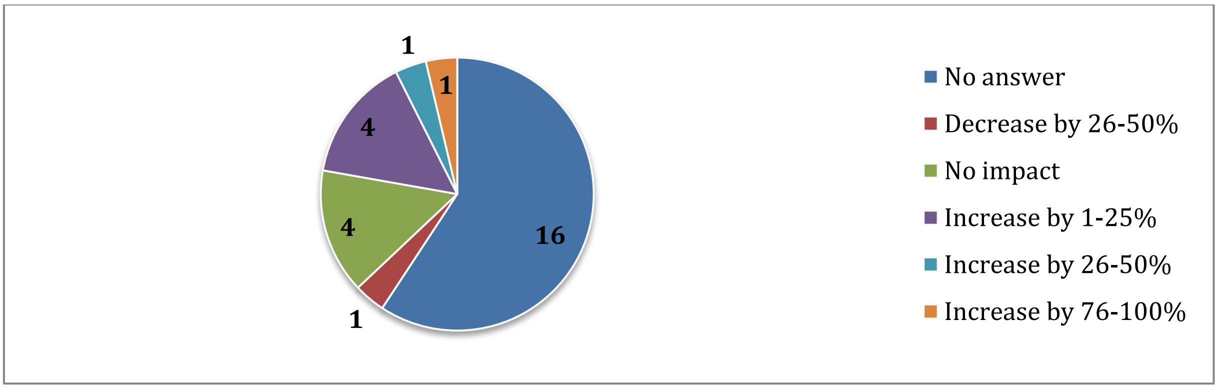
491 The general trend observed when assessing the impact of introducing a common EU standard VAT return on yearly recurring IT costs is that most Member States expect a cost increase for maintaining the platform, the VAT return and the interfaces with existing IT systems or processes. On the other hand, most Member States do not expect any impact on the recurring yearly costs regarding proof of receipt, archiving, signing or authentication.

- The platform

492 The majority of Member States expect an increase in the recurring costs to maintain two platforms instead of only one.

493 Four Member States do not expect any cost impact. One Member State even expects a cost decrease.

Figure 49 – Impact on yearly recurring IT costs – Platform

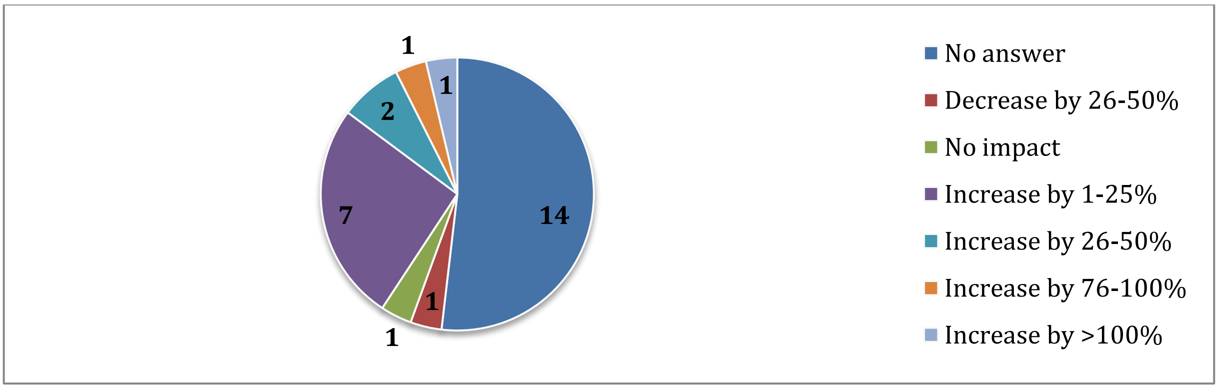


- The VAT return

494 Almost all Member States expect an increase in the recurring costs related to the VAT return as two different kinds of VAT returns will need to be processed instead of only one.

495 Only two Member States do not expect a cost increase. One of them expects no impact. The other even expects a cost decrease.

Figure 50 – Impact on yearly recurring IT costs – VAT return

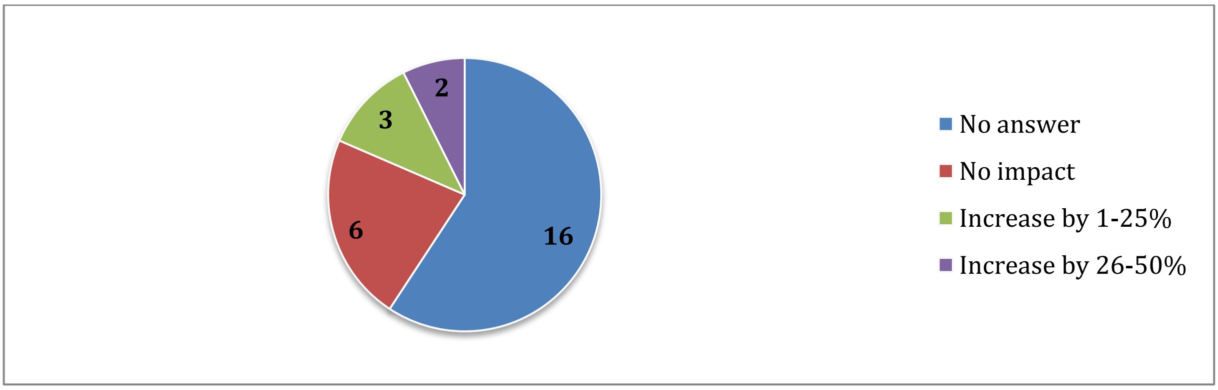


- Authentication and signing

496 Most Member States do not expect a cost impact on the yearly recurring IT costs regarding authentication and signing. Five Member States expect a cost increase, however.

497 The tax authorities of one Member State say in this respect that an additional functionality will have to be maintained for authentication and submission without e-signatures, then resulting in a cost increase.

Figure 51 – Impact on yearly recurring IT costs – Authentication and signing

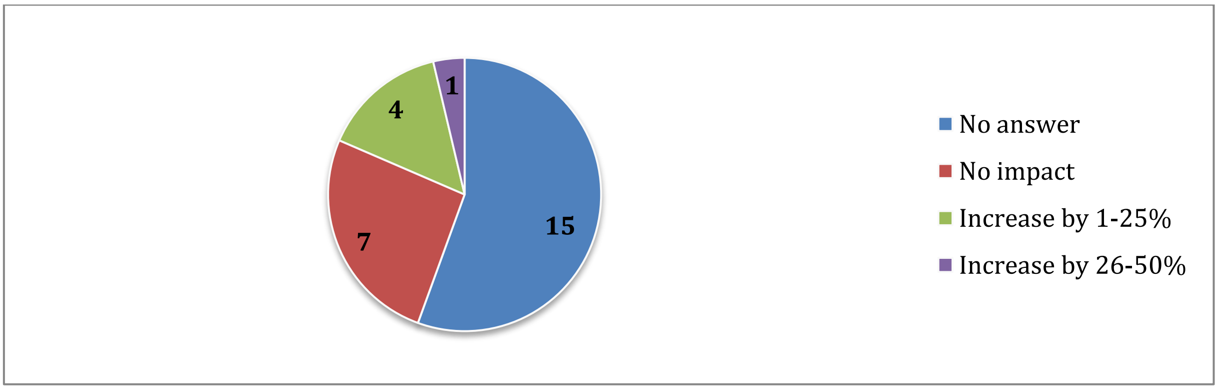


- Proof of receipt and archiving

498 Most Member States do not expect a cost impact on yearly recurring IT costs regarding proof of receipt and archiving. Five Member States expect a cost increase, however.

499 The tax authorities of one Member State say in this respect that an additional functionality will have to be maintained to generate return receipts in PDF format, as well as signing, sending and storing them. Furthermore, an additional document will have to be added and stored in the electronic files of taxpayers (the Electronic Archive Management System). Moreover, this additional document will have to be defined as well.

Figure 52 – Impact on yearly recurring IT costs – Proof of receipt and archiving

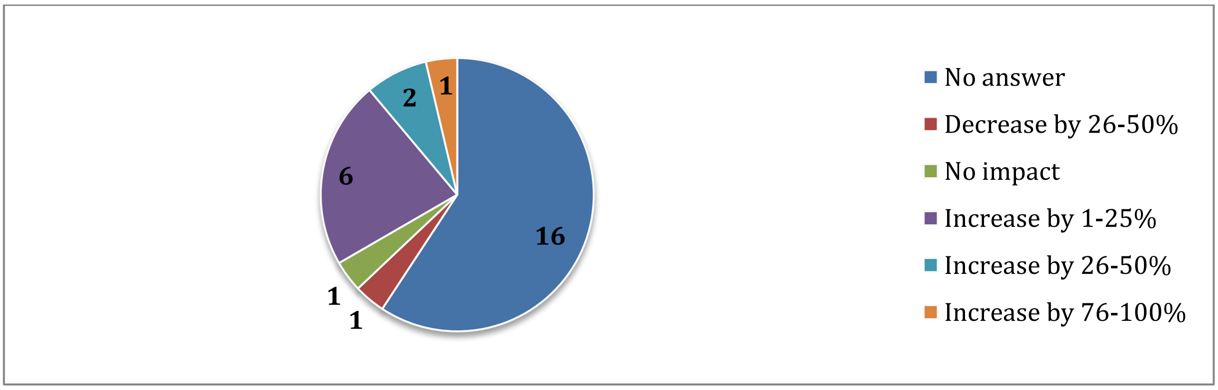


- Interfacing with existing IT systems/processes

500 Most Member States expect a cost increase. In this respect, tax authorities of one Member State say that there will be a probable increase due to having to operate two optional systems. It is also probable that, due to the increased information received, more sophisticated risk analysis will be required.

501 Only two Member States do not expect a cost increase. One of them expects no impact and the other even expects a cost decrease.

Figure 53 – Impact on yearly recurring IT costs – Interfacing with existing IT system/processes



5.3.3.9.2.3 Yearly costs of training for processing purposes

502 Some Member States expect a cost increase due to the fact that tax authorities will have to deal with two different VAT return forms. Four Member States do not expect any cost impact.

503 The trends are more or less the same for the estimated impact of software training costs. In this respect, five Member States do not expect any cost impact. Five other Member States expect an increase in software training costs due to the fact that tax authorities will have to be able to process two different VAT returns.

Figure 54 – Impact on VAT training costs

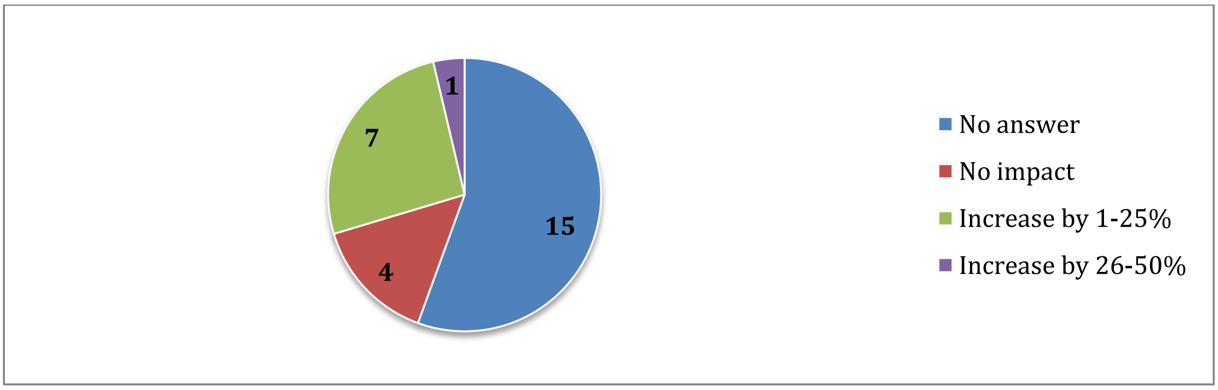
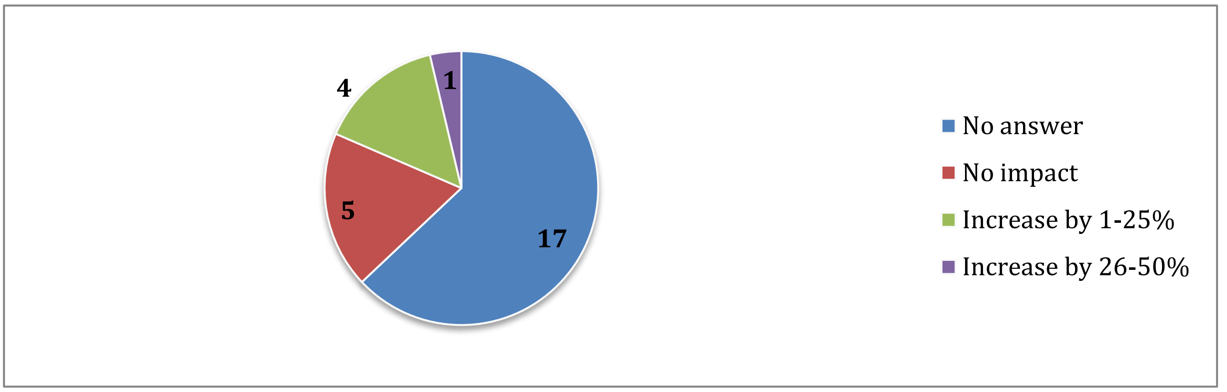


Figure 55 – Impact on software training costs



5.3.3.9.2.4 Recurring costs per audit

504 The expected impact of the introduction of a common EU standard VAT return on the number, the level of detail and the costs of audits varies considerably between Member States. This is due to the fact that some Member States are afraid that they will lose detailed information. As a consequence, they are concerned about the level of control, for which they expect to take compensatory measures (e.g. increasing the number and/or the level of detail of audits). These measures are expected to increase the labour-intensity of the process, resulting in higher costs. On the other hand, some Member States feel they will have more detailed information available after introduction of the proposed common EU standard VAT return, making it possible to lower the level of detail or the number of audits. The figures below provide an overview of the expected impacts for the Member State that provided data.

Figure 56 - Expected impact on number of audits

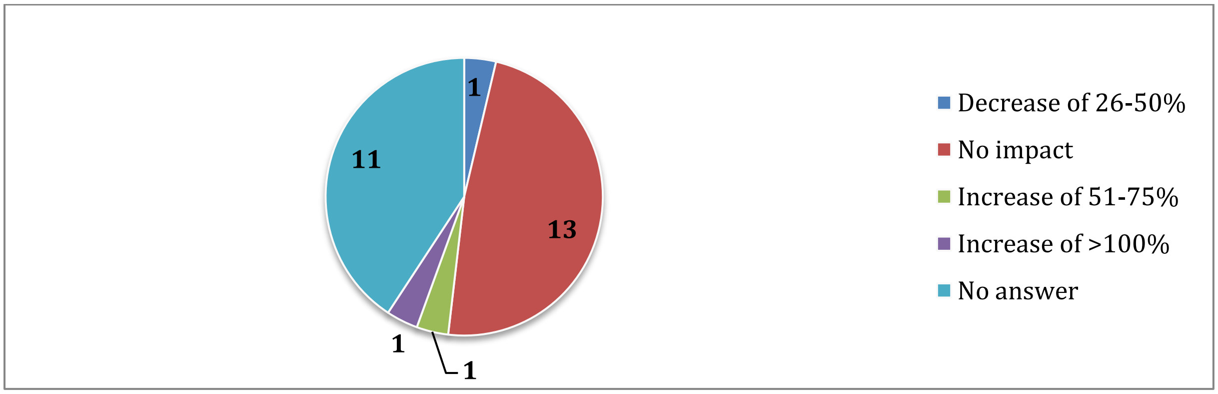


Figure 57 - Expected impact on detail of audit

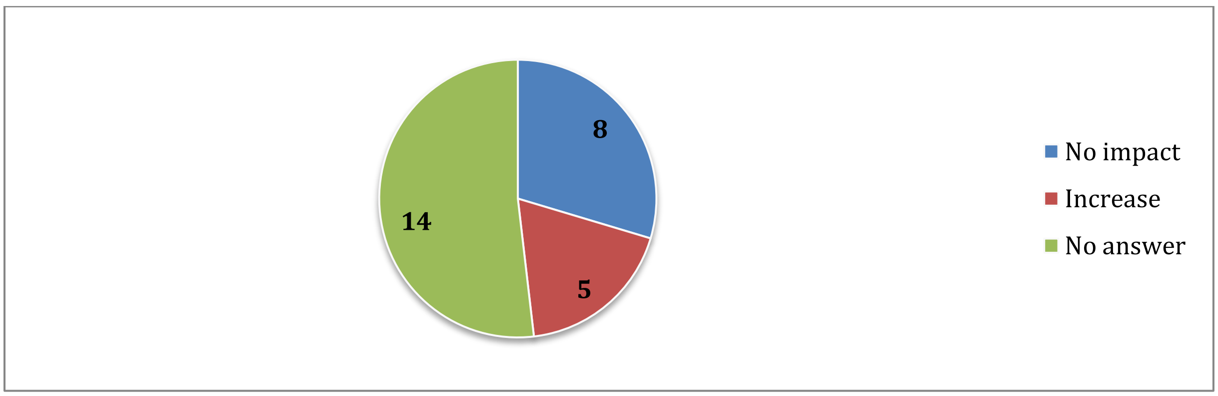
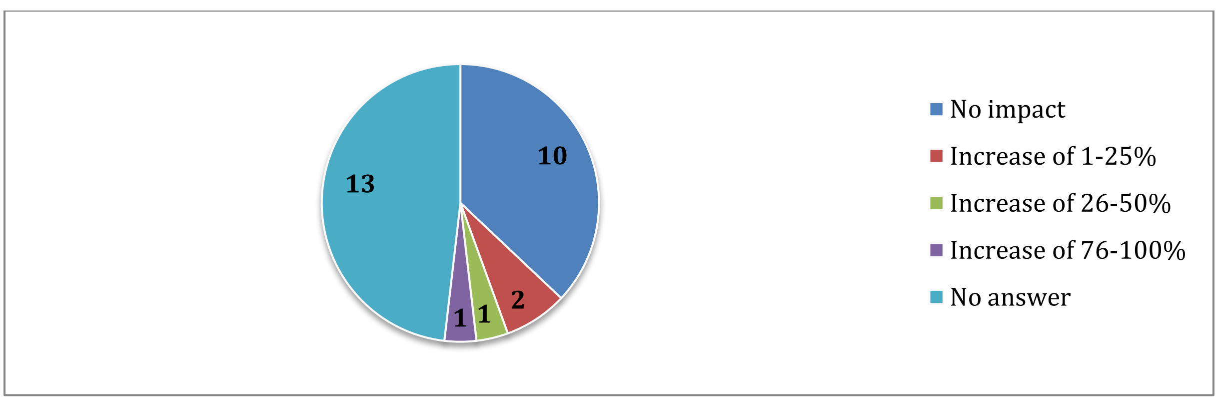


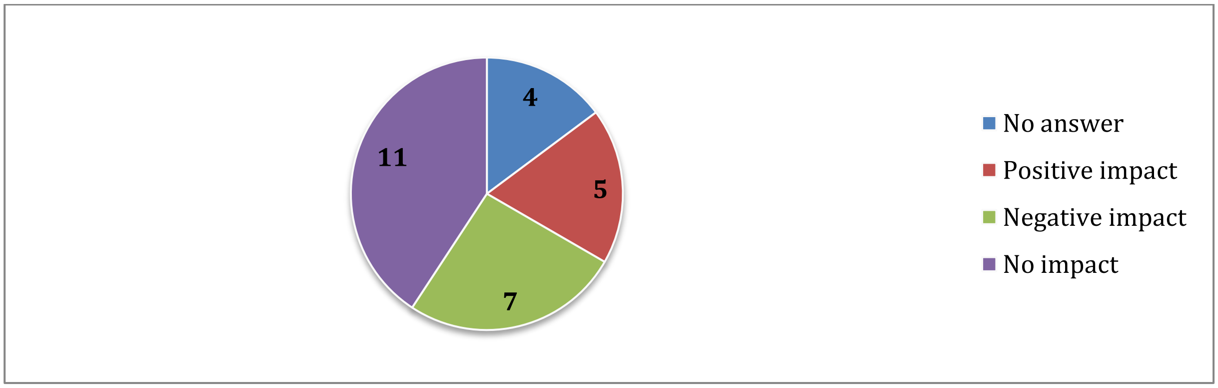
Figure 58 - Expected impact on cost per audit



5.3.3.10 Budgetary impact

505 The estimated budgetary impact on tax authorities strongly depends on current national rules such as the current number of boxes and the payment due date. Therefore, both negative and positive budgetary impacts are expected.

Figure 59 – Budgetary impact for tax authorities



5.3.3.10.1 Impact on budget due to more/less data available for VAT risk analysis

506 Some Member States say that the introduction of a common EU standard VAT return may affect the processes for operational control and risk management due to less detailed information and/or less frequent filing periods. Consequently, they are of the opinion that controls based on the VAT return itself may be affected. For that reason, they expect that this will have a negative impact on their budgets (higher chance that a potential fraudster will not be detected through a risk analysis based on the data from the proposed common EU standard VAT return).

507 However, as some other Member States are of the opinion that they will have more detailed and more frequent information available due to the introduction of the proposed common EU standard VAT return, they will be better able to detect fraud. For these Member States, this might have a positive impact on budget.

5.3.3.10.2 Impact on budget due to change in payment due date

5.3.3.10.2.1 Payment due date

508 If the payment due date of the current national VAT return is later than the payment due date for the proposed common EU standard VAT return, there will be a positive budgetary impact due to the VAT being collected earlier. If, on the other hand, the proposed due date of the current national VAT return is earlier, there will be a negative budgetary impact due to a later collection of VAT.

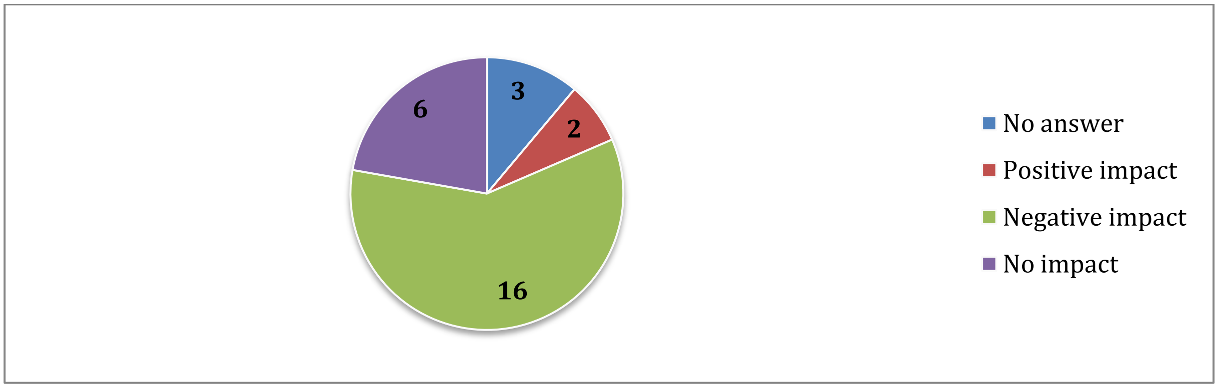
509 Moreover, tax authorities also say that, if the filing period is more frequent (e.g. one month instead of one quarter), the processing costs will increase too, which might offset a possible positive budgetary impact linked to quicker collection of VAT.

5.3.3.10.2.2 Option to file quarterly with monthly prepayments

510 In the proposed standards, SMEs fulfilling certain criteria might be able to file quarterly with monthly prepayments. Most tax authorities expect a negative impact from the option to file quarterly with monthly prepayments. There are multiple reasons for this expected negative impact.

511 First of all, some tax authorities are not familiar with a system of prepayments and their processes are not therefore adapted to the possibility. They foresee additional resources and costs being needed to adapt current processes and their organisation in accordance with the requirements of a new system. Moreover, a few Member States say that this new option will require implementation of a new procedure to oversee prepayments and that will consequently increase the costs. Finally, if prepayments are based on the last quarterly return and not on the real transactions for each month, this might also be disadvantageous for risk analysis and have a negative budgetary impact.

Figure 60 – Budgetary impact with respect to the option to file quarterly with monthly prepayments



5.3.3.11 Impact on communication and exchange of information between tax authorities

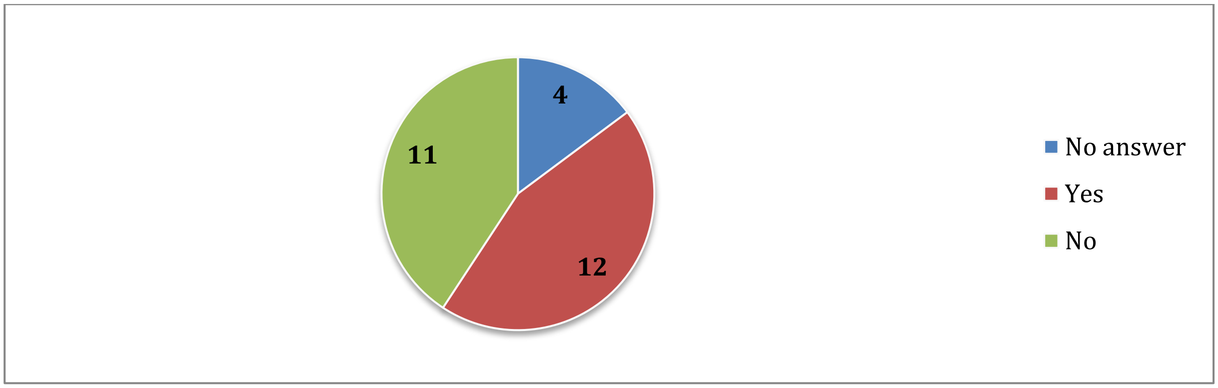
512 The opinions on whether the introduction of a common EU standard VAT return will facilitate the communication and exchange of information between tax authorities are somewhat divergent.

513 Some tax authorities believe a common EU standard return will facilitate automated exchange of information as the harmonisation and standardisation of the return will easily allow comparison and interpretation of like data.

514 On the other hand, other tax authorities believe the proposed new return will not facilitate the exchange of information between tax authorities because the information contained in the proposed common EU standard VAT return is insufficient. In this respect, the tax authorities of one Member State also say that, as the information provided through the common EU standard VAT return is less detailed compared to that in the return submitted by taxpayers VAT-registered in that Member State and does not contain data from the sales/purchase ledgers of those taxpayers, it will necessitate the collection of additional information from taxpayers to meet exchange of information expectations.

515 Moreover, some tax authorities are concerned by the fact that, if the common EU standard VAT return is optional, it will not cover all VAT taxable persons. Consequently the information included on this new return will have to be integrated as an additional item in all automatic procedures and it will be more difficult to find that data.

Figure 61 – Will the introduction of a (the proposed) common EU standard VAT return facilitate communication and exchange of information between tax authorities?



5.3.3.12 Impact on behaviour of defaulters

516 Most tax authorities do not believe the introduction of a common EU standard VAT return to have a positive impact on voluntary compliance (i.e. fewer intentional defaulters). Here are the comments from different Member States with respect to this.

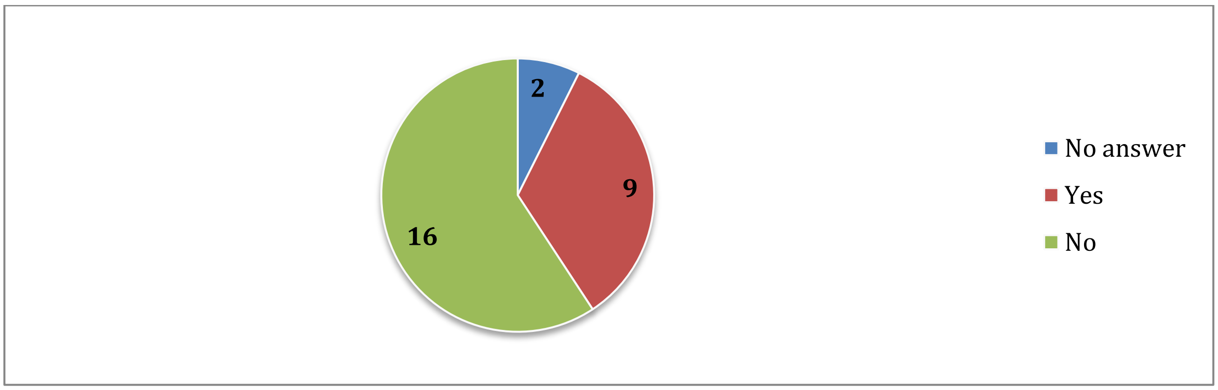
517 No impact or negative impact

- According to one Member State, voluntary compliance by large taxpayers, which will most likely use the common EU standard VAT return, is already significant. No additional increase in compliance is expected, therefore.
- One of the Member States also says that voluntary compliance (i.e. submission of accurate, complete VAT returns) will not be facilitated since taxpayers will submit two types of returns. Introducing a new, additional return will inevitably require a period of adjustment by taxpayers and tax authorities, during which there would be a high risk of errors in tax-return submissions. Two other Member States added that the coexistence of a national and a common EU standard VAT return would lead to confusion in the minds of taxpayers, which would have a fairly negative effect on voluntary compliance.
- Two Member States believe it is not likely that having a common EU standard VAT return will change the behaviour of defaulters due to the fact that the complexity of the underlying legislation or the difficult economic situation that SMEs and micro enterprises face vis-à-vis large taxpayers will not necessarily change if the common EU standard VAT return is introduced.
- Some tax authorities are furthermore concerned that the introduction of a common EU standard VAT return may create opportunities for VAT-return shopping if use of the common EU standard VAT return is optional. Fraudsters may deliberately use the common EU standard VAT return to hide their fraudulent intents.

518 Positive impact

- According to two Member States, it will be easier for the tax authorities to exchange information, especially if the common EU standard VAT return is obligatory for all taxpayers. This would facilitate a deeper analysis of business activities of taxpayers and identification of dishonest taxpayers. Increased controls will result in more compliance in the end.

Figure 62 – Will the introduction of a (the proposed) common EU standard VAT return increase voluntary compliance and consequently improve collection by tax authorities?



5.3.3.13 Impact on risk analysis and audits

519 This section highlights the findings on the impact of introduction of a common EU standard VAT return on risk analysis and audits.

520 The section is structured as follows:

- Impact on logical checks
- Impact on assessment of potential fraud
- Impact on controls needed to reveal potential abuse
- Impact on how companies are audited
- Impact on e-auditing
- Impact on a common approach for audits in the EU-27

521 The impact of introducing a common EU standard VAT return on the ability to perform logical checks or the possibility to detect potential fraud through a first risk assessment of VAT returns seems to be highly dependent on the difference in levels of detail between the common EU standard VAT return and current national VAT returns. The Member States that currently ask for a lot of details not included in the proposed common EU standard VAT return are of the opinion that they will lose some of their logical checks and risk assessment abilities. These Member States want to avoid this. On the other hand, those Member States that are of the opinion that they will gain additional information due to the introduction of the proposed common EU standard VAT return welcome the possibilities for more logical checks and risk analysis.

522 However, many tax authorities indicate that the VAT return is only a small part of the risk assessment performed by authorities. Although the data provided by the VAT return might be an important instrument to select cases for review or audit, this does not necessarily mean that the controls or audits themselves will change with the introduction of a common EU standard VAT return.

523 Member States believe the frequency and level of detail of audits could be influenced by the level of detail included in a common EU standard VAT return if this level is lower or higher than that of current national VAT returns. In this case, Member States might want to compensate this loss or increase of information by adjusting the frequency and level of detail of their audits.

524 Standardisation could encourage automation, which could result in increased use of e-auditing. However, authorities point out that the move towards more or exclusively e-auditing represents a major change.

525 Finally, tax authorities expect increased communication and exchange of best auditing practices with the introduction of a common EU standard VAT return. A common EU standard VAT return is seen as a good step towards a common approach to auditing, but is not sufficient in and of itself.

526 In the following sub-sections, each of the different impacts is analysed.

5.3.3.13.1 Impact on logical checks

527 The impact on logical checks is highly dependent on the level of detail of current national VAT returns.

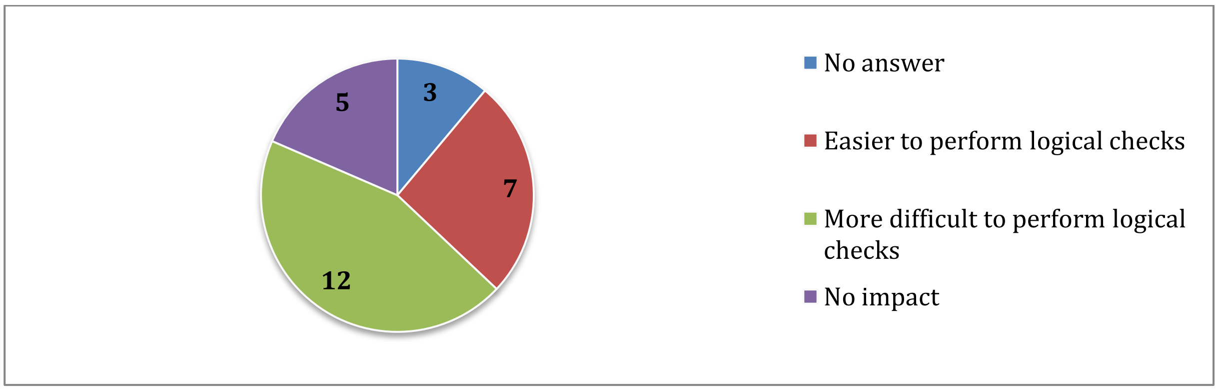
528 Member States that currently use fairly simple national VAT returns expect that logical checks will become easier to perform. This is due to the fact that more information will be available with the introduction of the proposed common EU standard VAT return.

529 At the same time, almost half of the Member States that currently use comparatively complex and more detailed national VAT returns expect that, with the proposed common EU standard VAT return, their current logical checks will become more difficult, less effective or even impossible to perform, without additional cooperation or information from taxpayers.

530 Five Member States do not expect any impact, due to the fact that their current national VAT returns are similar to the proposed common EU standard VAT return, meaning that similar logical checks can be performed.

531 Furthermore, some tax authorities say that they have already developed sophisticated, detailed VAT-analysis procedures (i.e. data mining), often connected with other internal and external databases (systems), which enable immediate responses and detection of possible VAT fraud at very early stages. The VAT data-mining systems are closely linked to the current national VAT return. The introduction of a common EU standard VAT return would require new procedures and processes for data mining.

Figure 63 – Impact on logical checks



5.3.3.13.2 Impact on assessment of potential fraud

532 A minority of Member States believe a first risk assessment will indicate potential fraud if the proposed common EU standard VAT return is used.

533 A couple of Member States even expect a great chance of identifying fraud on a first risk assessment, due to the additional information that is currently not available in their national VAT returns.

534 Nine other Member States believe the information included in the proposed common EU standard VAT return is too general to allow checks and therefore data from other sources will be necessary to identify potential fraud.

535 In this respect:

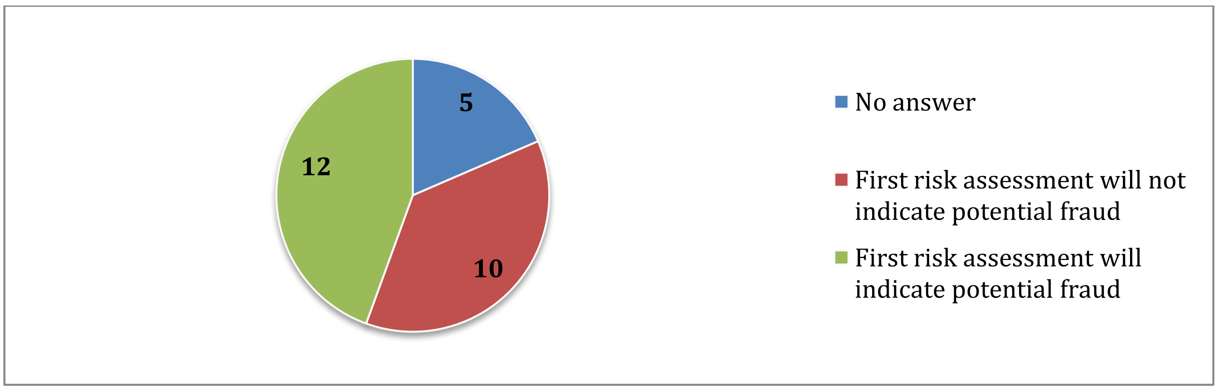
- the authorities from one Member State also say that potential fraud can only be detected at an early stage if sufficient data is available on a common EU standard VAT return, if the filing period is monthly and if adequate risk analysis tools are in place based on available relevant data;

- One Member State adds that, in reality, very few taxpayers engage in purely fraudulent schemes. In most cases, the fraud is mixed up with genuine activity and supplies. Only if access is granted to the data included in a common EU standard VAT return submitted in various Member States can a more global assessment be anticipated. As a great part of the international information exchange between the Member States with regard to tackling VAT frauds is currently generated through the EUROFISC system, a first risk assessment of only the proposed common EU standard VAT return will lead to potential fraud being detected;

- as another Member State currently relies on data provided in the annexes to its current national VAT return as an effective taxpayer control mechanism, it will lose the information provided in these annexes if the proposed common EU standard VAT return is introduced, which may impair its control mechanism;

- Another Member State says that VAT returns only show what businesses want tax authorities to see – that is, a fraud case can be hidden by false or missing data, e.g. unreported purchases and sales. A more detailed VAT return is therefore no guarantee of better fraud detection.

Figure 64 – Impact on the assessment of potential fraud



536 Other, specific concerns regarding fraud and risk management due to the possibility of opting for quarterly filing, perhaps with monthly prepayments, were raised by some tax authorities as follows:

- A couple of tax authorities are afraid that problems will occur with VAT fraud because of the difficulty of any reconciliations or cross-checks between data provided by monthly filers and quarterly filers, the absence of timely reaction and the difficulty in assessing the prepayments against amounts declared in VAT returns.

- One Member State expects difficulties with late information about changes in the business activity of VAT payers filing quarterly VAT returns, more complicated VAT refunds and an increase in the number of mistakes when taxpayers file data for a longer period.

- Finally, the tax authorities of another Member State express their strong resistance to this option, stating that VAT payments in their Member State are always connected to a VAT return and that a payment without a corresponding return cannot be processed. They are in favour of less complexity, by the VAT return being filed in the same period as the payment is made. They are also convinced that the proposed scheme will lead to re-calculation errors and unnecessary disputes.

5.3.3.13.3 Impact on controls needed to reveal potential abuse

537 Most Member States expect a change in controls will be needed to identify potential abuse.

538 It is true that desk review procedures might have to be changed, new business rules might have to be implemented for data mining and cross-checks, and preliminary analysis and risk assessments might also have to be altered.

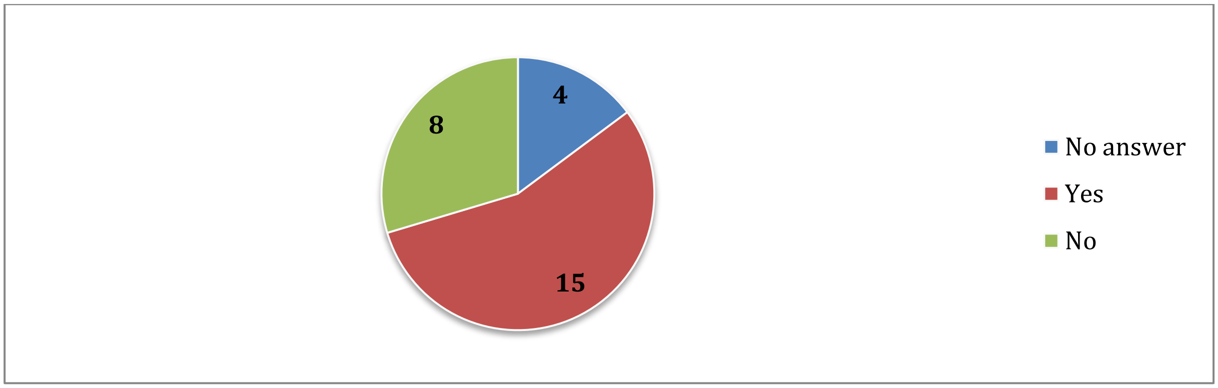
539 Change is not necessarily seen as negative, however. Due to the introduction of the proposed common EU standard VAT return and its higher level of detail compared with the current national VAT returns of some Member States, controls could be more detailed and characterised by a higher level of transparency. The proposed common EU standard VAT return might also speed up data analysis and audit case selection in light of information from other EU Member States.

540 On the other hand, some other Member States do not see the need to change the controls needed to identify potential abuse if the proposed common EU standard VAT return is introduced.

541 This is due to the fact that the content of the proposed common EU standard VAT return is similar to the current national returns of these Member States. According to them, the primary controls will remain unchanged and only small changes are expected regarding special regimes for which no information is available in the proposed common EU standard VAT return. In some cases , the methods of control are not expected to change, although more time might be required to perform the controls, due to the fact that less information is available in the proposed common EU standard VAT return and should be figured out during those controls. It is also possible that the rules for risk assessment will change in these Member States.

542 Finally, one Member State goes on to say that closer investigation of the facts and circumstances of each case will always be required in order to identify indicators of abuse. Fraud is usually detected through credibility checks during intervention. Credibility data is not provided in either the current returns or the proposed common EU standard VAT return.

Figure 65 – Do you think that the introduction of a (the proposed) common EU standard VAT return will have an impact on the controls needed to reveal potential fraud?



5.3.3.13.4 Impact on audit process of taxpayers

543 Half of the tax authorities do not expect to change their audit processes if the proposed common EU standard VAT return is introduced. This is due to the fact that:

- Four Member States believe the data available in their current national VAT returns is also available in the proposed common EU standard VAT return.
- In a certain Member State, the VAT return is only used for the selection of cases and does not influence the audit process itself.
- The tax authorities from one Member State believe that, although the time needed to perform an audit might change due to less information being available from the proposed common EU standard VAT return, the audit process itself will not necessarily change.
- In a couple of Member States, risk assessment is not based on the VAT return.

544 In one Member State, the number of audits is primarily limited by the number of employees conducting them. The percentage of VAT audits in relation to other taxes is determined by the annual plan and is not directly connected to the data in returns that are submitted.

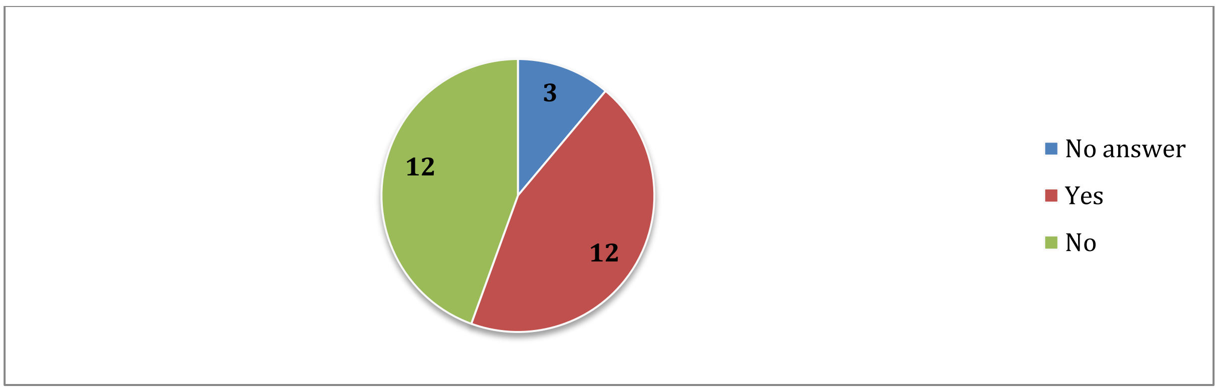
545 On the other hand, other tax authorities foresee a change in the process of auditing taxpayers:

- A couple of tax authorities believe the possible decrease in the number of boxes in the proposed common EU standard VAT return as compared to their current national VAT returns may require the administration to consult other data sources to ensure effective audits.

- The tax authorities of one Member State believe the audit process might change due to the fact that more detailed information is available in the proposed common EU standard VAT return compared to their current national VAT return.

- The tax authorities from some other Member States are of the opinion that the proposed common EU standard VAT return might lead to more random selection for audits and other checks because of unclear risks compared with their current national VAT returns. There will be a need to perform far more checks at taxpayer premises. The level of detail of audits as well as the frequency of audits might therefore increase.

Figure 66 – Do you think that the introduction of a (the proposed) common EU standard VAT return will have an impact on how companies are audited?



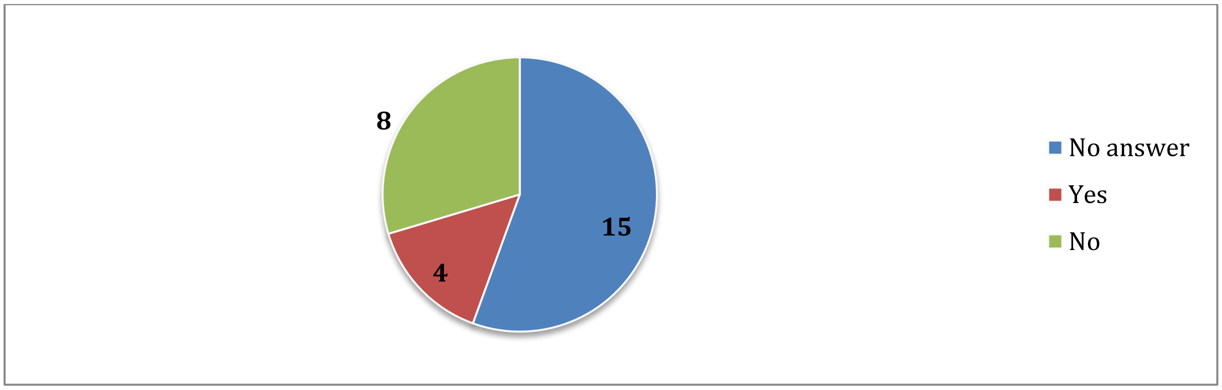
5.3.3.13.5 Impact on e-auditing

546 Tax authorities from Member States where e-auditing has not yet been implemented were asked whether they expect introduction of a common EU standard VAT return to encourage its implementation. Twelve tax authorities expressed the following opinions:

- Four tax authorities were positive about the ability of a common EU standard VAT return to encourage the implementation of e-auditing techniques. They believe standardisation might have a positive effect on (long-term) investments by tax authorities in implementing and developing this technique, as well as in automation.

- Seven other tax authorities see no direct link between the type of return and the implementation of e-auditing. Some of them believe the introduction of e-auditing is a major change and do not believe that a common EU standard VAT return is important enough to generate such a consequence.

Figure 67 – Do you think that the introduction of a common EU standard VAT return will encourage the implementation of e-auditing?



547 Tax authorities from Member States where e-auditing has already been implemented were asked whether or not they expect introduction of the common EU standard VAT return to facilitate e-auditing techniques and whether the standard will impact the system requirements as regards e-auditing techniques.

548 A minority of tax authorities do not expect any impact from the introduction of a common EU standard VAT return. They say that e-auditing tools and requirements are independent from the information included in VAT returns. The selection process for audits might change somewhat, but the e-auditing process itself will not change.

549 Other Member States expect an impact by the introduction of a common EU standard VAT return on e-auditing techniques and system requirements for the following reasons:

- One Member State expects that, if the introduction of a voluntary common EU standard VAT return is connected to the obligatory provision of a SAF-T, the existing e-audit process could be influenced in a positive manner.

- Another Member State believes there would be more possibilities to complete the VAT return automatically. Taxpayers would be able to submit ledgers linking the figures automatically to VAT return boxes. This would improve the quality of e-audits, facilitating VAT audits and VAT refunds.

- Yet another Member State is of the opinion that there will be a need to develop new tests and new analyses for the different models.

Figure 68 – Will the introduction of a common EU standard VAT return facilitate e-auditing techniques?

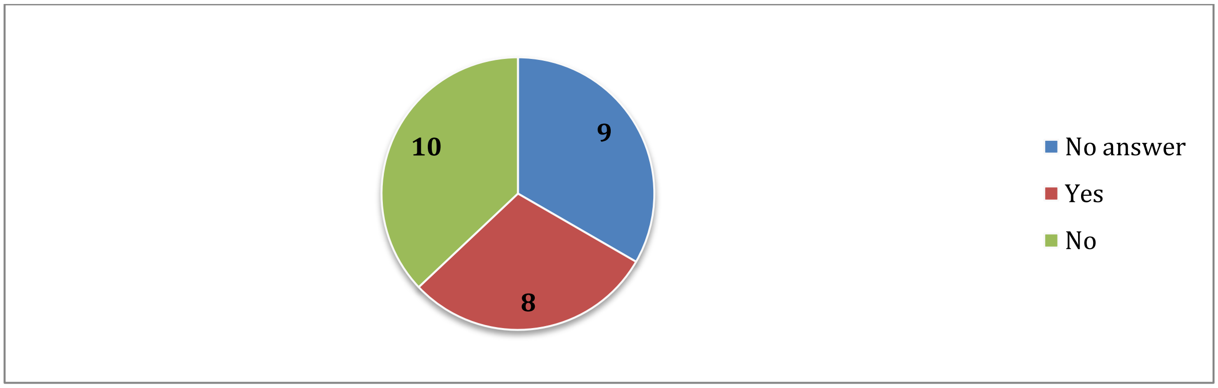
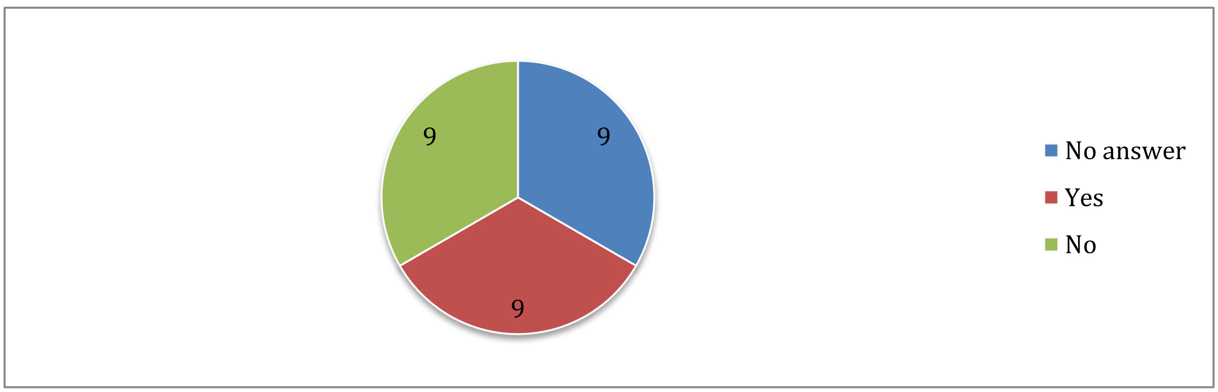


Figure 69 – Will the introduction of a common EU standard VAT return impact the system requirements as regards e-auditing techniques?



5.3.3.13.6 Impact on a common approach to audits at EU level

550 Some tax authorities do not expect that a common EU standard VAT return, and more particularly the proposed common EU standard VAT return, will result in a common approach to audits at EU level, for the following reasons:

- One Member State said that, when submitting VAT returns, taxpayers declare certain data and tax liabilities in a certain Member State, which are subsequently verified in accordance with the rules and procedure applied in that Member State. The proposed common EU standard VAT return will not therefore help build a unified approach to European audits. As long as national legislation remains different, the approach to auditing will also remain different in the EU Member States.

- Another Member State is of the opinion that the proposed common EU standard VAT return does not provide detailed information about transactions behind taxation and specific aspects of taxation. For audit purposes it is also necessary to go deeper into the accounting. Therefore, the proposed common EU standard VAT return will not result in a common approach to audits.

- Yet another Member State says that SAF-T is not mandatory in all Member States; audit tools, available third-party information and cross-checks differ from one Member State to another. These differences will not disappear with the introduction of a common EU standard VAT return.

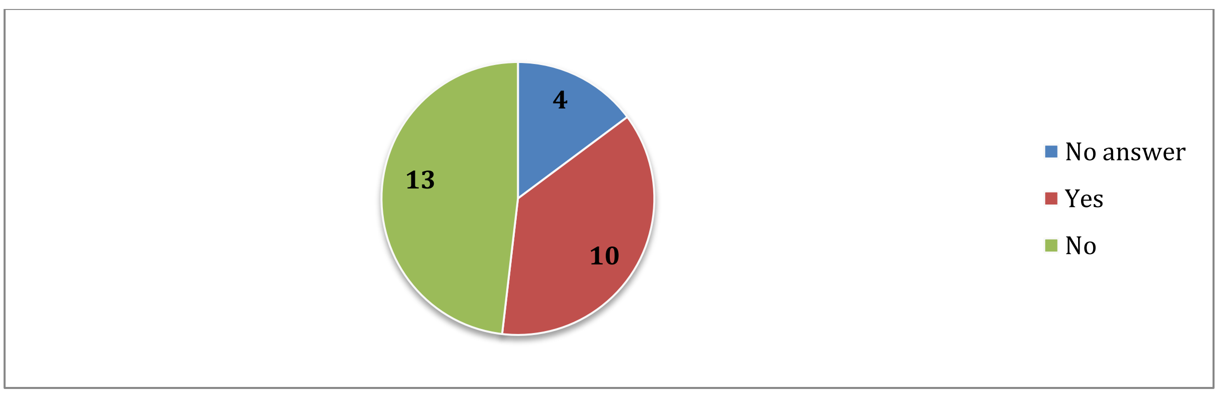
551 On the other hand, other tax authorities expect that its introduction will result in a common approach to audits at EU level for the following reasons:

- One Member State believes that, if the information requested from customers is the same in every Member State, it will be easier to discuss together how to make best use of the information for audit purposes and develop new methods for checking VAT.

- Another Member State expects that there will be an increased potential for cross-Member State exchange of best audit practices.

- Yet another Member State is of the opinion that a common EU standard VAT return could lead to greater use of the SAF-T in the EU-27.

Figure 70 – Do you think that the introduction of a (the proposed) common EU standard VAT return will facilitate a common approach to audits at the European level?



5.3.3.14 Impact on information gathered for other purposes

552 A lot of tax authorities use the VAT return to collect information other than for VAT purposes. This is the case for the majority of the Member States.

553 The introduction of a common EU standard VAT return could mean that this information is incomplete and no longer accurate. These Member States will have to find other ways to gathering the required information. Furthermore, if information is gathered for purposes other than VAT, the loss of certain data will also impact other organisations such as Member States' statistical authorities.

5.3.4 *Additional issues raised during the Fiscalis seminar*

5.3.4.1 Exclusion of businesses/limitation on use of the common EU standard VAT return to certain taxable persons[99]

5.3.4.1.1 Exclusion of businesses

554 In the situation where businesses registered in more than one Member State have an option to use the common EU standard VAT return, tax authorities are in favour of businesses that have opted to use it being able to continue using it even if they no longer fulfil the criteria.

5.3.4.1.2 Limitation to certain taxable persons

555 Tax authorities confirm that they do not want to exclude any business from a possible option, which means that they are not in favour of use of the common EU standard VAT return being linked to a turnover threshold or to approved taxable persons, *inter alia* because of the difficulties of having a common definition of "approved", calculating the threshold or following up on the conditions.

5.3.4.2 Optional versus mandatory use

556 Tax authorities agree with the possibility to opt out in the case of an optional system for businesses. However, when a business opts in, it should use the common EU standard VAT return for at least a full calendar year. Some tax authorities are in favour of having longer mandatory use (once opted for) in order to be able to collect VAT data over a longer period and so do trend/risk analysis work. Furthermore, a minimum notice period should be required to opt out.

557 As a dual system (with tax authorities having a national VAT system with the option to use the common EU standard VAT return) will be very costly to coordinate, consideration is given by the tax authorities to mandatory use of the common EU standard VAT return for businesses, i.e. abolition of national VAT returns.

558 Concerns were also raised about special cases such as mergers and acquisitions or specific situations, which would make exceptions necessary.

[99] Questionnaire of tax authorities, point 4.6.

559 In any case, tax authorities:

- are open to discussing the minimum period for using the common EU standard VAT return;
- nonetheless point out that a possibility to opt in and out and the mere fact that, in a case of optional use, two systems need to be handled and maintained increase complexity and operating costs, and they see this as an additional argument for making use mandatory.

5.3.4.3 Submission

5.3.4.3.1 Way and format of submission

560 There was no additional remark about the format in which the common EU standard VAT return should be submitted and tax authorities are in favour of electronic submission via electronic file transfer or via a web portal. They recommend that the web portals of the different Member States should be harmonised, although this will be difficult due to the fact that Member States use different IT systems.

5.3.4.3.2 Security

561 Some Member States currently use electronic signatures while others use passwords, certificates or the individual fiscal number of the taxpayer to access electronic submission. Electronic signatures are expensive and not currently uniform. However, some tax authorities indicate that some filing systems are very complicated and therefore require electronic signatures that can only be given by physically showing up in the Member State.

562 In general, tax authorities prefer a system with login and password to secure electronic submission.

563 In any case, in the cases of both login/password and electronic signature, it must be ensured that the password or electronic signature can be obtained easily.

5.3.4.3.3 Filing period

564 Tax authorities:

- are not in favour of giving businesses the choice of filing period and prefer to impose it themselves;
- believe a threshold (or thresholds) should be used by Member State to impose filing periods, which means that they prefer having flexibility to impose different tax periods;
- in any case believe that filing periods should be limited to monthly, quarterly or yearly periods.

5.3.4.3.4 Filing date

565 Tax authorities are of the opinion that the actual payment date should be the same as the filing date, and it should be the same date for all Member States. The proposed date is the last day of the month following the period when the tax became chargeable, or any other harmonised date (e.g. special harmonised date for "mini one-stop shop").

5.3.4.4 Corrections

566 Some tax authorities are of the opinion that adjustments (credit notes or debit notes) should be declared in the period when the note is issued. However, corrections of data declared in a former VAT return should be made in that VAT return, which means that a separate, corrected VAT return for that period should be submitted.

567 Other Member States are of the opinion that both corrections and adjustments should be made in the VAT return covering the period when the correction is made, but that taxable persons should also note the period whose VAT return is corrected.

568 Separate boxes for credit notes are in any case necessary for some tax authorities.

569 A third option, which is a customised approach, was also presented as follows:

1. annual corrections should be made in the last VAT return of the calendar year or in the first VAT return of the following year if:
    - deductible VAT is calculated according to the pro-rata system;
    - what are concerned are adjustments of VAT on immovable property and other assets used for taxable and non-taxable transactions (or for non-economic activities);
2. for credit notes, an adjustment should be made in the VAT return for the tax period when the credit notes are issued/received or VAT became chargeable;
3. for bad debts, an adjustment should be made in the VAT return for the period decided by the Member State;
4. for mistakes, corrections should be made in a VAT return correcting the original VAT return or according to the rules applied in Member States, which also means that Member States may stipulate different rules, e.g. in the case of small-amount corrections that can be done in a VAT return covering another tax period.

570 Tax authorities are also of the opinion that VAT to be paid and VAT to be refunded should be treated in the same way.

571 Moreover, some tax authorities are of the opinion that, if the taxable person did not declare an amount of input VAT at the time the tax became reclaimable, but did so later in a former VAT return, no interest should be paid by the tax authorities.

572 The majority of tax authorities are not in favour of a threshold being applied to corrections of small amounts.

573 Tax authorities disagree on the fact that a similar approach should be adapted to the rules applied for corrections in the mini one-stop shop. Tax authorities against this similar approach believe the scope is different.

5.3.4.5 Level of detail of the VAT return

574 Tax authorities are of the opinion that information requested after submission of the VAT return in addition to information provided in the VAT return increases the burden on businesses.

575 Therefore, some tax authorities are in favour of increasing the level of detail in the VAT return itself.

576 Moreover, some Member States are of the opinion that:

- the number of boxes is less important than harmonisation itself, and focusing on harmonisation could decrease the level of resistance of some tax authorities;
- with respect to the needs for tax authorities to require different information and different forms of the common EU standard VAT return depending on annual turnover, a flexible return could be implemented, which would mean that the level of detail should depend on the complexity of the business.

5.3.4.5.1 Information to be included in the common EU standard VAT return

577 Some tax authorities are of the opinion that the following information is missing in the VAT return as presented:

- data regarding specific schemes such as the margin scheme regimes because of the risk of fraud in this sector, as well as for statistical purposes;
- identification of the business sector the taxable person belongs to (NACE Code) and/or possibility to report if the business sector changes;
- non-taxed transactions e.g. tax-free transactions or transactions outside the EU;[100]
- box for operations under special customs procedures; separate boxes for each rate as there is no burden for companies being obliged to differentiate on this in their accounting systems;
- box 213 (other rates) should include any reduced rate and not only super-reduced rates;
- the input tax should also be differentiated by rate;
- a “private use” box (some countries require that for risk analysis);
- an “other information” box, with an open text field;
- to distinguish investments made from other purchases for risk analysis in cases of refunds;

[100] Transactions performed outside the EU are in fact included in the common EU standard VAT return.

- information with respect to e.g. insolvency procedures, triangulation, offsetting VAT against other tax debts;
- boxes used for statistics and fitting in with current IT systems for automatic risk analysis;
- special rates applied in some Member States for supplies to specific regions (Azores, Madeira), necessary to redistribute money to these regions (separate returns would not be feasible, because costly);
- information currently requested through an annex to the national VAT return; lost annexes should be incorporated into the standard VAT return;
- more than one box for derogations on application of the domestic reverse charge;
- extra box on the return for importation of cars, for anti-fraud purposes as well as maybe 'anti-fraud' boxes;
- special boxes for VAT group transactions;
- special box to identify where consultants submit VAT returns, for anti-fraud purposes;
- a box for the flat-rate scheme deduction (farmers).

578 In conclusion, many Member States ask for additional information boxes in the VAT return itself for statistical purposes, risk analysis, the fight against fraud and redistribution of VAT revenues between regions in federal states.

579 Implementation of the common EU standard VAT return would in any case require a complete change of many risk analysis systems (see also below).

580 There is no consensus on what extra information should be required, but it was agreed that the VAT return must match the specific requirements laid down in national legislation.

581 Some of these requirements are 'fixed' obstacles, i.e. regional rates, and cannot be overcome by SAF-T.

5.3.4.5.2 Information included in the common EU standard VAT return that is not necessary

582 Some boxes are not necessary for some Member States (e.g. boxes 61 and 621 for Belgium). However, this should not be an obstacle.

583 As already highlighted, there is no consensus between Member States on the corrections that some Member States say should not appear in the common EU standard VAT return while some agree that the correction boxes should remain, provided thresholds are set up and they are relatively low.

5.3.4.5.3 Should tax authorities be allowed to require additional information from a defined list?

584 Tax authorities are not in favour of asking for additional information from a defined list.

585 Indeed, some Member States currently ask for very specific, detailed information. Moreover, tax authorities do not want to let anybody know the details and the purpose of this information.

586 Therefore, the defined list (if any):

- should be very long,
- would negate the benefits of standardisation.

587 However, some tax authorities are in favour of allowing additional information requests through:

- annexes;
- an annual (recapitulative) VAT return;
- a refund claim containing a greater level of detail;
- a common body of the common EU standard VAT return with derogations for Member States to implement additional boxes (e.g. reverse charge or any other special VAT regimes).

5.3.4.6 Risk analysis and management

5.3.4.6.1 Use of information received on VAT returns

588 For many Member States, the information on the return is the primary material for risk analysis while others rely more on information from other sources, e.g. other declarations, specific questions to businesses, etc. Most tax authorities compare the VAT return information with the information gathered for a particular sector of activity, over time and with lists or other declarations.

589 In this respect, tax authorities presented the following main examples of how information in VAT returns is used for risk analysis purposes:

- under-reporting and refunds (in almost all Member States);
- quick checks and development of risk indicators as a basis for selection for later audits;
- immediate logical checks;
- cross-checks with the VIES system;
- intelligent declarations (in most Member States);
- validation;
- cross-check with list of transactions (customers and suppliers) submitted as an annex to the VAT return or another type of information (e.g. Belgian domestic listing);
- corrections made;
- VAT credits where no refunds are asked for;
- comparisons with former periods (to understand trends);
- comparison within the same sector of activity;
- comparison with other declarations (income tax, etc.);
- comparison with sophisticated analytic tools.

5.3.4.6.2 Specific use of information for further audit or request for more information, etc.

- Intra-Community transactions;
- comparison with economic data available (macro data), so-called “trend watching”;
- comparison with other sources of information (overall look at the taxpayer);
- payment trend analysis;
- cross-checking with import and export system;
- cross-checking with data from other tax returns and also third-party information;
- repayment assurance checks (risk matrix for refunds);
- deductions on labour-intense companies.

590 In conclusion, in some cases, systems are relatively new, so there is not enough data yet to compare. Some authorities effectively use the information on VAT returns in conjunction with that from other sources, i.e. client and supplier lists, information from financial institutions. Others achieve very effective results when comparing VAT information with information on income revenues, derived either directly from the VAT return or from other sources, i.e. income tax returns. Some are able to effectively use more boxes on VAT return forms to easily detect fraud patterns.

591 Finally, many Member States highlighted the fact that implementation of a common EU standard VAT return would entail a complete reorganisation of their systems and their putting two systems into operation, one for the domestic return and one for the common EU standard VAT return.

592 No data was provided with respect to the number of audits and other findings from risk analyses.

5.3.4.6.3 Usefulness of availability of a standard transaction listing in a standard format (SAF-T)

593 Tax authorities of Member States with experience of SAF-T said that the availability of a standard transaction listing in a standard format would be useful, although it was pointed out that there are limits to automation.

594 In this respect, the following advantages were alluded to:

- easy to control standardised ledgers;
- acceleration of audits and automation of checks;
- reduction of burdens for the exchange of information between tax authorities;
- no need for VAT returns with SAF-T.

595 These tax authorities express a preference for an EU standard accounting system and an EU SAF-T and indicate that some of the automatic checks should be made available so that businesses can themselves avoid making mistakes. This would make it easier for them to comply. Indeed, from an expert point of view, it is to be noted that, if tax authorities disclose some of the tests they always perform, this can help improve the quality of the file as businesses will focus on these tests to ensure they comply with them.

596 However, the following remarks have also been made as regards difficulties with SAF-T:

- If SAF-T is used, tax authorities see only what is in the ledgers.
- The timing is important (together with the return or for auditing purposes?).
- Cross-border certification.
- Difficult to use regarding deductions.
- SAF-T's usefulness is limited to output tax.
- It is not helpful for examining input tax as taxpayers have different accounting systems, which are not harmonised.

597 As to the above difficulties, from an expert point of view, the following is to be noted:

- GL (ledger) entries are only part of SAF-T. If sales and purchase source documents are included, then full invoice details are also available. This is in principle always true for sales invoices, but not for purchase invoices, especially if taxpayers receive paper invoices. Info can be available if taxpayers work with a PO system and have matching principles in place: then, PO info should match invoice info. If customers produce self-bills, they will have purchase invoice info available. If taxpayers have e-invoices (EDI) or scanning in place with OCR, then info could also be available.

- Certification of SAF-T is not required. Tax authorities should have validation tools in place for themselves and for taxpayers so that they can also do a validation (format of the file and potentially some additional consistency checks).

- Difficulties as regards deductions will depend on the source data available. If purchase invoice source data is available, a more in-depth analysis is possible. But with GL entries related to purchases, quite useful checks can already be performed. Therefore, SAF-T's usefulness is not just limited to output tax.

- It is an advantage that, with SAF-T, a review can be done of tax-relevant data independent from an accounting system (and, hence, also independent from the number of accounting systems used by a taxpayer). The only requirement is that the data should be available in a system (e.g. invoices drafted in Word or Excel will not be included in SAF-T as they are not generated by an accounting or billing system).

598 In conclusion, according to the tax authorities, the use of SAF-T is possible together with the VAT return, although this use is limited.

599 However, from an expert point of view it is to be noted that SAF-T offers much more scope to review tax data than a VAT return does, as full access is provided to underlying GL entries and, potentially, also to the related source documents themselves (sales and purchase invoices). SAF-T furthermore includes the tax code table, so that, even without a harmonised VAT return, the data required to do a review is always available. Using SAF-T therefore remains an equally valid option, irrespective of whether VAT returns are harmonised.

5.3.4.7 Other comments on the common EU standard VAT return

- Work group

600 The possibility of setting up a work group including businesses, tax authorities and the European Commission was raised as a platform to discuss concrete proposals with regard to the common EU standard VAT return.

- Discussion with all Member States

601 Some tax authorities are of the opinion that, before accepting the final report, further discussion is necessary with all Member States.

5.3.4.7.1 Conclusions

5.3.4.7.1.1 Preferred system

602 We considered the following four scenarios:

- Scenario 1: “Continuation of the current situation”
- Scenario 2: “Common EU standard VAT return mandatory for Member States and for all businesses”
- Scenario 3: “Common EU standard VAT return mandatory for Member States and optional for all businesses”
- Scenario 4: “Common EU standard VAT return mandatory for Member States and optional for businesses that are registered in multiple Member States”

603 To summarise, tax authorities are overall in favour of maintaining their current national VAT returns. This corresponds to scenario 1. If a common EU standard VAT return is introduced, they are in favour of scenario 2. Scenario 3 and scenario 4 are not preferred mainly due to the very high costs of running two systems and supporting two different VAT returns in parallel with one another. Tax authorities interviewed indicated that this would be very hard or even impossible from both an operational and a cost perspective.

5.3.4.7.1.2 Advantages and disadvantages of a common EU standard VAT return

604 Overall, most of the tax authorities are convinced that their current national system has proved its efficiency and effectiveness and that taxpayers are well acquainted with it. The national VAT return is usually customised to national rules and regulations and also often used for other purposes than just VAT.

605 On the other hand, it is not unusual for taxpayers, especially foreign taxpayers, to make (unintentional) errors in national VAT returns due to difficulties in understanding and interpreting national rules and regulations and/or certain boxes. In this respect, tax authorities are expected to be able to provide the necessary information and clarification in connection with the filing of national VAT returns in different languages.

606 However, some tax authorities say it is relatively costly to provide information and guidance in another language than their native language.

607 Consequently, they agree that the introduction of a common EU standard VAT return may result in fewer errors in filing and, subsequently, fewer requests for information and clarification. Moreover, tax authorities generally agree on the potential of using a common EU standard VAT return to facilitate sharing of information between Member States and make trading in the Single Market easier. They are aware that introduction of the common EU standard VAT return is a step towards meeting business's needs for more standardisation and harmonisation.

608 At the same time, tax authorities have two important general concerns.

609 First of all, Member States have different views on the purpose of the VAT return. For some of them, it represents a straightforward tool to collect VAT. For others, it is also a risk management tool and a way to gather further information.

610 Consequently, there are different opinions with respect to the content, use and expected impact of introducing a common EU standard VAT return. In this respect, tax authorities suggest that, before considering introduction of a common EU standard VAT return, Member States should agree on what the common use of VAT returns is.

611 Second, some tax authorities express doubt as to whether the non-harmonisation of VAT diversity in the EU-27 can be overcome by introducing a common EU standard VAT return. They prefer other initiatives such as more harmonised legislative rules and regulation, harmonised interpretation and practices in the 27 Member States. The common EU standard VAT return is considered by these Member States as a step in the direction of standardisation and harmonisation, but not, strictly speaking, the first step to be taken.

612 Alongside these general concerns, tax authorities express additional concerns with respect to the introduction of a common EU standard VAT return.

613 On the one hand, the following concerns are (more or less) equally shared among Member States' authorities:

- First and foremost, tax authorities are concerned about the investment costs and operating costs that are required for running two parallel systems: if the common EU standard VAT return is optional for businesses, tax authorities will have to run their current system for the national VAT return as well as an additional system for the common EU standard VAT return. The existence of two parallel systems is likely to put additional pressure on workload and budget, both of which are already under pressure in light of the financial and economic situation.

- Next, the introduction of a common EU standard VAT return is likely to result in a loss of comparison with historical data. In a situation where businesses can choose between national and common EU standard VAT returns, the gathering of aggregated national VAT data will come from the two kinds of VAT returns. However, at the same time, a common EU standard VAT return creates opportunities to increase the comparison of data at a European level.

- Furthermore, tax authorities are also concerned that it will be harder to make changes in information requirements and submission and correction procedures to reflect national needs at particular points in time. They are afraid that flexibility for each Member State will be lost with the introduction of a common EU standard VAT return. At the same time, they see the potential for stability in the processes underlying treatment of the VAT return.

5.3.4.7.1.3 The proposed common EU standard VAT return

614 Especially Member States currently using a more detailed national VAT return than the proposed common EU standard VAT return and/or using their national VAT return for purposes other than VAT have some specific concerns:

- First of all, some tax authorities are worried about the impact on the level of detail of information they have at their disposal on the basis of their current VAT return. In this respect, the proposed common EU standard VAT return impacts this level of detail as some tax authorities will obtain less information. This will have an impact on logical checks, risk analysis and even on the way audits are performed in some cases.

- Second, if information is gathered for purposes other than VAT, the loss of certain data will impact other organisations, such as Member States' statistical offices.

- Finally, the processing of a less or more detailed VAT return and the consequences of that for risk analysis and audits will affect the workload of tax authorities' staff.

5.4 Socio-economic impact table

615 The findings of the analyses are summarised in the table below. The table contains a high-level overview of the quantitative and qualitative results of the assessment. A description of the results for each scenario is given in the text below the table.

Impact category	Scenario 1: “Continuation of current situation”	Scenario 2: “Mandatory for Member States and for all businesses”	Scenario 3: “Mandatory for Member States and optional for all businesses”	Scenario 4: “Mandatory for Member States and optional for businesses that are registered in multiple Member States”
Impact on administrative costs for businesses	*Negative* *High compliance costs (€ 43.254 billion a year for EU-27 for summarising annual and periodic VAT returns)* *Complex and heterogeneous patchwork of national rules*	*Positive* *The cost savings (€ 17.241billion) represents 39.9% of the AS IS cost.* *Different impact for taxpayers registered in multiple MSs vs. taxpayers registered in a single MS*	*Positive* *The cost savings (€ 20.624 billion) represents 47.7% of the AS IS cost.* *Different impact for taxpayers registered in multiple MSs vs. taxpayers registered in a single MS*	*Limited positive* *The cost savings (€ 9.534 billion) represents 22% of the AS IS cost.*
Specific impact on SMEs	*Negative* *Proportionally higher burden on SMEs for compliance costs* *Barriers to expansion in Single Market* *Less financial capacity to set up local companies* *Fewer specialised in-house staff and/or use of external consultants or accountants*	*Positive (overall)* *Positive aspects:* *Impact different for SMEs registered in one MS or in multiple MSs* *Registration in one MS: reduction in administrative burden for those moving from complex to simple return vs. increase in administrative burden for those moving from simple to complex return* *Registration in multiple MSs: positive impact because of possibilities for standardisation and less need for specialised in-house staff and/or external consultants or*	*Positive (overall)* *Positive aspects:* *Reduction in administrative burden for SMEs moving from complex to simple return* *Positive impact for SMEs registered in multiple MSs because of possibilities for standardisation and less need for specialised in-house staff and/or external consultants or accountants* *Negative aspect:* *Proportionally higher costs to set-up the TO BE situation for SMEs that*	*Limited positive (overall)* *Positive aspects:* *Limited because number of SMEs registered in multiple MSs is very small* *Reduction in administrative burden for SMEs moving from complex to simple return* *Positive impact for SMEs registered in multiple MSs because of possibilities for standardisation and less need for specialised in-house staff and/or external consultants or accountants* *Negative aspect:*

Impact category	Scenario 1: “Continuation of current situation”	Scenario 2: “Mandatory for Member States and for all businesses”	Scenario 3: “Mandatory for Member States and optional for all businesses”	Scenario 4: “Mandatory for Member States and optional for businesses that are registered in multiple Member States”
		accountants *Negative aspect:* *Proportionally higher costs to set-up the TO BE situation for SMEs* *Impact on cash flow (due to monthly prepayments) in MSs where in the AS IS the payment date is later than in the TO BE.*	*opt* *Impact on SMEs that opt on cash flow (due to monthly prepayments) in MSs where in the AS IS the payment date is later than in the TO BE.*	*Proportionally higher costs to set-up the TO BE situation for SMEs that opt* *Impact on SMEs that opt on cash flow (due to monthly prepayments) in MSs where in the AS IS the payment date is later than in the TO BE.*
Impact on public authorities	*Neutral (overall)* *Positive aspects:* *High flexibility and each MS is independent in deciding number of boxes and level of detail* *MSs only have to operate one system (i.e. current system)* *Use of VAT return for purposes other than VAT* *Negative aspects:* *No EU view on use of the VAT return* *Exchange of data between MSs is difficult or non-existent* *High risk of unintentional errors made by taxpayers and requests for guidance, leading to additional costs for authorities*	*Limited positive (overall)* *Positive aspects:* *MSs have to operate only one system (i.e. new system)* *Increased possibility of exchange and comparison of data between MSs* *EU view on the use of the VAT return* *Fewer errors from taxpayers and fewer requests by taxpayers for guidance from authorities* *Negative aspects:* *Loss of detailed return (with MS-specifics)* *Limited or no use of VAT return for purposes other*	*Negative (overall)* *Positive aspects:* *Increased possibility of exchange and comparison of data from taxpayers that opt for the standard between MSs* *Fewer errors from taxpayers that opt for the standard and fewer requests for guidance* *Negative aspects:* *High costs of operating two parallel systems and high set-up costs* *Loss of MS’s detailed return for taxpayers that opt for standard* *Limited or no use of VAT return for purposes other*	*Very negative (overall)* *Positive aspects:* *Increased possibility of exchange and comparison of data from taxpayers that opt for the standard between MSs* *Fewer errors from taxpayers that opt for the standard and fewer requests for guidance* *Negative aspects:* *High costs of operating two parallel systems and high set-up cost* *Loss of detailed return* *Limited or no use of VAT return for purposes other than VAT* *Expected difficulty in policing the correct application when limiting the common EU*

Impact category	Scenario 1: "Continuation of current situation"	Scenario 2: "Mandatory for Member States and for all businesses"	Scenario 3: "Mandatory for Member States and optional for all businesses"	Scenario 4: "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
		than VAT *Significant set-up costs for new system*<u>*Impact on use of VAT return for risk management purposes*</u>	*than VAT for taxpayers that opt for the standard* <u>*Impact on use of VAT return for risk management purposes*</u>	*standard VAT return to businesses that are registered in multiple Member States and the administrative cooperation required between the Member States for this purpose* <u>*Impact on use of VAT return for risk management purposes*</u>
Impact on competition in internal market	<u>*Negative*</u> *Free movement of goods and services limited due to high administrative burden, especially for SMEs*	<u>*Positive*</u> *Cross-border trade will be encouraged; as easy to file a return in domestic market as in other MSs*	<u>*Positive*</u> *Cross-border trade will be encouraged; as easy to file a return in domestic market as in other MSs for taxpayers that opt for the standard*	<u>*Limited positive*</u> *Limited because targeted population very small* *Cross-border trade will be encouraged; as easy to file a return in domestic market as in other MSs for taxpayers that opt for the standard*
Impact on competitiveness of European businesses	<u>*Negative*</u> *High administrative burden has negative impact on competitiveness of businesses*	<u>*Positive*</u> *More time/money available to spend on core business activities*	<u>*Positive*</u> *More time/money available to spend on core business activities*	<u>*Limited positive*</u> *Limited because targeted population very small* *More time/money available to spend on core business activities*
Impact on employment	<u>*Negative*</u> *Continued need for external consultants or accountants* *High level of specialisation in VAT departments of*	<u>*Positive*</u> *Improved employee satisfaction because of fewer errors and improved quality of work* *Less need for in-house VAT specialists and/or external consultants*	<u>*Positive*</u> *Improved employee satisfaction because of fewer errors and improved quality of work* *Less need for in-house VAT specialists and/or external consultants or*	<u>*Limited positive*</u> *Limited because targeted population very small* *Improved employee satisfaction because of fewer errors and improved quality of work*

Impact category	Scenario 1: "Continuation of current situation"	Scenario 2: "Mandatory for Member States and for all businesses"	Scenario 3: "Mandatory for Member States and optional for all businesses"	Scenario 4: "Mandatory for Member States and optional for businesses that are registered in multiple Member States"
	taxpayers *Limited possibility for automation due to different processes for every MS*	*and/or accountants* *Opportunities for automation resulting in more time to spend on value-added activities*	*accountants* *Opportunities for automation resulting in more time to spend on value-added activities*	*Less need for in-house VAT specialists and/or external consultants or accountants* *Opportunities for automation resulting in more time to spend on value-added activities*
Impact on the environment (e.g. paper usage, air pollution due to travel)	*Negative* *Paper submission still permitted in some MSs* *Need to travel to obtain certificate*	*Limited positive* *Less paper due to electronic submission* *No need to travel for certificates*	*Limited positive* *Less paper due to electronic submission* *No need to travel for certificates*	*Very limited positive* *Very limited because targeted population very small* *Less paper due to electronic submission* *No need to travel for certificates*
Impact on certain Member States (i.e. whether certain Member States are disproportionately affected)	*Neutral* *Every MS is independent in deciding number of boxes, level of detail, etc.*	*Significant* *Possible to centralise shared service centre establishment in particular countries* *Loss of information for those moving from complex to simple return vs. gain of information for those moving from simple to complex return*	*Significant* *In some MSs, complex national VAT return will disappear, in other MSs simple national VAT return will survive*	*Significant* *Complex national VAT return will be used less*
Specific impact on fraud[101]	*Neutral* *Customised risk*	*Significant* *Increased possibility to*	*Limited* *Less historic comparison*	*Limited* *Limited impact because*

[101] Reference is made to the 'Study on the feasibility of alternative methods for improving and simplifying the collection of VAT through the means of modern technologies and/or financial intermediaries', PwC, 20 September 2010, in which the VAT GAP reduction is discussed.

Impact category	Scenario 1: “Continuation of current situation”	Scenario 2: “Mandatory for Member States and for all businesses”	Scenario 3: “Mandatory for Member States and optional for all businesses”	Scenario 4: “Mandatory for Member States and optional for businesses that are registered in multiple Member States”
	management and tailored fraud-detection data-mining techniques *No impact on possibilities to detect/reduce missing trader intra-Community fraud* *No impact on threshold fraud and VAT avoidance schemes*	*compare data between MSs* *Less fraud-detection power due to loss of data and information for those MSs moving from complex to simple return vs. more fraud-detection power due to gain of data and information for those MSs moving from simple to complex return* *More possibilities to detect/reduce missing trader intra-Community fraud and non-compliance fraud especially in combination with SAF-T and possible quicker detection of national fraud moving to other MSs* *No impact on threshold fraud and VAT avoidance schemes* *Genuine mistakes will decrease, especially within the group of the targeted population (limited positive impact on non-compliance fraud)* *Genuine mistakes might increase during a start-up period*	*of data within MSs vs. more comparison of data between MSs* *Optional character creates more fraud possibilities.* *Less fraud detection power due to loss of data and information for those MSs moving from complex to simple return vs. more fraud detection power due to gain of data and information for those MSs moving from simple to complex return* *Limited possibilities to detect/reduce missing trader intra-Community fraud and non-compliance fraud especially in combination with SAF-T* *No impact on threshold fraud and VAT avoidance schemes* *Genuine mistakes will decrease, especially within the group of the targeted population (limited positive impact on non-compliance fraud)*	*targeted population very small* *Less historic comparison of data within MSs vs. more comparison of data between MSs* *Optional character creates more fraud possibilities* *Less fraud detection power due to loss of data and information for those MSs moving from complex to simple return vs. more fraud detection power due to gain of data and information for those MSs moving from simple to complex return* *Limited possibilities to detect/reduce missing trader intra-Community fraud and non-compliance fraud especially in combination with SAF-T* *No impact on threshold fraud and VAT avoidance schemes* *Genuine mistakes will decrease (limited positive impact on non-compliance fraud)*

Scenario 1 – "Continuation of current situation"

616 Taxpayers face a number of problems in the current situation, creating substantial compliance costs for VAT. These problems exist in part because the economic environment in which VAT operates has changed a great deal since the main features of the regime were put in place.[102] The nature of business activities has evolved. International trade has expanded. Taxpayers operating in more than one Member State face a complex, heterogeneous patchwork of different national VAT rules. In general, large taxpayers with VAT registrations all over Europe typically face fewer problems in the current situation than taxpayers (especially SMEs) that face barriers to expand in the Single Market because they do not employ or do not have the financial capacity to employ local specialised staff across Europe or to set up local companies in other Member States.

617 The high compliance costs for taxpayers doing business in more than one Member State limits the movement of goods and services between Member States. This negatively impacts competition in the Single Market. The burdens imposed by VAT-compliance obligations mean less time can be spent on core business activities. This impacts the productivity, innovative capabilities and overall competitiveness of European businesses.[103] Within the EU, there also exists an "uneven playing field" in the sense that taxpayers operating in Member States with complex VAT (compliance) rules and legislation face a competitive disadvantage vis-à-vis taxpayers that operate in Member States with simple VAT (compliance) rules and legislation.

618 Staff working in the VAT departments of large taxpayers with activities in more than one Member State are often specialised in the VAT compliance of one specific Member State. As a result, problems sometimes arise when staff need to back each other up. The high level of specialisation is not typically attainable for SMEs. If the required knowledge is not available in-house, taxpayers also have to rely on external consultants or accountants, which entails additional costs. Moreover, these external consultants or accountants are often used for the submission of VAT returns if a local representative is needed but not available within the taxpayer's staff. Finally, there is limited or no possibility to automate the VAT-compliance process in their VAT departments. This increases the workload on employees.

619 In the current situation, VAT returns may still be filed on paper in many Member States, resulting in paper usage from an environmental perspective. Also, taxpayers report that there often is a need for staff to travel internationally to obtain certificates for electronic signatures. This impacts the carbon footprint of the company.

[102] A retrospective evaluation of elements of the EU VAT system, Final report TAXUD/2010/DE/328 FWC No. TAXUD/2010/CC/104.

[103] "Europe can do better", High Level Group of Independent Stakeholders on Administrative Burdens, 2011.

620 Tax authorities are positively inclined towards a continuation of the current situation. They maintain sovereignty and can adapt their VAT returns to local needs. Also, they prefer risk management and data-mining processes to remain customised at the level of the individual Member State. On the other hand, they say that there is no common view on the use of the VAT return in the current situation, and the exchange of data between Member States is difficult or non-existent. Moreover, it is not unusual for taxpayers, especially non-established taxpayers, to make (unintentional) errors in national VAT returns due to difficulties in understanding and interpreting national rules and regulations and certain boxes. In this respect, in the current situation, tax authorities are expected to be able to accommodate requests for clarification and information in connection with the filing of national VAT returns, which is relatively costly.

Scenario 2 – "Mandatory for Member States and for all businesses"

621 Considering the cost impact for taxpayers, the second scenario ("Mandatory for Member States and for all businesses") results in the second-highest cost savings (i.e. cost savings of 40% of the cost incurred in the current situation).

622 The common EU standard VAT return is a step in the right direction to tackle the difficulties currently encountered by those businesses submitting VAT returns in more than one Member State. It will facilitate the VAT-compliance process, by opening up possibilities for internal centralisation and standardisation. For taxpayers with a single VAT registration, the recurring cost impact will depend on the level of complexity (i.e. the greater or lesser number of boxes) and the filing period. A move to a less complex VAT return or to a less frequent filing period will result in recurring cost savings, whereas a move to a more complex VAT return or to a more frequent filing period will result in a recurring cost increase.

623 Considering SMEs, the effects are similar, given that the number of SMEs that are registered in multiple Member States is limited. In addition, introduction of the common EU standard VAT return will especially benefit SMEs that do not have the financial capacity to set up local companies in each Member State or to employ local specialised staff in other Member States or use external consultants/accountants and that consequently face more difficulties today than large taxpayers do. For SMEs registered in a single Member State, there will be an impact due to more or less complexity in the new return and due to the change in filing periods (i.e. for a lot of Member States where the filing period for SMEs is monthly in the current situation, the change to quarterly filing has a large impact).

624 The reduced administrative burden on taxpayers with activities in multiple EU Member States will encourage cross-border trade. This will contribute to the functioning of the Single Market. Overall, the reduced administrative burden and time involved on VAT compliance will free up time and money to spend on core business activities, contributing to the productivity, innovation and competitiveness of European companies.

625 The possibility to standardise a large part of the VAT-compliance processes if the common EU standard VAT return is used in all Member States where a company is registered will make it possible to centralise the VAT departments of large taxpayers and may result in those VAT departments shifting to specific countries in the EU or even outside Europe. This trend may have a negative impact on employment in some Member States.

626 Due to increased standardisation and automation, fewer errors are expected to be made and, if errors are made, they will be detected quicker. This will increase the quality of the work done and, consequently, staff satisfaction. Also, if the VAT-compliance process is automated, employees will have more time to spend on value-adding activities. Moreover, due to the standardisation of boxes and the consequent elimination of language barriers, fewer external consultants or accountants will be required.

627 If the common EU standard VAT return is made mandatory, all VAT returns will have to be submitted electronically, reducing paper usage. Moreover, a password and login will be required, but will be obtained without any international (air) travel being needed. The impact on the environment from less paper usage and less (air) travel is comparatively limited, however.

628 The common EU standard VAT return means that some Member States' tax authorities will have more, and more detailed, information at their disposal than today vis-à-vis other Member States' authorities, which will have less, and less detailed, information available. This will impact the risk management and data mining currently performed by tax authorities. For some, more elaborate risk analysis may be possible (e.g. more logical checks) while, for others, the situation will be the opposite. At the same time, the comparison of data between VAT returns submitted by taxpayers in different Member States will be enhanced, positively affecting authorities' fraud-detection capabilities in all Member States. Also, a common view on the use to which the VAT return is put in Europe is seen as a positive aspect of this scenario. This scenario is preferred by tax authorities above scenarios 3 and 4, especially because, although there will be high set-up costs, only one system will have to be maintained, instead of two systems as in scenarios 3 and 4. Furthermore, in the long term, tax authorities expect that taxpayers will make fewer unintentional errors, resulting in fewer requests for guidance, which are relatively costly in the current situation.

Scenario 3 – "Mandatory for Member States and optional for all businesses"

629 Considering the cost impact for taxpayers, the third scenario results in the highest cost savings (i.e. cost savings of 47% of the cost incurred in the current scenario). The only difference with the second scenario is that taxpayers expecting a cost increase if the common EU standard VAT return is introduced will not opt to use the common EU standard VAT return. The negative cost impacts sustained by some taxpayers in the second scenario will not happen in the third scenario, resulting in higher net cost savings.

630 The impact on competition in the Single Market, the competitiveness of European businesses, employment and the environment are the same as in the second scenario. The difference between the second and the third scenarios is that, in the third scenario, taxpayers can opt to use the common EU standard VAT return. In this respect, it is expected that taxpayers will opt for it for three reasons:

- First, taxpayers registered in multiple Member States will opt to use the common EU standard VAT return because it will allow them to standardise and automate their processes, resulting in cost savings.

- Second, some taxpayers will opt to use the common EU standard VAT return in those Member States where the national VAT return is complex and results in higher costs than the common EU standard VAT return. In those Member States where the national VAT return is simple and expected to be less costly than the common EU standard VAT return, they will probably keep using the national VAT return. This will result in a situation where certain national VAT returns will become redundant over time, due to their limited use by taxpayers.
- Third, some taxpayers may use the common EU standard VAT return or national VAT return with fraudulent intent. They will use the VAT return offering the fewest possibilities for logical checks or risk analysis or because they know there will be a lack of comparison of data.

631 Tax authorities are not in favour of this option due to the fact that, alongside the high set-up costs, two systems will have to be operated. This will generate additional operating costs. Moreover, those Member States currently using a complex VAT return are afraid that all taxpayers will opt to use the common EU standard VAT return. This can result in a significant loss of information for some Member States. Plus, tax authorities are afraid that some taxpayers will use the option with fraudulent intent. On the other hand, taxpayers that opt for the common EU standard VAT return are expected to make fewer unintentional errors, resulting in less relatively costly requests for guidance. Moreover, the data for those businesses opting to use the common EU standard VAT return will be comparable between Member States. Overall, the comparison of data between VAT returns submitted by taxpayers in different Member States will be enhanced compared with scenario 1 but will be less than in scenario 2.

Scenario 4 – "Mandatory for Member States and optional for businesses that are registered in multiple Member States"

632 Considering the cost impact for taxpayers, the fourth scenario results in limited cost savings (i.e. cost savings of 22% of the cost incurred current scenario). The scenario is comparable to the third scenario, with the difference that the targeted population decreases and so, therefore, do the expected benefits.

633 By reducing the targeted population to taxpayers registered in multiple Member States, the impact on SMEs established in one Member State only and that have no VAT registration as a non-established business will be negligible. Only very few SMEs have subsidiaries in other Member States or are registered in multiple Member States and will be able to opt for the common EU standard VAT return. SMEs that are part of a group active in more than one Member State will also be able to opt for the standard.

634 The impacts on competition in the Single Market, the competitiveness of European businesses, employment and the environment are the same as in the second scenario but much more limited, given the smaller population.

635 The main reason why taxpayers registered in multiple Member States will opt to use the common EU standard VAT return is standardisation and automation. In this scenario, there will not be a risk that national VAT returns disappear, since most companies will be obliged to keep using the national VAT return locally. Moreover, although there will be a lack of comparison of data for tax authorities, the risk that taxpayers use the option to commit fraud is limited due to the limited population.

636 Tax authorities will be less impacted vis-à-vis the third scenario. They will be able to use their customised national VAT return for the majority of taxpayers. However, due to the fact that the option exists (albeit for the minority of taxpayers), the authorities will be forced to operate two systems in parallel with each other, leading to higher costs. On the other hand, taxpayers that opt for the common EU standard VAT return are expected to make fewer unintentional errors in the long run, resulting in fewer relatively costly requests for guidance. Moreover, the data for those businesses opting to use the common EU standard VAT return will be comparable between Member States. Due to the limited population, these positive impacts will be very limited, however.

5.5 Recommendations on the way forward

637 Based on the input we received from businesses and business organisations, and based on our own daily experience when assisting clients with their VAT compliance obligations, there is a clear need for more standardisation and harmonisation in the field of VAT in the EU. As one business organisation said, 'doing nothing is no longer an option'.

638 Tax authorities also believe that more standardisation and harmonisation is necessary, and would even be beneficial in the context of the fight against (inter)national VAT fraud, but they see some hurdles.

639 To overcome some of these hurdles, we propose the following way forward:

- Tax authorities fear for the change the common EU standard VAT return will make to their current risk management strategy and risk analysis practices. Developing a common VAT risk management strategy in the EU, whereby risk analysis and fraud detection are done in the same or a similar way in the 27 EU Member States, working with the same tools and best practice approaches, may overcome individual national difficulties and deliver a better result in the fight against (inter)national VAT fraud and closing the VAT gap, at a European level and in each of the individual Member States. The common EU standard VAT return fits into a common approach to VAT risk management and can make it easier for rapprochement between Member States in this respect. We recommend further analysis be done on the feasibility of a common approach on VAT risk management.

- Further, tax authorities fear losing information that is currently required in their national VAT returns. In this respect, we would point out that article 250(1) of VAT Directive 2006/112/EC states:

  > "*Every taxable person shall submit a VAT return setting out all the information needed to calculate the tax that has become chargeable and the deductions to be made including, in so far as is necessary for the establishment of the basis of assessment, the total value of the transactions relating to such tax and deductions and the value of any exempt transactions.*"

  It follows that a VAT return should provide information needed to calculate VAT that is due and that is deductible. This text is clear and does not say anything about allowing Member States to also request other information. One might ask whether the current practice of some Member States of requesting data in national VAT returns other than relative to VAT and other than data necessary to calculate the VAT due and deductible constitutes an infringement of article 250 of the VAT Directive. In any case, if Member States want that additional data, other ways can be found to provide it, like using a common EU SAF-T in each of the EU Member States. This would not only allow more exchanges of data between Member States at an EU level, facilitating risk management and helping in the fight against fraud,[104] it would also avoid the benefit of the standard being lost by 27 different formats being imposed on taxpayers for providing additional data to Member States.

- Tax authorities would prefer not to run two systems in parallel with each other and are also worried about the implementation costs for a new IT system. A possible solution to overcome this is to build a central EU platform ("build once, use by many", an EU one-stop shop for the common EU standard VAT return). Countries could subsequently connect to the platform with their other national systems. Agreements can be made to spread the implementation and maintenance cost among the 27 EU Member States.

- The main benefits for the common EU standard VAT return will inure to non-established VAT-registered taxpayers, taxpayers belonging to a multinational group (as parent company or as subsidiaries) and taxpayers with branches in other EU Member States than their Member State of establishment. In the absence of a central EU platform, and in order to overcome any reticence to change, it could be decided to limit the scope to which the common EU standard VAT return is used to the above group of taxpayers in the first instance and to set down a transition period. That way, the common EU VAT return becomes known, experience is built up and new possibilities/innovations might come to light, which in turn might positively impact growth in the EU and the budgets of the individual Member States.

640 In addition to the common EU standard VAT return, further standardisation and harmonisation of other VAT-compliance obligations is needed (like a common approach to VAT refunds and VAT bookkeeping) in the 27 EU Member States, together with common interpretations of the EU Directive, harmonisation of local tax authority practices and the abolition of various options available to Member States. It is also recommended simplifying the Intrastat obligations.

[104] 'Study on the feasibility of alternative methods for improving and simplifying the collection of VAT through the means of modern technologies and/or financial intermediaries', 2010, PwC, http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/future_vat/vat-study_en.pdf.