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

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

FINAL REPORT

Executive summary

21 January 2013

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1 Currently, due to a lack of detailed European VAT rules regarding VAT returns, it is so that VAT returns and submission mechanisms, including deadlines and correction of errors, differ among Member States. This significantly increases the compliance burden on businesses.

2 The main purpose of this study[1] is to provide the Commission with a concept of a common EU standard VAT return applicable in all Member States. 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, leading to harmonisation, opening up the way for taxable persons to reduce their costs.

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

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

4 These proposed standards have been compared to the current national VAT returns, submission methods, filing deadlines and correction methods in eight reference Member States: Belgium, Finland, France, Germany, Hungary, Italy, Poland and the United Kingdom.

5 The second part of the study is an assessment of the economic impact that the common EU standard VAT return could have on businesses and tax authorities in the EU-27.

6 Businesses, business organisations and tax authorities have been consulted for this report via questionnaires, follow-up interviews and workshops.

7 The study has been carried out by PwC[2] with active involvement by the European Commission, business stakeholders, tax practitioners and tax authorities in different Member States, all of which we would like to thank for their contributions. The assessment of the economic impact of the common EU standard VAT return has been investigated by collecting VAT data in different Member States and qualitative and quantitative economic data from stakeholders, mainly in the first half of 2012.

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

1. *Overview of key points*

8 The total annual recurring cost of periodic VAT returns and summarising annual VAT returns is **€43.3 billion.** Seven Member States require submission of an annual summarising VAT return. The cost linked to this specific obligation is **€3.9 billion**.

9 The impact of introduction of the common EU standard VAT return depends on the scenario considered. The biggest cost savings for businesses are achieved when all companies can freely choose between their national VAT return and the common EU standard VAT return (**€20.6 billion** in the best case).

10 Tax authorities express a preference for keeping using their national VAT returns. If the common EU standard VAT return is introduced, a mandatory system for all businesses and all tax authorities is preferred, because operating two different systems in parallel is expected to be very complex and costly. In this case, the saving would amount to **€17.2 billion** in the best case.

11 In case the common EU standard VAT return is mandatory for Member States and optional for businesses that are registered for VAT in multiple Member States, the savings are considerable less (**€9.5 billion** in the best case).

2. *The proposed standards*

2.1 Use of the common EU standard VAT return

12 Member States will be under an obligation to provide taxable persons with the option of filing a common EU standard VAT return.

13 The option of filing a common EU standard VAT return should be available to all taxable persons irrespective of annual turnover and should not be restricted to authorised taxable persons.

14 The option for businesses (legal entities) to use the common EU standard VAT return can be made for each Member State individually.

15 Once a taxable person has opted, it will have to file a common EU standard VAT return as from the subsequent reporting period following notification to the tax authorities. Once the taxable person has opted, it may not opt out before the end of the calendar year following that in which the option is effective.

16 Under certain conditions and formalities, businesses can opt out. 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.

2.2 The content of the common EU standard VAT return

17 Based on two workshops carried out with the European Commission, businesses and business organisations, and a conference with businesses, business organisations and representatives of Member States' tax authorities, the common EU standard VAT return presented below has been developed.

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			4. Input transactions		5. VAT deductible	
Standard rate		211		311	Local purchases		41		51
Reduced rate		212		312	IC acquisitions of goods		42		52
Other rates		213		313	IC purchases of services		43		53
IC supplies of goods		22			Imports of goods		44		54
IC supplies of services		23			Domestic reverse charge		45		55
Exports of goods		24			Other cross-border reverse charges		46		56
Other supplies with right of deduction		25			SUBTOTAL	Intelligent box	47	Intelligent box	57
Other supplies without right of deduction		26			Adjustments (+/–)				58
SUBTOTAL	Intelligent box	27	Intelligent box	32	TOTAL			Intelligent box	59
VAT due via reverse charge (including deferred import VAT)				33					
TOTAL			Intelligent box	34					

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[3]		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

2.3 Common approach to correcting errors in the common EU standard VAT return

18 Errors for the purpose of the common EU standard VAT return are defined as errors resulting in under-declared VAT due and over-claimed VAT, including manual errors when completing the VAT return.

19 Errors have to be corrected as soon as they are detected. Corrections will be made in a subsequent VAT return in order to match with the accounting period in which the correction has been posted. However, 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] x = per VAT period to be corrected.

20 Only material errors have to be disclosed to the VAT authorities. A threshold should be used to determine the materiality of the errors. 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 average monthly turnover, i.e. the total amount of taxable transactions performed in the previous calendar year if the amount of corrections is €50,000 or less.

21 If the threshold is exceeded, information on the total amount of under-declared VAT reported in the current period and the total amount of over-claimed VAT reported in the current period should be disclosed per period to be corrected. No details or explanations should be provided for each individual correction.

22 Businesses can also use correction boxes to make a voluntary disclosure if the threshold is not reached.

2.4 Common approach to submitting the common EU standard VAT return

23 The common EU standard VAT return must be filed electronically. The filing period is monthly, although there will be an optional derogation for quarterly filing for taxable persons with reported turnover of less than €2 million. Both monthly and quarterly filers will file the same VAT return form.

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

25 The payment date for the VAT due will be aligned with the filing date. For quarterly filers, a prepayment of 1/3 of the VAT due over the previous quarter will have to be made by the last day of the first and second months of the calendar quarter.

2.5 Common approach to filing mechanism

26 In a first phase, companies will use the eVAT platform in the Member State of identification where the company has to file common EU standard VAT returns. The eVAT platforms in the 27 Member States will have common procedures for the registration, authentication, authorisation and submission of VAT return forms.

27 It must be possible to submit the VAT return manually using a web form, or fully automatically by sending an electronic message.

28 Submitters must be able to register as such on the eVAT platform in each of the Member States of identification where the company has to file common EU standard VAT returns, and proxies can be appointed.

29 Submitters must authenticate themselves before submitting a VAT return form, using a user ID and password. Once submitters are authenticated, the VAT return form must be submitted without having to be signed with an electronic signature. Businesses expressed some concerns with regard to the use of digital certificates for authentication, and seemed to be reluctant to have to sign the VAT return form with an electronic signature. However, the European Commission and other organisations are working hard on solving the issues related to digital certificates and electronic signatures and, once adequate solutions have matured, we should re-consider their use. Data validation will be performed on the completeness and appropriateness of VAT return forms. Hence, errors revealed by this validation process should prevent the VAT return form from being submitted.

30 After successful submission of a VAT return form, the VAT administration must send back a signed pdf form to the taxpayer as proof of receipt.

31 Based on the input received from businesses and business organisations, and based on the daily experience of PwC when assisting clients with their VAT obligations, recommendations on the way forward have been provided in section 5.5 of the Study report.

3. Gap analysis

3.1 Gap analysis – VAT impact and IT impact assessment

32 Based on the input provided by PwC Experts in the eight Member States in scope (Belgium, Finland, France, Germany, Hungary, Italy, Poland and the United Kingdom), we analysed the fundamental gaps between local national VAT returns and the proposed common EU standard VAT return.

3.1.1 Results for VAT data collection

33 In general, and despite the differences in VAT rules underlying reporting requirements, a core set of information is uniformly requested in all Member States in scope. This core set of information relates to the content of national VAT returns, i.e. the reporting of incoming and outgoing transactions. The details of this core set of information differ from one Member State to another.

34 However, it seems that, of the VAT returns mapped, the Hungarian and Italian VAT returns require most information from taxable persons, while the Polish VAT return requires the largest amount of "explanatory" information detailing different transactions included in the VAT return. The United Kingdom and Finland require the least detailed information in the VAT return itself, albeit additional information can be required via other reporting obligations.

35 As regards the additional information to be provided alongside VAT returns and transactions to be included in VAT returns, 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.

36 The primary intention behind having to provide more detailed information in separate boxes is for audit purposes and not to verify that the VAT due has been calculated correctly.

37 Another set of information requirements is not directly linked to calculation of the net VAT due by the taxable person but is information needed for other purposes. This set of information could be collected by means other than the VAT return itself.

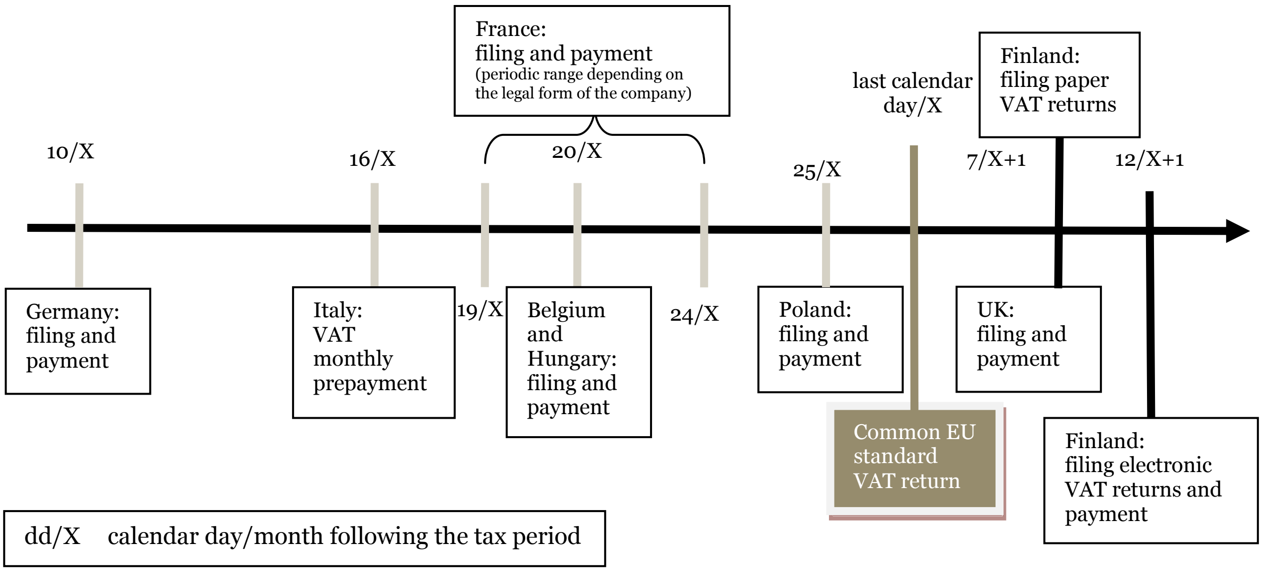
38 The table below compares the complexity of national VAT returns (in terms of detailed information regarding transactions to be included in them) with the common EU standard VAT return and whether appendices need to be provided alongside them. Finland and the United Kingdom (indicated in green) require 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 their VAT returns.

Table 1 – Additional detailed information requirements and appendices

	Additional detailed information	Appendices to the VAT return
Belgium	✓	
Finland		
France		✓
Germany	✓	
Hungary	✓	✓
Italy	✓	✓
Poland	✓	
United Kingdom		

39 The figure below presents an overview of the submission and payment dates in the Member States in scope as compared to the proposed common EU standard.

Figure 1– National submission and payment dates against the proposed common EU standard



3.1.2 Results of analysing the IT data collected

40 The gap analysis revealed that all countries already have an online platform for submitting VAT returns, but they all work differently. The way forward is that, within a certain period, these platforms should align to the proposed common filing mechanisms, once they have been finalised and fully accepted.

41 One particular area where further harmonisation is required is how companies authenticate themselves on different eVAT platforms. Where we suggest the use of a username/password for ease-of-use reasons, which is especially a concern for SMEs, some platforms currently require country-specific tokens or electronic certificates. The same applies when submitting electronic VAT declarations, where some platforms require them to be signed electronically, again based on country-specific certificates.

3.2 Economic impact assessment from a business perspective

42 Both the current situation and the economic impact of introducing the proposed common EU standard VAT return have been assessed in quantitative and qualitative terms based on data gathered from businesses via questionnaires, follow-up interviews and workshops. The depth and breadth of the data collected vary across businesses.

3.2.1 Cost of the current VAT return obligation

43 There exists no harmonisation in the EU with respect to filing VAT returns, the content of VAT returns, the correction of VAT return errors, submission mechanisms or deadlines. Most businesses that participated in this study find it difficult (and costly) to understand and manage cross-country differences. The most significant cost drivers for VAT compliance are decentralisation, the need to rely on external consultants due to language barriers, and legislative requirements and lack of standardisation.

1. Recurring costs

- ***Sample of large companies***

44 The overall average time spent on preparing and submitting periodic VAT returns in the AS IS situation for the 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, including the cost of internal time spent and external consultants. Not all sample companies use external consultants, however.

45 We observe that, considering 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). The 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 1,060 minutes, or 17.5 hours, respectively). This is shown in Figure 2.

46 The most important drivers for the costs incurred in each of the Member States in scope are the internal time spent on the preparation and submission of periodic VAT returns and the fees paid to outside consultants.

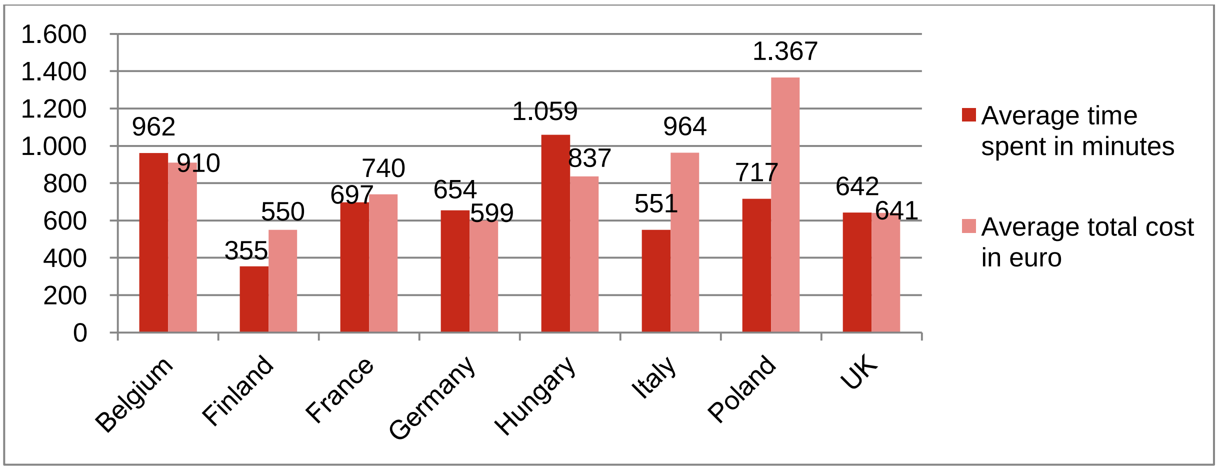
47 The majority of the time is spent on the 'gather information', 'prepare the VAT return' and 'reconcile data from accounting, intra-Community sales/acquisition listings and Intrastat' activities.

48 Businesses often use external consultants because they may choose to outsource certain activities and 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). For the sample companies using external consultants, the consultancy fees per VAT return are on average close to €950.

49 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.

50 The costs presented in Figure 2 below represent the real cost (i.e. cash out) for businesses, including consulting fees.

Figure 2 – AS IS average time and cost spent per Member State and per periodic VAT return for sample of large enterprises



51 Businesses also have to submit summarising annual VAT returns in some Member States. Within the eight Member States in scope in this study, Germany is the only one where a summarising annual VAT return needs to be submitted.[4] The average time and cost spent on the preparation and submission of the summarising annual VAT return in Germany is 1,067 minutes/€854.

- ***Sample of SMEs and micro companies***

52 The cost data of large sample companies has been compared with the cost data provided by the only sample SME that completed the questionnaire. In addition, the cost estimate has been sense-checked during the telephone interviews with four other sample SMEs and sample micro companies. This, together with our own expert judgement, results in the cost estimates for the sample SMEs. The limited data available and the low level of detail of the data we have mean that it is not possible to do separate cost estimates for the sample SMEs that do and do not use external consultants. The data does not allow separate cost estimates per Member State, either. An overall cost estimate is done. For the sample SMEs, the cost per VAT return is estimated at €453. For the sample micro companies, the cost per VAT return is estimated at €244.

[4] Summarising annual VAT returns need to be submitted in seven Member States: Austria, Germany, Greece, Luxembourg, Malta, Portugal and Spain. Only Germany belongs to the Member States in scope of this study. Italy has an annual periodic VAT return and is therefore not considered.

53 The sample of SMEs and micro companies indicated that they also make frequent use of external consultants during the telephone interviews. They are not able to specify the amount of consulting fees per Member State, however.

- ***Overview of sample data***

54 An overview of the cost data for the sample of large companies, SMEs and micro companies is presented in the table below.

Table 2 – 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[5]	€1487[6]
SMEs[7]	€453	
Micro companies[8]	€244	

- ***Total recurring cost for EU-27***

55 The total number of taxpayers (corporate and individual) that are VAT-registered in a given Member State and file periodic VAT returns is provided by the respective tax authorities and Fiscal Attachés. This is shown in Table 3 below.

Table 3 – Total numbers of taxpayers in EU 27

EU-27	Total number of taxpayers	Total number of taxpayers that submit periodic VAT returns
TOTAL	**35,731,378**	**29,834,986**

56 Considering the total number of taxpayers and the periodicity for filing VAT returns for each type of company in each Member State (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.

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

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

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

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

57 Given this population and extrapolating the data available for the eight Member States in scope, it is possible to calculate the cost for the EU-27. At EU-27 level, the preparation and submission of periodic VAT returns represent a recurring cost (i.e. this cost excludes set-up, generic and additional costs) of **€39.347 billion,** which corresponds to **0.31% of the EU-27 GDP in 2011**.

58 In addition to periodic VAT returns, seven Member States[9] require submission of an annual summarising VAT return (i.e. Austria, Germany, Greece, Luxembourg, Malta, Portugal and Spain). The cost linked to this specific obligation is **€3.907 billion**.

59 The total annual recurring cost for periodic VAT returns and summarising annual VAT returns together is **€43.254 billion** as shown in the table below.

Table 4 – AS IS total EU-27 annual recurring cost for periodic VAT returns and annual summarising VAT returns

<table>
<tr><th rowspan="2">EU-27</th><th colspan="2">Companies not using external consultants (€ billion)</th><th colspan="2">Companies using external consultants (€ billion)</th><th colspan="2">Consultancy fees (€ billion)</th><th rowspan="2">Total recurring cost (€ billion)</th></tr>
<tr><th>Established</th><th>Non-established</th><th>Established</th><th>Non-established</th><th>Established</th><th>Non-established</th></tr>
<tr><td rowspan="2">Total annual recurring cost for periodic VAT returns</td><td>17.472</td><td>0.289</td><td>7.017</td><td>0.66</td><td>14.250</td><td>0.25</td><td rowspan="2">39.347</td></tr>
<tr><td colspan="2">17.762</td><td colspan="2">7.083</td><td colspan="2">14.501</td></tr>
<tr><td>Total annual recurring cost for summarising annual VAT return</td><td colspan="2">2.658</td><td colspan="2">0.313</td><td colspan="2">0.936</td><td>3.907</td></tr>
<tr><td>Total annual recurring cost</td><td colspan="2">20.42</td><td colspan="2">7.396</td><td colspan="2">15.447</td><td>43.254</td></tr>
</table>

60 A previous study was performed for the European Commission in 2008. This "Study on the Tax Law (VAT) Priority Area"[10] was published in 2009. Table 5 below compares the results of that study with the results of this study regarding the population and cost of the 'Preparation and submission of periodic[11] VAT returns' Information Obligation.

[9] Italy has an annual periodic VAT return and is therefore not considered.

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

[11] Please note that the cost of preparation and submission of summarising annual VAT returns is not taken into account in this Information Obligation and consequently is excluded for both studies in the comparison made in table 5.

Table 5 – Comparison of results from "Study on the feasibility and impact of a common EU Standard VAT return" and "Study on the Tax Law (VAT) Priority Area" performed for the European Commission

	"Study on the Tax Law (VAT) Priority Area"	"Study on the feasibility and impact of a common EU Standard VAT return"	Difference (in %)
Original population (Number of VAT returns filed in EU-27 on a yearly basis)	**149,623,247**	**148,333,589**	**-0.86%**
Average internal time spent per periodic VAT return (Comparison of results for France, Hungary and Poland for sample of large enterprises)	794 minutes	824 minutes	+3.78%
Average wage level (Comparison of results for France, Hungary and Poland for sample of large enterprises)	€14/h[13]	€20/h[14]	+42.86%
Average consulting fees per periodic VAT return (Comparison of results for EU-27 for sample of large enterprises)[15]	Not applicable	Applicable	-
Average cost per VAT return (EU-27)[16]	**€128**	**€265**	**+107%[17]**
Total administrative cost (EU-27)	**€19.197 billion**	**€39.347 billion**	**+105%**

61 The population estimates (i.e. the number of VAT returns filed in the EU-27 on a yearly basis) in both studies are comparable. The total administrative cost estimate for the EU-27 in this study is €39.347 billion, whereas the total administrative cost estimate for the EU-27 in the "Study on the Tax Law (VAT) Priority Area" is €19.197 billion.

62 The difference can be explained by a difference in internal time spent, wage levels and consulting fees.

63 Please note that due to limited availability of comparable data in both studies, the comparison of the average internal time spent, average wage levels and average consulting fees in table 5 is based on a limited sample (i.e. only data from large enterprises in France, Hungary and Poland) and cannot directly be compared with the average cost per VAT return which is based on extrapolated data for the EU-27 in both studies.

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

[13] On average, wage levels close to ISCO 3 wage levels are used.

[14] ISCO 2 wage levels are used.

[15] Please note that the "Study on the Tax Law (VAT) Priority Area" does not take consulting fees into account for the sample of large enterprises. For SMEs and micro companies, on the other hand, consulting fees are taken into account.

[16] Total cost divided by the population.

[17] Please note that the difference of +107% cannot be obtained by the sum of the differences in average internal time spent, average wage level and average consulting fees because of the fact that these figures are based on a different sample (EU-27 vs. three Member States only). Furthermore, the difference of +107% does also take into account the difference in original population as the average cost per VAT return is obtained by dividing the total administrative cost (EU-27) by the original population (see footnote 16).

64 If we assume that France, Hungary and Poland are representative for EU-27, it appears that the average time spent per VAT return in the two studies is comparable. In addition, wage levels seem to be considerably lower in the "Study on the Tax Law (VAT) Priority Area" than those used in the "Study on the feasibility and impact of a common EU standard VAT return"[18]. Finally, in the "Study on the Tax Law (VAT) Priority Area", consulting fees are not taken into account for the sample of large enterprises (for none of the EU Member States), in contrast to the "Study on the feasibility and impact of a common EU standard VAT return".

65 For a detailed comparison between the two studies, we refer to Appendix 2.

2. Set-up costs, generic costs and additional costs, including costs for e-filing

66 Although it is not possible to calculate the set-up and generic costs at EU level, they constitute an important cost element for businesses. The full cost will consequently be higher than the recurring cost for preparation and submission of periodic and annual VAT returns only.

3.2.2 Impact of introducing the common EU standard VAT return

67 The TO BE situation corresponds to implementation of the common EU standard VAT return in the EU-27. In order to assess the impact of this situation, companies have been interviewed and provided us with data on their expected recurring costs, set-up costs and generic costs. Based on this collected data, a cost estimate has been made for the EU-27.

1. Recurring cost

- ***Expected high-level impacts***

68 Although most sample companies do not expect an increase or decrease in the number of employees working in their VAT-compliance department or in wage levels, they point to some other impacts that might influence the recurring cost for preparing and submitting periodic VAT returns. The three most important impacts are due to an expected increase in levels of standardisation, an expected increase or decrease in complexity and an expected decrease in the use of external consultants. Not all sample companies (54%) expect an impact from the common EU standard VAT return, however.

- ***Savings in terms of time and cost per periodic VAT return for large enterprises***

69 For the sample of large enterprises, 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 enterprises compared with the AS IS situation. The expected time savings per periodic VAT return are estimated at 5.4% of the AS IS time, whereas the expected cost savings are 3.8% of the AS IS cost. The average time for preparation and submission decreases from 724 minutes ***in*** the AS IS to 686 minutes in the TO BE situation. The average cost for preparation and submission decreases from €797 in the AS IS to €767 in the TO BE situation. These findings from the sample of large enterprises are used as the basis to calculate the total recurring cost savings for the EU-27, together with extrapolation (e.g. taking into account the periodicities applicable in the 27 Member States) and standardisation (e.g. wage levels) and the effects on SMEs.

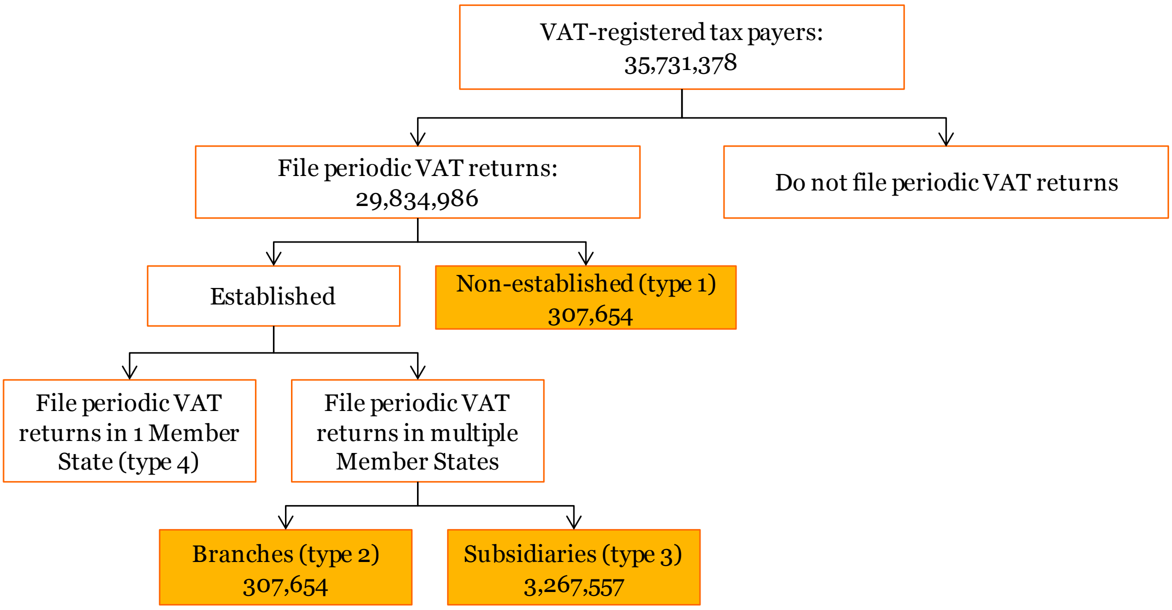
[18] In the "Study on the Tax Law (VAT) Priority Area", wage levels are on average close to ISCO 3 wage levels whereas in the "Study on the feasibility and impact of a common EU standard VAT return", ISCO 2 wage levels are used.

- ***Total recurring cost for the EU-27***

70 In order to estimate the total recurring cost for the EU-27, we defined the population affected by use of a common EU standard VAT return. This population includes businesses that have VAT registrations in two or more Member States. 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 other Member States as it does not have a fixed establishment there.
- 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.

71 The targeted population includes 3,882,865 taxpayers, i.e. the sum of type 1, type 2 and type 3, representing 13% of the total estimated number of taxable persons in the EU that file periodic VAT returns (i.e. 29,834,986).



72 The TO BE cost savings calculation considers 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.

73 An overview of the four scenarios is provided in the table below in terms of recurring total cost savings. The biggest cost savings are achieved when all companies can choose to keep their national VAT return or adopt the common EU standard VAT return (scenario 3, with a cost saving of €20.624 billion in the best-case scenario). In scenario 4, only businesses that are registered for VAT in multiple Member States can opt for the common EU standard VAT return, and some national VAT returns will disappear when companies registered in a single Member State systematically choose for the standard in those Member States because it is less complex than the national VAT return. In scenario 4, this effect will not be possible since companies registered in only one Member State will not have the choice to opt for the common EU standard VAT return.

Table 6 – Summary the recurring cost savings of the TO BE situation (best-case scenario[19])

AS IS SITUATION (recurring cost)	**€43.254 billion**			
TO BE SITUATION (recurring cost savings)	**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
Recurring costs savings (best case) (billion €) – without consulting fees	0	6.680	10.866	6.853
Annual summarising VAT return savings (billion €) – without consulting fees	0	2.971	2.611	1.168
Consulting fees savings (billion €) related to the periodic VAT return	0	6.653	6.373	1.391
Consulting fees savings (billion €) related to the summarising annual VAT return	0	0.936	0.772	0.12
Total cost savings (billion €) per year	**0**	**17.241**	**20.624**	**9,534**

[19] In the best-case scenario, we take the upper limit of the expected range of time data collected if a sample company expects a positive impact and the lower limit of the expected range if the sample company expects a negative impact on time and costs. In other words, the best-case scenario is the scenario with the highest expected decrease in time and costs and the lowest expected increase in time and costs.

Please also note that the figures in this table do not correspond with the percentage savings in paragraph 66. The reason being that in paragraph 66 only the sample of large businesses is taken into account while in this table, an extrapolation is made for EU-27.

2. Set-up costs, generic costs and additional costs

- ***Set-up costs***

74 In accordance with the data collected, the table below summarises the adjustment costs for large companies. On average, large companies incur 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).

75 Five of the companies interviewed indicate that training set-up costs will be incurred. For these companies, the variance of this cost is high; the cost estimates vary between €4,800 and €250,000.

Table 7 – Adjustment costs for large companies

	Cost to adjust software and systems if submission via on-line web form opted for	Cost to adjust software and 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

76 Based 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 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.

- ***Total set-up cost for the EU-27***

77 The table below summarises the total set-up cost expected in EU-27 for each scenario analysed.

Table 8 - Summary of the costs to set up the 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 (billion €)	0	84.640	57.922	10.585

- ***Generic and additional costs including costs for e-filing***

78 First, the majority of the sample companies believe that introduction of the common EU standard VAT return will not have an impact on the frequency of audits performed by tax authorities. However, for companies that expect a change in the frequency of audits, they also expect a change in the level of detail of audits. The sample companies expect the frequency of audits and the level of detail of audits to especially increase in Hungary, Poland and Italy.

79 Second, the majority of the companies interviewed believe that the recurring cost of software will remain the same. Therefore, no impact is expected. The same conclusion applies to training costs: the sample companies point to the fact that staff members in their VAT departments will still need to be trained on national VAT rules and rates and software, irrespective whether the common EU standard VAT return is implemented or not.

80 Third, if the common EU standard VAT return is used, companies will have to register to get a log-on and password. There are two possible situations. In the first, 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, it has to register in every Member State where it wants to submit VAT returns in order to get a different log-on and password for that Member State.

81 The majority of the 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 get a log-on or password in some Member States are time-consuming and they hope that a single process would be more efficient.

82 Fourth, translation costs are expected to 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.

83 Finally, most sample companies indicate 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. Moreover, SMEs say that monthly prepayments would increase their costs. Especially for SMEs, this could be a reason for not opting for the standard.

4. *Economic impact assessment from a Member State perspective*

4.1 Comments on a common EU standard VAT return

84 Most 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. However, they are aware that the introduction of a common EU standard VAT return is a step towards meeting business's needs for more standardisation and harmonisation.

85 Therefore, faced with the challenge of instituting a common EU standard VAT return, almost all tax authorities express a clear preference for one mandatory system for all taxpayers over and above an optional system for all or a segment of the taxpayer population. This preference is particularly driven by **(1)** expected costs (investment and operating costs – see further) and **(2)** an aversion to running parallel systems of VAT returns, maintaining multiple platforms for submission and providing additional functionalities for authentication and submission without e-signatures.

86 Almost all tax authorities agree that introducing a common EU standard VAT return may result in fewer errors in filing and also fewer or no requests for information/clarification and may facilitate sharing of information between Member States.

4.1.1 Content

87 The different purposes that current national VAT returns serve within Member States (means to collect VAT versus effective risk management tool) impact views on the common EU standard VAT return: 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, some Member States are of the opinion that the information required in the proposed common EU standard VAT return is insufficient, mainly for statistical purposes, risk management and analysis, fight against fraud and redistribution of VAT revenues, while others deem some information to be unnecessary. In any case, if more information is necessary, they prefer to collect it through additional documents annexed to the return rather than from information included in the return itself.

4.1.2 Corrections

88 Member States have clearly different approaches with respect to corrections to be included in VAT returns, going from correcting the former return to making corrections in a later return, or even both in some specific cases. Some 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.

89 Separate boxes for credit notes are necessary for some tax authorities.

4.1.3 Submission

90 Tax authorities would prefer the common EU standard VAT return to be submitted electronically, using a password and login. They recommend that the web portals of the different Member States should be harmonised.

4.1.4 Tax period

91 Most tax authorities expect a negative impact from the option to file quarterly with monthly prepayments due to unfamiliarity with prepayment systems and the fact that their processes are not rigged up to deal with them. They therefore prefer aligning the tax period (filing date) and payment date (i.e. no prepayments for quarterly submitters) and they believe the dates should be the same for all Member States.

4.1.5 Obligatory for some or all taxpayers or optional solution

92 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 getting a common definition of "approved", calculating the threshold or following up on the conditions.

4.1.6 Control and audit

93 Member States expect a change in the controls that will be needed to identify potential abuse.

94 Half of the tax authorities do not expect to change their audit processes. Some believe that introducing the new return will result in a common approach to audits at EU level.

95 Tax authorities believe the introduction of a common EU standard VAT return is likely to result in a loss of comparability with historic data and difficulty in detecting fraud. However, at the same time, a common EU standard VAT return creates opportunities to increase the comparability of data at a European level.

4.2 Costs of a common EU standard VAT return

4.2.1 Set-up costs

96 Tax authorities expect that introduction of a common EU standard VAT return will result in significant set-up costs.

97 Setting up new IT systems, making changes to existing IT systems and training costs represent the highest expected set-up costs, even though tax authorities indicate they find it difficult to give precise cash figures.

4.2.2 Recurring costs

98 Tax authorities identified recurring costs for VAT return processing, IT, training and audits. The only two activities where the tax authorities expect an impact on the recurring costs of processing VAT returns are the 'Request additional information from taxpayers' and 'Refund audit' activities, where the number of Member States that expect a cost increase is considerably higher than for the other activities .

99 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.

4.3 Way forward according to tax authorities

100 Some tax authorities express doubt as to whether the non-harmonisation of VAT in the EU-27 can be remedied by introducing a common EU standard VAT return. However, they do consider it a step towards standardisation and harmonisation, albeit not necessarily the first step that needs to be taken. Tax authorities would prefer to first agree the actual purpose of the common EU standard VAT return among Member States before designing its content and introducing it.

101 Finally, tax authorities are in favour of setting up a work group including the Commission, the Member States and businesses to discuss further concrete proposals and steps.

5. Socio-economic impact table

102 The findings of the analyses are summarised in the table below based on expert opinion. 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 body of the report.

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 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.*	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 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.*	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: *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 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 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 than VAT* *Significant set-up costs for new system*_Impact on use of VAT return for risk management purposes_	_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 than VAT for taxpayers that opt for the standard* _Impact on use of VAT return for risk management purposes_	_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 standard VAT return to businesses that are registered in multiple Member States and the administrative cooperation required between the Member States for this purpose* _Impact on use of VAT return for risk management purposes_
Impact on competition in internal market	_Negative_ *Free movement of goods and services limited due to high administrative burden, especially for SMEs*	_Positive_ *Cross-border trade will be encouraged; as easy to file a return in domestic market as in other MSs*	_Positive_ *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*	_Limited positive_ *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 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 competitiveness of European businesses	Negative *High administrative burden has negative impact on competitiveness of businesses*	Positive *More time/money available to spend on core business activities*	Positive *More time/money available to spend on core business activities*	Limited positive *Limited because targeted population very small* *More time/money available to spend on core business activities*
Impact on employment	Negative *Continued need for external consultants or accountants* *High level of specialisation in VAT departments of taxpayers* *Limited possibility for automation due to different processes for every MS*	Positive *Improved employee satisfaction because of fewer errors and improved quality of work* *Less need for in-house VAT specialists and/or external consultants and/or accountants* *Opportunities for automation resulting in more time to spend on value-added activities*	Positive *Improved employee satisfaction because of fewer errors and improved quality of work* *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*	Limited positive *Limited because targeted population very small* *Improved employee satisfaction because of fewer errors and improved quality of work* *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*

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"
Specific impact on fraud[20]	*Neutral* *Customised risk 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*	*Significant* *Increased possibility to 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*	*Limited* *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, especially within the group of the targeted population (limited positive impact on non-compliance fraud)*	*Limited* *Limited impact because 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)*

[20] 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.