

Annex 4– Qualitative results

- 1 On the following pages, 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.

1.1 AS IS situation

- 2 On the following pages, 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 questionnaire 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.

- 3 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. For most businesses in our sample, 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. They often have to call in outside consultants or appoint local representatives to assist with the filing process.
- 4 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.
- 5 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 Member States have different requirements and request different additional documents. Employees working in shared service centres are often trained and specialised 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.
- 6 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.

- 7 Some businesses do not encounter significant problems 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 the local requirements are understood and the knowledge and expertise has been acquired by the company, the procedures do not pose major difficulties. In some cases, the businesses are partly or completely decentralised and make use of their 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.

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

- 8 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. Businesses would much prefer there to be one filing procedure that is applicable in all EU Member States.
- 9 Businesses also prefer that different staff members within the company 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. Given the choice, companies would opt for a more flexible system for electronic submission.
- 10 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 businesses do not object to upfront registration for electronic filing, as long as the underpinning process is clear, efficient and effective.
- 11 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.

- 12 Most 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.
- 13 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.
- 14 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.

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.

- 15 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.
- 16 Language difficulties are often encountered in Hungary, Poland and Italy and necessitate the services of outside consultants or local representatives.¹ 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.

1.2 TO BE situation

This section is divided into eight subsections:

1. Benefits of the introduction of the common EU standard VAT return
2. Difficulties with regard to the introduction of the common EU standard VAT return
3. Proposed modalities
4. Preferred point of access
5. Impact on employment
6. Impact on the attractiveness of Europe (EU)
7. Harmonisation of intra-Community sales/acquisition listings, Intrastat and other listings
8. Four options to use the common EU standard VAT return

¹ 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.

1. Benefits of the introduction of the common EU standard VAT return

The introduction of the common EU standard VAT return results in opportunities for standardisation and automation.

- 17 One of the most important direct advantages businesses agree on is the fact that the introduction of a common EU standard VAT return will result in standardisation of the process of preparation and submission of VAT returns and this standardisation will imply simplification.
- 18 Standardisation will furthermore result in opportunities for automation. Automation will increase the efficiency and effectiveness of the processes. Fewer errors will be made and the quality of the work done will increase.

The introduction of the common EU standard VAT return will lead to reduced costs for training and translation.

- 19 Simplification is amongst others due to the fact that VAT returns will be available in all EU languages and boxes will be standardised, which will result in language barriers disappearing. There will be no need to rely on outside consultants only because of language issues encountered during the process for preparation and submission of periodic VAT returns.
- 20 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. It will be possible to provide general training for all employees working on the preparation and submission of periodic VAT returns.
- 21 Businesses also indicate that fewer questions will be raised by employees working in the VAT department with respect to the completion of the document so the involvement and cost of tax advisors might also decrease.

The introduction of the common EU standard VAT return will facilitate job rotation.

- 22 An indirect impact of the standardisation is that it will become easier to rotate employees working on the different VAT returns since there will be no need any more to explain local specifics (e.g. format, way of corrections and submission) and also specific language knowledge will no longer be required for the preparation and submission of the standard VAT return. People will be able to act as back-up for each other.
- 23 The facilitation of job rotation is especially important in shared service centres. It will increase the flexibility and efficiency of the working processes and result in cost gains.

The introduction of the common EU standard VAT return will enhance risk management.

- 24 Risk management will be facilitated by standard working papers, standard processes and controls, standard metrics for reporting, greater expertise at the level of preparation and ability to prepare returns for multiple Member States, greater visibility for reviewers, etc.

- 25 Less effort will be needed to monitor legislative changes in the process and format for preparation and submission from 27 authorities. Only the changes in the process and format of the common EU standard VAT return will have to be followed-up. Moreover, changes are likely to occur not frequently since all Member States will have to agree when a change in the process or format is considered. Fewer changes will result in increased control of the return preparation process which will reduce the amount of errors made. As a consequence, fewer audits will be performed and/or fewer penalties paid.

The introduction of the common EU standard VAT return will decrease the time spent on the corrections of errors.

- 26 If the correction of VAT return errors can be done in the subsequent month, this will decrease the time spent on balance reconciliations and on correcting returns for specific Member States. Businesses also indicate that in this case, it will be easier for people to provide back-up for each other.

The introduction of the common EU standard VAT return will facilitate the submission process.

- 27 Businesses face difficulties if there is a need to have a local identity card for the electronic submission of VAT returns or if electronic submission of VAT returns is not possible at all. According to the standards, the common EU standard VAT return will always be submitted electronically, via a web form or via uploading an XML-file. Businesses prefer electronic submission to submission on paper.
- 28 Moreover, the fact that also the process for submission is standardised and that there will be no need any longer to have local identity cards in some Member States will facilitate the process.

2. Proposed modalities in the common EU standard VAT return

The benefits of the common EU standard VAT return will significantly decrease if businesses cannot opt for it for all of their entities.

- 29 If businesses under the adopted standard would not be able to file the common EU standard VAT return for all their entities, they will have to run two systems/processes in parallel or they will have to choose to not use the common EU standard VAT return at all. If two systems have to be maintained, the cost/benefit balance will become considerably less attractive.
- 30 Businesses indicate that the system should offer flexibility as to the choice between using the local/national return or the standard VAT return.

The common EU standard VAT return is not enough; harmonisation of the underlying legislation is required.

- 31 Some businesses point to the fact that the introduction of the common EU standard VAT return will not result in significant time or cost savings. This is due to the fact that the underlying legislation remains the same. There is clearly a need to have a common approach on the format and submission of the VAT return but also on the content. Also, the behaviour of tax authorities with regard to additional questions and audits may not change. Furthermore, businesses indicate that all documents related to VAT (e.g. intra-Community sales/acquisition listings, yearly client listings, etc.) should be standardised in order to generate savings.

- 32 Not all businesses agree with the fact that the common EU standard VAT return cannot result in any cost savings. They mention that, although the underlying legislations (e.g. tax rates) are still different for all Member States, they will be able to standardise the process for preparation, submission and corrections which will result in cost savings. They view the common approach on the format, submission and corrections as a first and necessary step, in order to come to a complete harmonisation of VAT in Europe in the future.

Although the common EU standard VAT return itself will be less complex, it can lead to more detailed information to be shared with the tax authorities.

- 33 Businesses are afraid that if all Member States will have to be satisfied as regards the more limited information on the VAT return, the benefits of the common EU standard VAT return will be lost. Companies are of the opinion that they will have to share more information with some Member States than in the current situation. On the other hand, businesses fear that some Member States will not be satisfied with the information provided by business. This could result in more in-depth audits or the introduction of additional returns.

If additionally the due date for filing is harmonised across the 27 Member States, businesses might face challenges in submitting returns on time.

- 34 At the same time, one of the businesses objects to over- harmonisation. If the due date for filing for all Member States is standardised, the company believes this would be difficult to manage from a workload perspective.

3. Proposed modalities in the common EU standard VAT return

The opinions of businesses with regard to the modalities for opting out and quarterly filing vary.

- 35 Some businesses prefer to have as much flexibility as possible, both for opting out as well as for quarterly filing. They argue that these options allow them to better adapt to the company's specific needs.
- 36 Two major reasons are raised by businesses to include the possibility for opting out. First of all, some businesses think it would be beneficial if the local VAT return would seem to be easier to complete than the standard. Second, some businesses point to the fact that particular business circumstances, such as in a restructuring, may require the opting out.
- 37 Four out of the eleven businesses that shared their opinion about the modalities for opting out, do not think there should be a possibility to opt out. They argue that the choice to use the common EU standard VAT return should be based on a thorough analysis of the costs and benefits. Once one opts for its use, one should stay committed in order to increase the level of harmonisation.
- 38 The major reasons why some businesses prefer to have the option for quarterly filing is because they think it will be beneficial for smaller companies or for companies that are in a payment position and get the possibility by this option to delay the payments until the end of the quarter (given that there are no monthly prepayments).

- 39 One of the businesses argues that it would be better to avoid prepayments for reconciliation purposes. Businesses also point to the fact that if prepayments are applicable, the amount payable should be based on estimates (e.g. in accordance with the year before) and not on calculations. Businesses agree with the fact that the option should be made per VAT registration number with an eye to increasing flexibility. SMEs especially are not in favour of monthly prepayments. Most of them file VAT returns quarterly at this time, with quarterly payments. Monthly payments would increase the time spent on VAT compliance and could put them in a less favourable cash position.
- 40 Some businesses prefer to exclude the option for quarterly filing in order to increase the level of harmonisation. One business mentions that quarterly filing can also be a disadvantage, if many other reports (e.g. intra-Community sales/acquisition listings/Intrastat) need to be filed on a monthly basis.
- 41 Most businesses agree with the modalities for opting out and for quarterly filing. One of the businesses suggests extending the period for filing the option notice from 15 days to one month. This business argues that a time period of 15 days implies that you have to be well-prepared in advance to switch from one situation to the other.

4. Preferred point of access

Businesses express their preference to be able to submit all VAT returns to a single point of access.

- 42 Most businesses (13 out of 14) prefer to be able to use 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 is a single point of access.
- 43 Businesses that prefer the centralised EU platform argue that a centralised platform managed by the EU would exclude problems like each Member State having its own specific platform, access issues from abroad and language problems. Moreover, the businesses hope that a centralised EU platform will be managed better than national platforms. At the same time, some businesses fear that one single European platform will result in technical difficulties at the due date for periodic VAT returns due to very high utilisation. Also, some doubt whether it would be reliable (e.g. out of service time would be high) or even possible to implement.
- 44 Businesses that prefer the national platform of choice argue that in this case, they can choose a platform they know, so there will no need for training or new tools. In this case, destination countries should automatically be informed by filing platforms about technical difficulties and tax payers should not be obliged then to check all 27 platforms in order to find a functioning one.
- 45 One of the businesses indicates that it has no preference at all between the existing national platform, a centralised EU platform or 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. They argue that having only one password for all registrations would create challenges in maintaining segregation of duties and limitation of user access to individual roles.

5. Impact on employment

Businesses do not expect a change in the number of Full Time Equivalents (FTEs) working in the VAT compliance department.

- 46 Businesses do not expect a reduction in employment FTEs. They cite several reasons.
- 47 Most businesses do not expect any changes in their current process for VAT compliance due to the introduction of a common EU standard VAT return. Nor do they indicate any expected time-savings either.
- 48 Some businesses expect to perform more activities in-house when a common EU standard VAT return is introduced since they will be able to in-source certain activities that are currently done by outside consultants. This is not expected to directly result in an increase of employment.
- 49 One of the businesses points to the fact that the FTEs working on compliance will be able to be redeployed and spend their time on other VAT topics such as assisting in VAT audits, replying to questions from VAT authorities, contacting authorities to get refunds in, analysing the transactions reported and doing necessary corrections, assisting the business with VAT queries, advising them how to treat certain transactions, etc. They will become a centre of excellence within the company.

The introduction of a common EU standard VAT return may result in increased quality of work and job satisfaction.

- 50 Due to the fact that the introduction of a common EU standard VAT return can result in increased standardisation and even automation, fewer errors will be made and errors will be detected quicker. This may result in an increased quality of work and consequently increased job satisfaction at the level of the 'compliance' staff.
- 51 It was already mentioned before that the harmonisation and standardisation of processes can also make it possible for employees to focus on other VAT issues. They may become a centre of excellence and also the scope of the job content may change. This may result in increased job satisfaction among personnel.
- 52 Especially for SMEs, the harmonisation and standardisation of processes would make it possible to internalise the preparation and submission of VAT returns abroad, making it possible to invest in internal VAT specialists, which are often lacking in the current situation. This would increase internal control, resulting in increased quality of work and job satisfaction.

6. Impact on the attractiveness of Europe

The introduction of the common EU standard VAT return will not impact the decision of most businesses to start activities in other EU Member States.

- 53 Ten out of 14 businesses indicate that the introduction of a common EU standard VAT return will not influence their decision to start activities in other EU Member States. They argue that this decision will always be based on business/commercial reasons. They agree, however, that once the decision is made to start activities in another EU Member State, the common EU standard VAT return will make the process easier.

- 54 The four other businesses are of the opinion that they might well tend to avoid new activities in certain Member States (e.g. Italy) and that this could change when the common EU standard VAT return is introduced. The uncertainties they have at this moment will decrease and the language barrier will (partly) disappear.

The introduction of the common EU standard VAT return will increase the attractiveness of Europe.

- 55 Eleven out of 14 businesses believe that the introduction of a common EU standard VAT return will increase the attractiveness of Europe for businesses that are established outside Europe. They are convinced that uniformity is always favourable in comparison to fragmented or diversified documents to be completed.
- 56 The decision to establish a business in Europe or not will, however, always depend on essentially commercial criteria. The benefit of the common EU standard VAT return is probably too limited to be crucial in the evaluation process of starting a business in Europe or not.

7. Harmonisation of intra-Community sales/acquisition listings, Intrastat and other listings

The majority of businesses are convinced that intra-Community sales/acquisition listings, Intrastat and other listings should be harmonised in order to obtain higher cost savings.

- 57 Businesses argue that if we really want to decrease the burden of filing VAT returns in multiple Member States, also intra-Community sales/acquisition listings, Intrastat and other listings should be harmonised. This would lead to cost-savings and time-savings. They feel that the common EU standard VAT return in itself will not yield significant savings as they will still be confronted with the same difficulties that they currently face in connection with VAT returns.
- 58 There seem to be a lot of differences across EU Member States which require significant monitoring efforts on the part of businesses. Companies also indicate that they see new and changing requirements in this area, resulting in further differentiation of the reporting environment across EU Member States.
- 59 Not all businesses encounter problems, however, with the filing of intra-Community sales/acquisition listings, Intrastat and other listings. One out of the 14 businesses sees no need for harmonisation.
- 60 One business indicates that especially for the industrial chemical environments, the reconciliation of VAT data (financial) with Intrastat (value of goods) is problematic. A pragmatic solution is agreed with the national authorities to reduce the administrative burden. Harmonisation would imply that all those pragmatic solutions would need to be revisited.

Harmonisation of filing periods would facilitate the compliance process.

- 61 Some businesses point to the fact that they would prefer that the filing periods for VAT and statistical (Intrastat) reporting should be aligned. It can for example happen that a business discovers during the VAT reporting period that they 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 for the businesses. Some businesses even mention a combined declaration process.

8. Four options to use the common EU standard VAT return

- 62 Businesses were asked to give their opinion on options for using the common EU standard VAT return. The cost impacts of implementing some of these options, more specifically options 1 and 3, are quantified in section 5.2.3.4, together with some other options discussed and agreed with the Commission.

Option 1 – Any taxable person can choose to use the common EU standard VAT return; the choice must be made per VAT registration.

- 63 The major advantage of this option indicated by the businesses is the high level of flexibility to suit the company's organisational structure. Moreover, this could promote a greater early uptake of the standard VAT return if businesses are reluctant to take an immediate all-in approach. All VAT registrations are in scope so streamlined processes per company can be guaranteed.
- 64 Disadvantages are that this option can imply some local VAT returns that are perceived as difficult or burdensome by the businesses will not be used anymore in the future situation. In those Member States, only the common EU standard VAT return will be used while in other Member States where the local VAT return is perceived as straightforward, only the local form will be used. We call this phenomenon 'VAT return shopping'. The question is whether those Member States whose local form is likely to disappear, will ever accept the standard if this option is applicable. The common EU standard VAT return will only be effective if all Member States participate. Furthermore, if businesses use two types of returns, it will decrease the positive impact of uniform processes. The option will also imply that businesses have to invest time and money to analyse and discuss the advantages and disadvantages of various combinations of local/standard VAT returns.

Option 2 – Any taxable person can choose to use the common EU standard VAT return. If the taxable person opts to use it, it must be used in the Member State of its main place of business and in all other EU Member States where it is VAT registered as a non-established taxable person. Fixed establishments make their own choice independent from its main place of business.

- 65 The advantages of this option are that there is still some flexibility for the businesses but the possibility that some local VAT returns will not be used anymore in the future situation due to 'VAT return shopping' is limited. Suppose the local VAT return from Member State x seems to be perceived as detailed and difficult to complete. While under option 1 there is a risk that this local VAT return in Member State x would be abandoned (because businesses would opt to use the standard VAT return in this Member State instead of the local VAT return of this Member State), this would be less the case under option 2 (because in this option, the choice to file the standard VAT return will not only depend on the level of difficulty of the local VAT return in Member State x, but will have impact on all Member States where it is VAT registered (as established, or as non-established registered person). All VAT registrations are covered so streamlined processes per company can be guaranteed.

- 66 Disadvantages are that the decrease in flexibility could lead to businesses deciding not to move to the standard VAT return. Businesses can furthermore be confronted with change management issues if there is internal resistance to change to the standard VAT return in Member States with easy local VAT return compliance requirements at this moment (e.g. Ireland, UK). There may also be resistance if the choice to use the common EU standard VAT return would imply the obligation to use it for a high number of VAT registrations at the same time.

Option 3 – Only taxable persons submitting VAT returns in more than one Member State can choose to use the common EU standard VAT return. The choice must be made per VAT registration.

- 67 In line with option one, the major advantage is again the increased flexibility and the incentive for an early uptake of the standard VAT return in some Member States.
- 68 Disadvantages are that the eligible taxpayer population is limited and some companies may be obliged to use the local VAT return in some Member States. This will increase complexity and decrease the level of wide spread use. Benefits will decrease and costs will increase. This option could furthermore imply that some local VAT returns that are perceived as difficult or burdensome by the businesses will not be used anymore in the future situation. The question is whether those Member States will ever accept this option. The common EU standard VAT return will only be effective if all Member States participate.

Option 4 – Only taxable persons submitting VAT returns in more than one Member State can choose to use the common EU standard VAT return. If the taxable person opts to use it, it must be used in the Member State of its main place of business and in all other EU Member States where it is VAT registered as a non-established taxable person. Fixed establishments make their own choice independently from its main place of business.

- 69 In line with option two, the advantage of this option is that there is still some flexibility for the businesses but the possibility that some local VAT returns will not be used anymore due to ‘VAT return shopping’ is limited.
- 70 In line with option three, the disadvantages are that the eligible taxpayer population is limited and some companies may be obliged to use the local VAT return in some Member States. This will increase complexity and decrease the level of wide spread use. Benefits will decrease and costs will increase. This option will hinder the use of the standard VAT return. This option results also in a decrease in flexibility which could lead to businesses deciding not to move to the standard VAT return. In line with option 2, businesses can furthermore be confronted with change management issues.