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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a Council Directive

amending Directive 2006/112/EC on the common system of value added tax as regards a standard VAT return

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1. INTRODUCTION

The common EU VAT system is an important source of revenue for Member States (22% of total taxes for Member States in 2010) but is complicated with more than half of the 400 plus articles of the VAT Directive dealing with exceptions to the basic rules.

When measuring reporting obligations in the context of the Commission's Action Programme for Reducing Administrative Burdens in the European Union, VAT related burdens ranked at the top with EUR 69 billion classified as administrative burdens. VAT returns in the EU were estimated at EUR 19 billion.

The High Level Group on Administrative Burdens (the so-called "Stoiber" group), said that more work was needed particularly in the tax area to reduce burdens on business. A study for the Stoiber group recommended "consideration could be given to implementing a uniform VAT return throughout all 27 Member States".

The VAT Directive on the common system of VAT currently allows the Members States to determine the content and submission of VAT returns resulting in 27 very different periodic VAT returns with anything from less than 10 boxes to 100 boxes to be completed.

The "Retrospective evaluation of the elements of the VAT system" estimates that a reduction of 10% in the dissimilarity of the general VAT administrative procedures between countries could yield a rise of 3.7% in intra-EU trade, while real GDP and consumption would increase by 0.4% and 0.3%, respectively. Thus, a standardised VAT return could have real positive effects on the EU economy.

Following the Stoiber Group's report on administrative burdens a review of VAT obligations was included in the Green Paper on the future of VAT which resulted in a Communication committing to a legislative proposal in 2013, so that a standard VAT declaration "is available in all languages and optional for business across the EU".

2. PROCEDURAL ISSUES AND CONSULTATIONS

DG TAXUD is the lead Directorate General with consultation of DG MARKT, DG ENTR, DG CNECT, SG and OLAF through a Steering Group. In addition the Legal Service and ESTAT were kept informed.

The Steering Group met on four occasions between 3 July 2012 and 23 May 2013.

Consultations were held through:

- **Green paper on the future of VAT** and accompanying staff working document (Section 9.7 raised the specific point of a standardised EU VAT declaration). The public consultation was launched on 1 December 2010 and closed on 31 May 2011.
- Workshops held with business to define the standard VAT declaration during the **PwC study** from January 2012 until June 2012.
- **The VAT Expert group (VEG)**, set up by Commission Decision, met on 25 January 2013.
- SMEs were consulted at a **Small Business Act follow up meeting** held on 17 April 2013.
- Member States' tax authorities were consulted through a **Fiscalis seminar** held in Portugal from 2-4 October 2012.
- Member States were consulted through the **Group on the Future of VAT (GFV)** on 28 January 2013.

Business is very supportive of a standard VAT return. SMEs unanimously endorsed the idea of a standard VAT declaration, while at the same time being consciousness of the need to reduce the frequency of VAT returns for smaller businesses.

Member States are open, and in most cases supportive, of a standard VAT return but are always mindful of the impact in terms of having to change their national VAT return and the cost that it will entail. Two elements seem crucial for them; firstly there should only be one type of VAT return as the cost to implement and manage a double scheme (European and national) would be prohibitive, and secondly there needs to be scope to take on board different levels of information needed for risk analysis and control.

3. PROBLEM DEFINITION

The VAT Directive lays down the rules by which Member States must require a VAT return from their taxable persons. It defines the financial liability of companies vis-à-vis the Member State and provides information for risk control and subsequent auditing.

Member States are largely free to set the type of information they deem necessary for the calculation of the VAT that is due and this varies from less than 10 boxes to up to 100 boxes of information. In addition summary annual VAT returns in certain Member States can include 200 or more boxes to be completed.

The requirement to submit a VAT return is more administratively costly on an SME that generally does not have the sufficient resources or knowledge to deal with tax matters in comparison to a large business with more detailed internal controls and staff dedicated to taxation issues.

Member States have designed their VAT returns for purely domestic control, organisational and risk management purposes and therefore there is no EU dimension playing a role.

Furthermore, Member States have little incentive in trying to reduce national differences in VAT returns and left to their own devices the differences between VAT returns and their complexities would at best remain the same.

As more and more domestically-oriented small businesses are expected to trade cross border tackling today the administrative burdens on SMEs only submitting national VAT returns would also have positive knock-on effects and would facilitate their cross border trade and strengthen the effectiveness of the Single Market.

3.1. Cross border problem

The main difficulty businesses face in completing VAT returns in different Member States is the complexity and different language regimes. This comes from having to provide different information, the information not having consistent definitions, the lack of good guidance in how to complete the VAT return, different rules and procedures for the submission, and the need to complete it in the national language. This complexity also comes from the level of information required, which in several Member States, is very demanding.

This complexity in turn leads to the following two main problems: it restricts cross border trade, and it increases the burden of doing business across borders

There are an estimated 29.8 million businesses completing VAT returns in the EU. About 3.8 million of theses submit VAT returns in more than one Member State which costs around 2 to 3 times more than the EUR 4 billion equivalent of submitting domestic VAT returns.

For SMEs, when doing business cross border, the problem is magnified for two clear reasons. First, there is less financial capacity to set up local companies with local staff to submit VAT returns in another Member State. And second, there is less financial capacity to hire specialised staff or pay outside consultants with knowledge of foreign rules and languages necessary to complete a VAT return in another Member State

The result is that there is a specific barrier to trade and many SMEs simply don't trade cross border for these reasons.

3.2. Domestic problem

The cost of submitting VAT returns (e.g. time to record and collate information, filling in VAT return boxes, submission, etc.), while substantial for large businesses in absolute terms because they have a larger number of transactions, more complex VAT issues and more extensive internal controls, are, as a percentage of annual turnover, significantly higher for SMEs.

In the Communication on Smart regulation - Responding to the needs of small and medium -sized enterprises, the findings show that VAT legislation is seen by individual SME businesses as the most burdensome area of EU legislation. Therefore, as part of the "Think Small First" initiative it is clear that a measure to reduce VAT burdens should have a significant impact notably on SMEs and micro enterprises.

3.3. Evolution of the problem

More and more companies will be exposed to having to fill in VAT returns in more than one Member State as the trade in goods and services cross border has intensified and more and more SMEs discover and make use of trade across national borders helped by a single currency and more common EU laws.

Moreover, under a system of taxing supplies cross border at the rate in the Member State of destination, this could require up to a further 1,2 million business to compete VAT returns in another Member State.

4. OBJECTIVES

There are two main objectives: to reduce obstacles to cross border trade and to reduce burdens on domestic businesses in order to support growth and competitiveness.

As well there are secondary objectives. Promoting growth friendly fiscal consolidation can be encouraged by exchanging standardised information between Member States to help reduce fraud and improve compliance. Also the broader One Stop Shop could benefit from the agreement of a standard VAT declaration as the basis for the One Stop Shop VAT declaration.

5. POLICY OPTIONS

The only option that could deliver simplification and administrative-burden reduction within an acceptable timeframe would be stand-alone legislation at the EU level. The options for the scope of a proposal are thus:

A) Benchmark (do nothing)

B) Compulsory standard EU VAT declaration (for both business and Member States)

C) Standard VAT declaration optional for all business (compulsory for Member States)

D) Standard VAT declaration optional for those businesses submitting VAT returns in more than 1 Member State (compulsory for Member States)

E) Compulsory standard VAT declaration with limited flexibility for Member States to determine the information from a standardised list

These options can be looked at in terms of the following:

- Contents of the standard VAT declaration
- Periodicity and due date
- Annual VAT return
- Other issues (E-filing, corrections)

6. ASSESSMENT OF IMPACTS

6.1. Background figures characterising the baseline (Option A)

There are about 30 million companies in the EU that are obliged to fill in national VAT returns (0.2% are large companies, 1.1% are medium-sized companies, 6.5% are small companies and 92.2% are micro-enterprises with an annual turnover of less than EUR 2 million).

These 30 million companies are submitting almost 150 million VAT returns annually, of which the vast majority (more than 130 million) have to be submitted by micro-enterprises. At the same time, VAT revenues paid by these micro-enterprises are a small percentage of total VAT revenues collected.

The costs for submitting these 150 million VAT returns are estimated at about EUR 30 billion annually. This corresponds to about 3.5% of annual VAT revenues and 0.25% of the GDP of EU27. About EUR 0.48 billion fall on large businesses, EUR 5.98 billion on SMEs and EUR 24.19 billion on micro-enterprises.

The cost for the 27 Member States to manage these 150 million VAT returns consists of recurring costs (such as verifying consistency and plausibility of information provided, gathering additional information, etc.) and one-off cost (such as IT, training verifying annual returns). Figures exist for the UK and if this is typical of the EU as a whole it would equate to total EU VAT collection costs of EUR 6 billion.

6.2. Administrative burden for businesses – including SMEs

Option B – compulsory standard VAT return (business and Member States)

When not taking set-up and switching cost into account, annual gross benefits are estimated at EUR 15 billion. However, in 8 Member States the VAT return is simpler than the model PwC standard VAT declaration and in these Member States costs would increase by about EUR 3 billion. The net saving would therefore be at EU level EUR 12 billion.

Additional set-up and switching costs to change to the standard VAT returns are about EUR 150 per company overall which for the entire population of 30 million companies would add up to EUR 4.25 billion.

If micro-enterprises could not all choose to submit quarterly this could trigger lost cost savings in the order of magnitude of EUR 1.8 billion.

If the annual summary VAT return was not abolished additional lost annual cost savings for affected businesses would be in the order of magnitude of EUR 2.8 billion.

Option C – optional standard VAT return for business

It is assumed that all internationally active businesses (about 3.8 million) and about 80% of those businesses that are registered in Member States with more complicated VAT returns will switch to the standard return. The expected cost savings would amount to EUR 15 billion, of which EUR 4.5 billion would accrue to the internationally active businesses. This includes savings from abolishing the annual VAT return (EUR 1.9 billion) and from quarterly VAT returns for micro enterprises (EUR 1.8 billion).

Overall set-up and switching costs for the affected business population of 20.4 million companies (0.4 million large businesses, 1.4 million SMEs and 18.6 million micro enterprises) would add up to EUR 2.9 billion.

Option D - optional for those businesses submitting VAT returns in more than 1 Member State

As only internationally active businesses (about 3 million) could switch to the standard return, the expected cost savings for recurrent expenditure for these enterprises would amount to EUR 6 billion. The switching cost would be limited to EUR 500 million.

If all micro enterprises that are being offered the standard declaration that presently have to submit VAT returns on a monthly basis would have to continue to do so this would represent about EUR 0.8 billion in lost savings. Another variant could be to offer the reduced periodicity to all micro-companies (even to those not benefitting from the standard declaration) and the additional saving compared to the EUR 6 billion would then be EUR 1 billion.

If the obligation of submitting summarising annual VAT returns would be abolished for all companies in those countries requiring such returns this would represent about EUR 0.8 billion in lost savings.

Option E - compulsory standard VAT declaration with limited flexibility for Member States to determine the information from a standardised list

As under Option B annual gross benefits are estimated at EUR 15 billion. However, unlike Option B there is no loss in the Member States with simpler national VAT returns.

The one-off switching costs for the entire population of 30 million companies would at first glance – as in scenario B - add up to EUR 4.25 billion. However, switching cost might not occur in those countries that simply request the same information (although under a standardised format) as before, and so overall switching cost under this scenario might remain limited to EUR 2.9 billion.

If all micro enterprises that presently have to submit VAT returns on a monthly basis would continue to do so this would cost EUR 1.8 billion in lost savings, and the obligation of submitting summarising annual VAT returns if not abolished would reduce savings by EUR 2.8 billion.

6.3. Costs of managing VAT returns for Member States

The compulsory introduction of a standard VAT return will require all Member States to change their national VAT return, either by complementing it (options C and D) or by replacing it (options B and E). This will result in costs in areas such as changing websites, IT systems, informing all businesses of the changes and retraining staff. It may also impact on audit and control with changes needed to risk analysis tools.

Member States affected by introducing the standard VAT declaration could have additional once-off IT costs of roughly EUR 800 million to EUR 1 billion as measured by the PwC study (2013).

Member States are concerned in areas other than cost such as the loss of information on risk analysis and audits, and the effect this would have on staff resources.

These concerns are driven by the assumption "the more information we ask the higher will be compliance by tax payers". This assumption is, however, not supported by evidence, as there is no apparent negative correlation between the number of boxes to be filled out in a VAT return and the VAT gap in a given country.

Member States can acknowledge certain advantages for them of a standard VAT declaration:

- easier exchange of information between Member States to help identify fraud quicker
- greater accuracy of information with fewer mistakes as the VAT return would be standardised and in the majority of cases simpler than the national VAT return
- encourage voluntary compliance, notably for smaller businesses.
- facilitate the changeover to the One-Stop-Shop

With respect to options C and D, Member States were clear and unanimous in stressing that a dual VAT return, i.e. maintaining their current VAT return and in parallel a standard EU VAT declaration would be too complex and costly to manage. There will be differences in the level of information received, rules and procedures for businesses moving from one VAT return to the other and the compatibility of historical data for risk analysis.

7. COMPARISON OF OPTIONS

The weighting for the impact of the various options was based equally on the positive effects on business in terms of the removal of obstacles to cross border trade and the administrative burden reduction, and the negative effect of the cost of implementing the change for Member States.

The cost for the Member States has been difficult to estimate and so the key factors are based on:

- the number of VAT returns offered to business (dual system is more costly)
- the number of Member States affected

Other factors, such as social effects or changes to the environment are minimal, and can be discounted as having no substantial effect on the decision as to which option is more favourable.

The trade-off between the options is principally between more flexibility for business which further reduces administrative burdens against the cost and complexity for Member States.

Option C gives the greatest burden reduction for business but is the most disadvantageous for Member States. Equally option A is the best for Member States but provides the least (in fact zero) burden reduction for businesses.

It is within this framework that an alternative compromise solution, option E, combines higher burden reduction for businesses while having a low impact on Member States.

Option	**Total admin burden saving (cross border and domestic)**		**Cost for Member State**			**Overall score**
	EUR	Rank	No. VAT return systems	No. Member States affected	Rank	Rank
E	12 to 15 bn	2nd	1	19	2nd	1st
C	15 bn	1st	2	27	4th=	2nd
B	12 bn	3rd	1	27	3rd	3rd
A	0	5th	1	0	1st	4th
D	6 bn	4th	2	27	4th=	5th

8. IMPLEMENTATION AND MONITORING

Continual monitoring of the administration burdens on burdens and estimates of the VAT gap will enable sufficient review of the standard VAT declaration.