VAT refunds and reimbursements: A quantitative and qualitative study

Final Report

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Preface

This report has been prepared for the project "First assessment of the procedure for VAT refund to taxable persons not established in the Member State of refund but established in another Member State and to taxable persons established in the Member State of refund", Specific Contract No. TAXUD/2017/DE/328 implementing the Framework Service Contract No. TAXUD/2015/CC/131 for the provision of economic analysis in the area of taxation.

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Glossary of terms

Administrative level disputes: Disputes at an administrative level include appeals and disputes that are handled within tax administrations themselves (for example, appeals within the tax administration to a higher level than the tax official that made the original decision on the VAT refund or reimbursement claim).

Administrative practice: The practical application of the legislation and published guidance (where available) by a tax administration (based on commentary from in-country PwC VAT experts).

Claims approved: Claims approved by tax administrations for payment.

Claims paid outside deadline: Claims paid outside statutory deadlines stipulated in Directive 2008/9/EC for VAT refund claims or relevant domestic legislation for VAT reimbursement claims.

Claims queried: Claims where additional information is requested by tax administrations after initial submission.

Claims received: Claims received by tax administrations.

Claims rejected: Claims rejected by tax administrations.

Claims submitted: Claims submitted to tax administrations.

Domestic legislation: The legislation enacted within a particular Member State.

Eighth Directive: Council Directive 79/1072/EC of 6th December 1979 on the "Harmonization of the laws of the Member States relating to turnover taxes - Arrangements for the refund of value added tax to taxable persons not established in the territory of the country"

Guidance: Publically available instructions on the application of tax legislation issued by a tax administration to taxpayers in a Member State.

Impose carry forward: The process by which VAT repayable to the taxpayer are applied against VAT payable in the subsequent years.

Judicial level disputes: Disputes at a judicial level include appeals and disputes that are handled by a body outside the tax administration, such as a local or national court.

Member State of Establishment: EU Member State in which a business is established for VAT purposes.

Member State of Refund: EU Member State in which a business is not established for VAT purposes but has incurred VAT and, therefore, has the right to a refund under Directive 2008/9/EC.

Mini One Stop Shop (MOSS): The MOSS is a way of paying VAT if a business supplies certain digital services to other EU countries. From 1st January 2015, VAT is paid based on the country where the customer bought the product, not the country in which the seller is based.

Ordinary Least Squares: A type of linear regression modelling for estimating unknown parameters.

Standing Committee on Administrative Cooperation (SCAC): An expert group of the European Commission which has the task to coordinate with and exchange of views between EU Member States.

VAT refund: A repayment of VAT made under the auspices of Directive 2008/9/EC as implemented in a Member State to a taxpayer not established in that Member State.

VAT reimbursement: A repayment of VAT made under the auspices of Article 183 of Council Directive 2006/112 as implemented in a Member State to a taxpayer established in that Member State.

List of acronyms

CJEU	Court of Justice of the European Union
EC	European Commission
EU	European Union
EU-28	28 Member States of the European Union
FTE	Fulltime equivalent
GDP	Gross Domestic Product
IVA	International VAT Association
MOSS	Mini One Stop Shop
MSME	Micro-, Small- and Medium-sized Enterprises
MSOE	Member State of Establishment
MSREF	Member State of Refund
OLS	Ordinary Least Squares
OSS	One Stop Shop
PoA	Power of Attorney
PwC	PricewaterhouseCoopers LLP
SCAC	Standing Committee on Administrative Cooperation
UK	United Kingdom
VAT	Value Added Tax

Abstract

Directive 2008/9/EC establishes the right of businesses established in one Member State who incur VAT in a another Member State in which they are not established to obtain a refund of that VAT. Whereas, Article 183 of Council Directive 2006/112/EC establishes the right of a business to deduct input VAT incurred in a domestic scenario via a VAT reimbursement claim.

This study's objective is to thoroughly evaluate the current VAT recovery regimes operated by Member States and highlight potential problems and areas of difficulty encountered by businesses and tax administrations.

Based on evidence collected through analysis of domestic legislation and administrative practice, and surveys of businesses, VAT refund agents and tax administrations this study highlights a number of areas in which the VAT recovery regimes operated by Member States are inconsistent with EU law or jurisprudence and identifies ways in which they could be improved. These include promoting greater understanding of the rules for claiming VAT refunds and reimbursements, reducing language barriers, ensuring that claim verification procedures are proportional, reducing financial risks for claimants generated by the current regimes, and promoting systematic data collection by tax administrations.

1. Executive Summary

1.1 About the study

The timely receipt of VAT refunds and VAT reimbursements is important to European businesses. This is particularly true of micro-, small- and medium-sized enterprises (MSMEs), for whom delays and refusals could have adverse financial consequences.

For the purpose of this study, VAT refunds are defined as a repayment under the auspices of Directive 2008/9/EC, as implemented in domestic legislation, of VAT incurred in a Member State other than a Member State in which the taxpayer is established or registered for VAT (i.e. non-domestic repayments). On the other hand, VAT reimbursements are defined as a repayment under the auspices of Article 183 of Council Directive 2006/112/EC, as implemented in domestic legislation, of deductible input VAT incurred in excess of output VAT due in the Member State in which the taxpayer is registered for VAT (i.e. domestic repayments).

In a VAT refunds context, a number of ongoing structural changes in the overall framework of the VAT system highlight the growing need for an effective VAT refund procedure to fulfil the fundamental right of a trader to be relieved entirely from the burden of VAT. These include the move towards a more destination based system for cross-border trade, proposals for an extended one-stop shop (OSS) to give effect to the 2021 E-commerce Package and the 2022 Definitive VAT Regime, and increasing provision of services on a cross-border basis by businesses, as well as growth in the use of specialist subcontractors within business models.

Similarly, a number of ongoing structural changes highlight the need to promote and maintain effective procedures for granting VAT reimbursements. These include the growth of global trade amid a transition to a more destination based system, the introduction of domestic reverse charge systems and the growth of, and government interest in, split payment mechanisms.

1.2 Objectives and approach

The key aim of this study is to thoroughly evaluate the current VAT recovery regimes and highlight potential problems and areas of difficulty encountered by taxable persons in making VAT refund and reimbursement claims, as well as by the tax administrations of EU Member States in administering such claims.

The study has the following core objectives:

- To provide an overview of the functioning of the refund procedure from Directive 2008/9/EC and the reimbursement procedure from Directive 2006/112/EC, highlighting potential problems which could hinder smooth functioning;

- To indicate the nature and magnitude of problems reported, based on the information gathered from surveys of businesses and EU-28 tax administrations; and,

- To provide suggestions from businesses and EU-28 tax administrations on how the refund and reimbursement process could be improved.

This evaluation comprises a mix of desk research, discussions with local tax practitioners, as well as surveys of and interviews with businesses and EU-28 tax administrations to collect qualitative and quantitative data. It aims to undertake a broad assessment of VAT refund and reimbursement procedures, encompassing analysis of legal and administrative frameworks, the experiences of businesses, particularly MSMEs, and the experience of EU-28 tax administrations.

The methodology for this study is outlined in Appendix 1 of this report.

1.3 Key findings

VAT refunds

Analysis of data on VAT refunds collected from the Commission, EU tax administrations, a number of VAT refund agents and businesses yielded the following key findings:

- **Number and composition of claims:** In 2016, tax administrations received approximately 695,000 claims amounting to EUR 109.4 million. Between 2013 and 2016, the total number of claims received increased by 12.3% whilst the total value of claims received decreased by 6.3%. This compares to an increase in nominal GDP of 8% over the same period. Overall, a majority of claims submitted had a value of less than EUR 1,000 (For 15 of the 19 Member States, claims with a value of less than EUR 1,000 constituted more than half of all claims received, and for 6 of the 19 member States, claims of this value size constituted more than two-thirds and less than 5% of claims received had a value of more than EUR 30,000).
- **Preparation and submission of claims:** Most of the businesses surveyed stated that they take between two and five hours to prepare and submit claims regardless of whether additional information is requested. The reason for this may be that businesses tend to collect information and documentation in preparation for the main claim submission. Overall, only 6% of respondents to the business survey stated that they do not have any experience in handling VAT refund claims. The main reasons for this were mostly non-process related, for example, their business not having incurred any foreign VAT or VAT amounts being too small to be eligible for a refund. Moreover, 12% of businesses surveyed stated that an increased risk of VAT audit or investigation was the main reason for them not submitting a claim. Only 8% of respondents noted that claiming a VAT refund was too expensive.
- **Processing efficiency:** Between 2013 and 2016 processing rates[1] declined from a high of 91% to 86.3% in 2016. This could be explained by the increase

[1] The processing rate is calculated as the number of claims for which a decision was made in a given calendar year as a percentage of the number of claims received during the same calendar year plus the claims brought forward from the previous calendar year. Due to data limitations, it has not been possible to

in the number of claims over the period, assuming tax administrations' ability to process claims was unchanged.

- **Delays:** Although the processing of claims became less efficient across the EU, only 1% of claims were paid outside deadlines in 2016. The share of claims paid outside deadlines has fallen since 2013, driven in part by more than 50% of tax administrations implementing specific procedures to prevent delays. However, some delays are caused by Member States of Establishment, which could increase the overall time required to process a VAT refund claim as Directive 2008/9/EC does not specify a time limit for Member States of Establishment to forward claims to Member States of Refund. When delays do occur, businesses indicated that they can have adverse impacts on cash flow or result in the deferral of investment or hiring. In addition, businesses indicated that they experience challenges in receiving late payment interest from tax administrations. Nearly one-third of businesses surveyed reported that they never, very rarely or rarely receive interest for claims that are paid late. In Member States where tax administrations fail to pay late interest, a further burden is put on taxpayers.
- **Additional information requests:** Tax administrations across the EU queried 9% of claims processed in 2016 and the query rate increased only slightly between 2014 and 2016. Over the same period, the average value of a queried claim has increased substantially from EUR 15,600 to EUR 23,400. This suggests that additional information requests may be increasingly targeted toward higher value claims. However, responses from businesses show that the tendency of tax administrations to request additional information is widespread across the EU and appears to be increasingly formalistic. A relatively low query rate reported by tax administrations is in contrast to the perception noted by businesses. Approximately 70% of the businesses surveyed receive requests for additional information frequently, very frequently or almost always. This may be explained by the fact that some of the businesses surveyed submitted a large share of their claims to Member States of Refund with query rates higher than the EU average. However, this connection could only be established for businesses surveyed in Greece, which submitted approximately 16% of their claims to Cyprus as a Member State of Refund. Cyprus had a query rate of 41% in 2016, which was significantly above the EU average. Businesses surveyed in other Member States of Establishment included in the business survey submitted large proportions of their VAT refund claims to the German and UK tax administrations, for which no data on query rates was available.
- **Approvals and rejections of claims:** In 2016, tax administrations across the EU approved 94% of claims processed, an increase of 1.8% from 92.2% in 2013. Decisions seem to be made on a case-by-case basis, and there appears to be no apparent relationship between approvals and types of expenses or additional information requests. Businesses recorded invoice discrepancies, a lack of sufficient documentary evidence, VAT having been incorrectly charged

exclude claims received during a given calendar year but carried forward to the next calendar year for processing. As such, the processing rates may be understated.

by suppliers and the business requiring a local VAT registration as the most common reasons for claims being rejected by tax administrations. This aligns with responses received from tax administrations and VAT refund agents. When rejections do occur, businesses indicated that they experience adverse cash flow impacts (35% of respondents), deferral of investment (42%) and hiring (28%), and in some instances reduced profits (18%).

- **Disputes and appeals:** Taxpayers disputed a relatively small number of claims in 2016 (0.23%), and 81% of these disputes occurred at an administrative level. This trend is confirmed by the businesses surveyed as 81% of the disputes they entered into were at the administrative level. The value of a claim did not appear to relate to the level at which the appeal was heard, with the average value of a disputed claim at the judicial level being lower than at the administrative level. Given the additional cost of disputes being heard at a judicial level, it would have been reasonable to assume would have expected this route to be used only for the highest value claims. Further investigation into the nature of claims disputed at the administrative and judicial levels would be warranted to explain this in more detail. Overall, the costs to dispute a claim varied, with 15% of respondents to the business survey stating that it cost between EUR 1,000 to EUR 5,000 to dispute a claim whilst 24% of respondents incurred a cost of EUR 20,000 to EUR 40,000 to dispute a claim. This compares to an average value per disputed claim received by tax administrations of approximately EUR 580,000, although it has to be noted that the number of responses in this area was limited. This cost variance depends on the Member State in which the business is established, the nature of the dispute and the legal options available in the Member State of dispute.
- **Technology, communication and support:** Responses from the businesses surveyed showed that, where businesses are aware of tax administration contact points in a Member State, 86% of businesses deemed these contact points to be highly effective or effective. Moreover, a direct correlation appears to exist between the Member State to which taxpayer sends most of its VAT refund claims to and awareness of points of contacts for queries. This suggests that taxpayers attempt to inform themselves about the best ways of communicating with tax administrations they most frequently deal with. However, despite this, respondents to the business and VAT refunds agent surveys raised issues around communicating with tax administrations. Businesses, on the one hand, experienced language problems in cases where tax administrations only communicated in national languages rather than widely used business languages. VAT refund agents, on the other hand, reported problems communicating with tax administrations more generally. This is particularly prevalent where additional information has been submitted by agents. Issues have been reported where tax administrations do not issue a notification when they receive additional information, and agents do not receive any information on the claim status until the claim has been either accepted or rejected.

VAT reimbursements

Analysis of data on VAT reimbursements collected from EU tax administrations and businesses yielded the following key findings:

- **Number and composition of claims:** In 2016, tax administrations from EU-16 Member States received approximately 5.5 million reimbursement claims amounting to EUR 153.5 billion, giving an average value per reimbursement claim just under EUR 28,000. Between 2013 and 2016, the total number of claims received increased by 6.4% and the total value of claims received grew by 2.3 percentage points. This compares to an increase in nominal GDP of 7 percentage points over the same period in the Member States. However, over the same period, no remarkable fluctuations of the average value per reimbursement claim were identified. This development suggests a shift of towards businesses submitting claims on a more frequent basis.
- **Preparation and submission of claims:** Approximately 60% of the businesses surveyed recorded that they take four hours or less to prepare and submit a VAT reimbursement claim regardless of whether additional information is requested. Businesses also appear not to experience any differences in costs incurred for preparing and submitting a VAT reimbursement claim in cases where additional information is requested. Approximately 42% of respondents to the business survey stated that they incur costs of less than EUR 5,000 to prepare a VAT reimbursement claim irrespective of whether tax administrations request additional information. Such costs include IT costs and other overheads. 17% of the businesses surveyed consider the process of claiming a VAT reimbursement to be too complicated and therefore refrained from submitting a claim. Respondents also listed not having incurred excess input VAT (17%), not having handled claims (50%) and the increased risk of audit or investigation as the main reasons for why they had not submitted any reimbursement claims. (16%). While the cost of preparing a VAT reimbursement claim appears to be high compared with the average value of a reimbursement claim in 2016 (EUR 28,000), this average masks the fact that respondents to the business survey were established in Member States with reimbursement claims that had wide-ranging average values (i.e. ranging from a low of EUR 1,600 to a high of EUR 158,000).
- **Processing efficiency:** Between 2013 and 2016 processing rates declined from 93% in 2013 to 91.7% in 2016. As for VAT refunds, this could be explained by the increase in the number of claims over the period, assuming the rate at which tax administrations are able to process claims remains unchanged.. On a country level, three Member States were found to have a processing rate considerably below average, having processed significantly fewer reimbursement claims than they received in 2016.
- **Delays:** In 2016, 4.7% of reimbursement claims received were paid outside deadlines stipulated by Directive 2008/9/EC, up from 3.5% in 2013. Delayed claims accounted for 10% of the total value of all reimbursement claims. This suggests that higher-value claims are more likely to be delayed. In the rare instances where claims were delayed, businesses stated that they experienced adverse impacts on cash flow (33% of respondents), deferred investment (40%) and hiring (25%). Moreover, 33% of the businesses surveyed found it

difficult to obtain late payment interest from tax administrations. This is despite the fact that article 26 of Directive 2008/9/EC outlines a taxpayer's right to receive late payment interest.

- **Claim verification:** Tax administrations across the EU use different processes to verify claims. Verification checks applied to claims are usually based on business specific and claim specific risk factors. In 2016, verification checks across four Member States identified 6,500 claims with a combined value of EUR 2 billion that were deemed to be fraudulent. This equated to approximately 0.12% of the total claims received in the same period.
- **Approvals and rejections of claims:** In 2016, tax administrations across the EU approved 99.5% of claims processed, leading to a slight increase of 0.1% between 2013 and 2016. At EUR 61,000, the average value of a rejected claim was significantly higher than the average value of an approved claim (EUR 21,800). The three most common reasons for claims being rejected were claims being deemed fraudulent, taxpayers not having submitted sufficient or valid additional information or claims not meeting the legal requirements of local VAT systems. Where claims were rejected, businesses stated that they experience adverse impacts on cash flow, deferred investment and hiring, as well as reduced profits in some instances.
- **Disputes and appeals:** Taxpayers disputed a relatively small number of claims in 2016 (0.12%), and most of these disputes occurred at an administrative level (94.3%). Businesses with experience of disputed claims stated that in almost all cases, disputes are settled in less than nine months (95% of respondents). Moreover, 50% of the businesses surveyed incurred costs of EUR 10,000 or less to dispute claim. This compares to an average value of a disputed claim of approximately EUR 39,000. Disputes are more likely to be decided in favour of tax administrations than in favour of taxpayers. This is perhaps not surprising considering the most common reasons for rejections outlined above appear to leave tax administrations in a strong position to defend their grounds for rejecting a claim and disputes at an administrative level are reviews conducted internally.
- **Technology, communication and support**: With approximately 50% of respondents to the business survey describing the support received from tax administrations as very friendly or friendly, there appeared to be a general satisfaction with the support received from tax administrations during the VAT reimbursement process.

1.4 Key challenges and suggestions for improvement

The findings of the analysis indicate that, on the whole, VAT refund and reimbursement procedures operate relatively smoothly across the EU, with some variation between Member States.

However, there are a number of challenges present in the current VAT refund and reimbursement systems. These are faced by businesses and tax administrations alike

and include challenges unique to VAT refunds or reimbursements, as well as a number of overarching challenges that are relevant to both.

Addressing these challenges is particularly important given the EU's priorities of combatting VAT fraud within individual Member States and across the EU, promoting a vibrant MSME sector and ensuring fairness for all businesses. Moreover, it will be essential to find solutions for these challenges given the introduction of structural changes in the VAT system that will place increased pressure on VAT refund and reimbursement claims. Such structural changes include the move towards a more destination based system for cross-border trade, proposals for an extended one-stop shop (OSS) to give effect to the 2021 E-commerce Package and the 2022 Definitive VAT Regime, increasing provision of services on a cross-border basis by businesses, as well as growth in the use of specialist subcontractors within business models.

If left unchecked, these could become a growing cause of inefficiency in the way claims are prepared and processed, a source of friction between businesses and tax administrations, and a threat to the integrity of the fundamental right to deduct input tax which sits at the heart of the EU VAT system.

Accordingly, Table 1 outlines each of the challenges identified from the analysis contained in this report and presents suggestions for improvement. It should be noted that the suggestions for improvement will require varying levels of coordination and political will to implement, with some better led by the Commission and some requiring unilateral action at the Member State level.

Moreover, the means by which these suggestions are implemented will vary. It may be sufficient to implement changes through best practice circulars or changes to administrative guidance and practice. However, if deemed necessary, it is conceivable that some of the suggestions outlined below could only be realised through changes to the relevant EU Directive and/or the corresponding national legislation.

Table 1: Key challenges and suggestions for improvement

Key challenge	Suggestion(s) for improvement
Overarching	
It became apparent throughout the course of this study that EU-28 tax administrations do not collect and/or analyse data on VAT refunds and reimbursements on a systematic basis. This increases the risk of anomalies being left undetected and issues with the VAT refunds and reimbursement process being left unaddressed. In addition, there is no equivalent of the centralised VAT refund data collection of the Standing Committee on Administrative Cooperation (SCAC) for VAT reimbursements.	It would be advisable for Member States to develop frameworks for the systematic collection and analysis of data on VAT refunds and reimbursements. Moreover, harmonized data collection frameworks across Member States, such as those developed by the SCAC, and routine data sharing could drive process improvements and better manage the risks of VAT fraud.

Key challenge	Suggestion(s) for improvement
These challenges limit the extent to which data can be used within and between Member States to drive process improvements.	
A common justification for the rejection of VAT refund claims was that the business in question should be registered for VAT in the Member State of Refund. In interview, a number of tax administrations stated that in such cases detailed guidance on how to register for VAT is provided to the claimant if a VAT refund claim was rejected based on these grounds. However, despite this and due to the prevalence of this issue, it does not appear that businesses are fully aware of the circumstances under which they should become a VAT-registered foreign trader. Naturally, this constitutes a risk to the integrity of the VAT net, as taxable activity may potentially not be taxed appropriately. This is aggravated by tax administrations appearing to have little or no established processes in place to follow up with the competent department for VAT registered foreign traders.	In such instances, it is advisable that the tax administration ensures that guidance provided to the claimant is clear and easy to follow. Moreover, tax administrations may wish to follow up with the claimant to provide them with further support in the registration process. This also gives tax administrations the possibility to ensure that businesses follow up on the requirement to register as a foreign trader. When doing so, tax administrations should bear in mind potential language barriers. In addition, where this does not already occur, tax administrations may consider establishing processes to routinely refer cases to the competent department for VAT registered foreign traders. This can give additional assurance that the claimant correctly registers for VAT and support in ensuring that all taxable business activity is brought within the VAT net according to domestic rules.
The recovery of interest on VAT refund and VAT reimbursement claims that have been delayed and paid outside deadlines was also found to be a challenge for businesses. This is despite the existence of EU law on this issue. For VAT refunds, article 26 of Directive 2008/9/EC outlines a taxpayer's right to receive late payment interest in cases where tax administrations have failed to pay a VAT refund within the timeframes set out in the Directive. Moreover, with regards to VAT reimbursements, the judgment of 24	In the light of clear provisions included in VAT law that establish a taxpayer's right to receive interest on the delayed payment of VAT refunds or VAT reimbursements, the Commission may wish to conduct further investigation into this issue. This is to ensure EU VAT law is adhered to on a national level by Member States so that rights of taxpayers are not being violated.

Key challenge	Suggestion(s) for improvement
October 2013, Rafinaria Steaua Romana SA (Case C-431/12 EU:C:2013:686) reinforced the need for tax administrations to pay interest where a VAT reimbursement is not paid within a reasonable period.	
VAT refunds	
It was found, from businesses and tax administrations alike, that a common reason for a VAT refund claim to be rejected is that the underlying expenditure is ineligible for refund in the Member State of Refund. Although attempts have been made to harmonise rules for VAT refunds, there is a wide variety of recovery rules which are different from one Member State to another as is outlined in more detail in section 5.1. The expenditure types for which differences in refund eligibility criteria between Member States were most commonly noted were hotel and accommodation expenses, entertainment expenditure, expenses incurred on food and drinks, and travel expenses (most notably on costs of taxis and public transport). Therefore, the challenge here may be one of complexity and awareness. Generally, issues revolve around differences in the amount that can be refunded for such expenditure, as well as the amount of supporting documentation that has to be submitted to evidence that the expenditure was incurred for business purposes and meets the refund eligibility criteria. However, it should be noted that when businesses were aware of tax administration or Commission guidance and support on the eligibility of expenditure for refund, they found it to be helpful on the whole.	Although, earlier attempts for harmonization of rules on the eligibility of expenses for VAT refunds across Member States that have been unsuccessful, there may be some merit in revisiting these discussions with Member States due to the prevalence of this reason for rejection. However, recognising the potential difficulties in attempting to reach agreement in this area, in the absence of harmonised rules this challenge could be addressed through greater awareness and/or use of smarter technology. Greater awareness of national rules by businesses could be achieved by ensuring better accessibility of tax administration and Commission guidance, as well as promoting the specific contact points in tax administrations in each Member State. This could be achieved by including links to such resources in the claim submission portal. Alternatively, this challenge could be addressed by embedding rules within the claim submission portal that prevent claimants from submitting VAT refunds for items of expenditure that are non-refundable in the Member State of Refund.

Key challenge	Suggestion(s) for improvement
Article 6 of Directive 2008/9/EC states that taxpayers who carry out transactions which, both give rise and do not give rise to the right to deduct VAT, can only claim a VAT refund from the respective Member State of Refund for the transactions that meet the requirement for a VAT refund as outlined in Article 5 of Directive 2008/9/EC. To do so, taxpayers should claim the respective proportion of VAT using the rules in place in the Member State of Establishment. Verification of pro rata calculations are a common cause for communication between the Member States of Refund and Establishment. However, there appears to be a lack of consensus on who has ultimate responsibility for ensuring that the pro rata has been calculated correctly. Moreover, businesses indicated that the interpretation of the pro rata calculations is a common cause for VAT refund claims being rejected by Member States of Refunds. In particular, business respondents established in Sweden and Greece appear to face challenges with pro rata calculations when submitting VAT refund claims. In both Member States, businesses surveyed noted that the interpretation and performance of pro rata calculations was one of the most common reasons for a VAT refund claim to be rejected. This suggests that rules to calculate pro rata amounts in these Member States of Establishment are more complex and less easy for taxpayers to follow.	It would be advisable for the Commission to consider or solicit ideas for recommended practice on the responsibilities of both Member States of Establishment and Refund for checking pro rata calculations. It should be noted that this is an extremely complex area, for example it is possible for a business as a whole to be partly exempt but still be entitled to full recovery if the relevant VAT is directly related to a taxable supply. This topic could be a matter for discussion in the EU VAT Forum.
A common justification for the rejection of VAT refund claims was that the supplier had incorrectly charged VAT. In these situations, businesses appear to	As a minimum, greater awareness of VAT rules and the mechanisms for recovering incorrectly charged VAT is required, particularly for businesses that may not be established in the Member State in

Key challenge	Suggestion(s) for improvement
be uncertain and/or unaware that in most cases it is their responsibility to recover the incorrectly charged VAT from the supplier in question. This is often a source of frustration for businesses and a potential source of friction between businesses and tax administrations. Moreover, disagreements between departments within a national tax administration regarding incorrectly charged VAT can compound matters. Despite the principles arising from C-218/10 ADV Allround Vermittlungs AG (Member States should adopt the measures that are necessary to ensure that VAT is collected accurately and that the principle of fiscal neutrality is observed), such disagreements can result in claimants being 'stuck' between opposing views in the tax administration. This uncertainty could be infringing the fundamental right to reimbursement of businesses.	which VAT was incurred. This may include more assistance and information given to businesses, including up to date guidance for suppliers on how to apply the correct VAT treatment. Moreover, the Commission may want to investigate ways to resolve this issue by Member States taking greater responsibility for applying a consistent position and approach. This may also include the simplification of the place of supply rules in line with the destination principle, in order to reduce instances of incorrectly charged VAT. Furthermore, a number of businesses have suggested that national tax administrations should take greater responsibility for overseeing the correction of incorrectly charged VAT, rather than placing the burden on the businesses. This support could come in many forms. For example, tax administrations could issue a letter of notification to the supplier and claimant stating that the VAT treatment is incorrect and the supplier should reverse the position and refund the VAT. Alternatively, tax administrations could refund the VAT at their discretion in cases where the taxpayer has a full right of recovery and where there would be no overall loss to the tax administration. Suggestions outlined above may be discussed in the EU VAT Forum to assess what administrative best practices could be implemented.
A perception gap appears to exist between the views of tax administrations and businesses on the number of additional information requests being issued. Tax administrations have reported	The Commission may wish to review the reasonableness of additional information requests. This includes giving consideration to the proportionality of requests for certain documents, the acceptability of alternative evidence, as well as costs incurred in having to

Key challenge	Suggestion(s) for improvement
relatively low query rates whereas businesses noted in the business survey that additional information requests from tax administrations are received fairly frequently. Moreover, information requests appear to be increasingly formalistic and wide ranging and includes both expense specific information (e.g. invoices and reasons for expenditure) as well as business-related information (e.g. business contracts and contracts of employment).	translate potentially lengthy business documents such as contracts. Moreover, the Commission may consider reviewing the time limits set out in Directive 2008/9/EC for businesses to provide such documentation to ensure businesses have sufficient time to comply with a request for additional information. Additionally, Member States should be encouraged to issue best practice guidance for businesses regarding information and documentation that can be attached when submitting a VAT refund. This may lead to lower additional information requests and may increase the tax administrations' ability to process claims in a timely fashion. Finally, it is advisable to urge tax administrations to record business-related information appropriately and apply suitable risk profiling techniques in order to avoid the repeat request of similar or identical information from businesses.
Another challenge identified is businesses experiencing language issues when submitting a VAT refund claim. More specifically, businesses were asked to communicate, as well as provide documentation and additional information, in national languages to tax administrations. More detailed analysis of domestic legislation across the EU Member States implementing Directive 2008/9/EC showed that five Member States (Czech Republic, Poland, Romania, Slovenia and Spain) only accept applications for VAT refunds, as well as additional information, in their national languages. Two further Member States (Austria and France) noted that, in general, all communication and documentation should be in their	The Commission may wish to investigate whether further efficiencies can be created around the use of widely accepted business languages which could include, for example, "base" information for a claim like the actual VAT refund claim and invoices to support expenditure. Moreover, it may be worth recommending that Member States review the most common Member States of Establishment for businesses sending them refund claims, in order to tailor their language requirements to better align with the languages most commonly used by those businesses. Finally, the Commission is currently testing private ruling requests relating to cross-border situations with a number of

Key challenge	Suggestion(s) for improvement
respective national languages. However, English is also accepted and may be used by claimants, if necessary. Finally, one Member State (Malta) did not outline which languages are to be used in the VAT refund process. Despite Article 12 in Directive 2008/9/EC stating that Member States may specify the language to be used in a VAT refund claim, it appears unhelpful for tax administrations to place an additional burden on taxpayers by not permitting communication in a widely accepted business language.	Member States. Participating Member States have accepted that requests made can be submitted either in their official language(s) or English. The Commission may consider to extend this program to all Member States, and include more language to be accepted by Member States based on the specific requirements of each individual Member State.
VAT reimbursements	
Analysis of national legal and administrative frameworks identified a number of instances of mismatches between the frequency with which VAT returns are filed and VAT reimbursements are claimed. For instance, Italy only permits businesses to claim VAT reimbursements on an annual basis, but allows them to file VAT returns more frequently. This mismatch could generate adverse impacts on cash flow which could be compounded when delays and rejections occur, or when financial guarantees are requested. The risks could also be greater for businesses that are usually in a reimbursement position, such as exporters or traders that are routinely making zero-rated supplies. A similar issues exists where national VAT practices require the carry forward of excess input tax rather than allowing an immediate cash refund. This could be generating unnecessary financial risk for taxpayers, which could run counter to the principle established in the case C-274/10 Commission v Republic of Hungary which clarified that taxpayers should not be exposed to financial risks in respect of repayments.	To address these potential risks, timelines for filing returns and making claims could be aligned such that a reimbursement can be claimed with the same frequency with which some businesses are permitted to file VAT returns. In doing so, the VAT related cash flows would be matched, which would mitigate financial risks. Moreover, to mitigate any financial impacts and risks for businesses associated with having to provide financial guarantees, consideration could be given to raising the threshold for the value of claims requiring such guarantees. Alternatively, the burden on businesses may be relieved by providing them with financial compensation for the costs of maintaining financial guarantees. However, before undertaking further action, it would be advisable to conduct research into the extent to which mismatches between filing and claim frequencies generate financial risks for taxpayers. In addition, it will be important to understand the additional administrative burdens placed on businesses and taxpayers alike.

Key challenge	Suggestion(s) for improvement
Requests for additional information are made frequently by tax administrations and seem to be a common driver of delays in processing VAT reimbursements. According to the businesses and tax administrations surveyed, requests for originals and/or copies of invoices are among the most common information requested.	Delays to the processing of VAT reimbursement claims could be reduced by embedding routine requests for originals and/or copies of invoices in the claim submission process. Further research will be required to investigate the costs and benefits of this, as well as whether special provisions would be required for businesses that are in a chronic reimbursement position (e.g. zero or reduced-rate traders).

2. Synthèse

2.1. Introduction

Le remboursement de la TVA récupérable dans de brefs délais est important pour le fonctionnement des entreprises européennes. Cela est particulièrement le cas pour les micro, petites et moyennes entreprises (MPME), pour lesquelles le remboursement tardif et le refus des demandes de remboursement pourraient avoir des conséquences financières importantes.

Dans la présente étude, le *remboursement intracommunautaire* de la TVA (VAT refund) est défini sous les auspices de la directive 2008/9/CE, et transposé dans la législation nationale, comme étant le remboursement de la TVA payée dans un État membre autre que celui dans lequel les assujettis sont établis ou enregistrés pour la TVA.

En ce qui concerne le *remboursement au niveau national* (VAT reimbursement), il est défini dans l'article 183 de la directive 2006/112/CE du Conseil, tel que transposé dans la législation nationale, comme étant le remboursements de la TVA lorsque le montant des déductions dépasse celui de la TVA due pour une période imposable dans les Etats membres où le contribuable est assujetti.

Dans le contexte des remboursements intracommunautaires de la TVA, certaines modifications structurelles sont en cours dans le cadre général du système de TVA, qui mettent en évidence l'importance d'un système de remboursement efficace pour garantir le droit fondamental des entreprises à récupérer la TVA déductible dans sa totalité. Quelques exemples de ces modifications sont le passage à un système de TVA basé sur l'imposition au lieu de destination, les propositions d'ajouter aux fonctions du guichet unique pour donner effet au paquet 2021 sur le commerce électronique et au régime de TVA définitif 2022, et l'essor du commerce transfrontalier ainsi que le recours à des sous-traitants spécialisés en modèles économiques.

De même, certains changements structurels soulignent la nécessité de promouvoir et de maintenir des procédures efficaces d'octroi des remboursements nationales de TVA. Ceux-ci incluent la croissance du commerce mondial , l'introduction de systèmes d'auto-liquidation domestiques et la préférence croissante de la part des gouvernements pour des mécanismes de paiement fractionnés.

2.2. Objectifs et méthodologie

L'objectif principal de cette étude est d'évaluer de manière approfondie les régimes actuels de récupération de la TVA et de mettre en évidence les éventuelles difficultés surmontées par les assujettis lors du processus de remboursement de la TVA, ainsi que les difficultés rencontrées par les administrations fiscales des États membres lors de la gestion de ces demandes.

L'étude a les objectifs principaux suivants:

- Faire un récapitulatif du fonctionnement de la procédure de remboursement intracommunautaire de la directive 2008/9/CE et de la procédure de remboursement au niveau national de la directive 2006/112 /CE, en soulignant les problèmes éventuels qui pourraient entraver son fonctionnement;
- Cerner la nature et l'importance des problèmes actuels du système de remboursement sur la base d'informations collectées auprès des entreprises et des administrations fiscales de l'UE-28; et

- Collecter des propositions d'amélioration des systèmes de remboursement de la TVA de la part des entreprises et des administrations fiscales de l'UE-28.

Cette évaluation comprend des recherches documentaires, des discussions avec des experts nationaux en fiscalité, ainsi que des enquêtes et des entretiens avec des entreprises et les administrations fiscales de l'UE-28 afin de collecter des données qualitatives et quantitatives. Cette évaluation a pour but d'effectuer une analyse approfondie des procédures de remboursement de la TVA. Elle comprend l'analyse des cadres juridiques et administratifs, les expériences des entreprises (en particulier les MPME) et les administrations fiscales des 28 Etats-Membres de l'UE.

Une méthodologie détaillée de cette étude est présentée à l'annexe 1 du présent rapport.

2.3. Principales constatations

Remboursement de la TVA intracommunautaire

L'analyse des données collectées auprès de la Commission, des administrations fiscales de l'EU, des intermédiaires et des entreprises sur les remboursements intracommunautaires de la TVA a abouti aux conclusions principales suivantes:

- **Le nombre et la composition des demandes:** En 2016, les administrations fiscales ont reçu environ 695 000 demandes pour un montant total de 109,4 millions d'EUR. Entre 2013 et 2016, les demandes ont augmenté de 12,3%, alors que la valeur totale des demandes a diminuée de 6,3% (par comparaison, sur la même période, le PIB nominal a augmenté de 8%). Au total, la majorité des demandes avait une valeur inférieure à 1 000 EUR (dans 19 sur 21 d'États membres, entre 40% et 80% de toutes les demandes étaient de cette valeur) et moins de 5% des demandes avaient une valeur supérieure à 30 000 euros.
- **La préparation et la soumission des demandes:** La plupart des entreprises interrogées ont déclaré qu'il leur fallait entre deux et cinq heures pour préparer et transmettre leurs demandes, que des informations supplémentaires soient demandées ou non. Cela pourrait être dû au fait que les entreprises ont tendance à collecter des informations et des documents en vue de la transmission de la demande principale. Dans l'ensemble, seuls 6% des entreprises interrogées ont déclaré ne pas avoir d'expérience dans la soumission de demandes de remboursement de la TVA. La raison principale derrière la non-soumission de demandes n'est pas liée au processus, mais plutôt au fait que ces entreprises n'aient pas généré de TVA à l'étranger, ou les montants sont trop faibles pour être éligibles au remboursement. Par ailleurs, 12% des entreprises interrogées ont déclaré que le risque élevé d'audit fiscal figurait parmi les principales raisons pour lesquelles elles ne présentaient pas de demandes. Seulement 8% des répondants ont déclaré que le processus de soumettre une demande de remboursement de la TVA était trop coûteux.
- **L'efficience du traitement:** Entre 2013 et 2016, les taux de traitement[2] sont passés d'un maximum de 91% à 86,3% en 2016. Cela peut s'expliquer par

[2] Le taux de traitement correspond au nombre de réclamations pour lesquelles une décision a été prise au cours d'une année civile donnée, en pourcentage du nombre de réclamations reçues au cours de la même année civile et des réclamations reportées de l'année civile précédente. En raison du nombre limité de données, il n'a pas été possible d'exclure les demandes reçues au

l'augmentation du nombre de demandes au cours de cette période, en supposant que la capacité des administrations fiscales à traiter les demandes reste inchangée.

- **Les retards:** Bien que le taux de traitement ait baissé, dans l'ensemble de l'UE, en 2016 seulement 1% des demandes ont été réglées en dehors des délais prescrits. Les demandes réglées en dehors des délais ont diminué depuis 2013, probablement à cause du fait que plus de 50% des administrations fiscales ont mis en place des procédures spécifiques pour éviter les retards. Toutefois, les États membres où les assujettis sont établis peuvent être la cause des retards lors de la transmission des demandes. Ce retard peut augmenter le temps total nécessaire pour traiter une demande de remboursement de la TVA car la directive 2008/9/CE ne fixe pas de délai aux États membres où les assujettis sont établis pour transmettre les demandes aux États membres de remboursement. Lorsque des retards se produisent, les entreprises interrogées ont indiqué qu'ils peuvent avoir des effets défavorables sur les flux de trésorerie ou entraîner le report de l'investissement ou des recrutements. En outre, les entreprises ont indiqué qu'il leur est difficile de récupérer des intérêts pour paiements tardifs de la part des administrations fiscales : près d'un tiers des entreprises interrogées ont déclaré ne jamais recevoir d'intérêts pour les demandes de règlement payées tardivement, de les recevoir très rarement ou quelquefois. Dans les États membres où les administrations fiscales ne paient pas les intérêts de retard, les contribuables subissent un fardeau supplémentaire.
- **Les demandes d'informations complémentaires:** Les administrations fiscales de l'UE ont questionné 9% des demandes traitées en 2016 et le taux de questionnement n'a que légèrement augmenté entre 2014 et 2016. Au cours de la même période, la valeur moyenne d'une demande interrogée a considérablement augmenté, passant de 15 600 EUR à 23 400 EUR. Cela peut indiquer que les demandes d'informations supplémentaires sont de plus en plus ciblées sur des revendications de plus grande valeur. Cependant, les réponses des entreprises montrent que les administrations fiscales partout en Europe ont tendance à demander des informations supplémentaires, et que ces demandes portent de plus en plus sur le format. Le taux de questionnement relativement faible signalé par les administrations fiscales contraste considérablement avec la perception des entreprises. Environ 70% des entreprises interrogées disent qu'ils reçoivent des demandes d'informations complémentaires fréquemment, très fréquemment ou presque toujours. Cela peut s'expliquer par le fait que certaines des entreprises interrogées étaient établies dans les quatre des États membres présentant les taux de requêtes les plus élevés, à savoir la Grèce (66%), la Roumanie (42%), Chypre (41%) et l'Espagne (31%).
- **Les approbations et les rejets de demandes:** En 2016, les administrations fiscales de l'UE ont approuvé 94% des demandes traitées, une augmentation de 1,8% par rapport à 92,2% en 2013. Chaque demande semble être évaluée individuellement, et il ne semble pas exister de relation apparente entre les

cours d'une année civile donnée, mais reportées à l'année civile suivante pour traitement. En tant que tels, les taux de traitement peuvent être sous-estimés.

approbations et les types de dépenses ou les demandes de renseignements supplémentaires. Les anomalies dans les factures, le manque de pièces justificatives, la TVA ayant été facturée à tort par les fournisseurs, et l'entreprise nécessitant un enregistrement à la TVA locale étant les raisons les plus citées par les entreprises interrogées pour le rejet des demandes par les administrations fiscales. Cela correspond aux réponses des administrations fiscales et des agents intermédiaires de la TVA. En cas de refus, les entreprises ont indiqué qu'elles subissent des effets défavorables sur leurs flux de trésorerie (35% des répondants), et qu'ils reportent leur investissement (42%) et leurs recrutements (28%). Dans certains cas, les entreprises indiquent qu'un refus peut entrainer une réduction de bénéfices (18% des cas).

- **Les litiges et les appels:** Les contribuables ont contesté un nombre relativement faible de demandes en 2016 (0,23%), et la grande majorité de ces différends sont survenus au niveau administratif (81%). Les entreprises interrogées confirment cette tendance, puisque 81% des litiges dans lesquels elles se sont engagées se situaient au niveau administratif. La valeur d'une demande ne semble pas être étroitement liée au niveau auquel l'appel est entendu, la valeur moyenne d'une demande contestée au niveau judiciaire étant inférieure à celle contestée au niveau administratif. Compte tenu du coût supplémentaire des différends entendus au niveau judiciaire, l'on pourrait imaginer que cette voie soit utilisée uniquement pour les réclamations de grande valeur. Une enquête plus approfondie sur la nature des demandes contestées au niveau administratif et judiciaire pourrait éclairer ce phénomène. Dans l'ensemble, les coûts de contestation d'une réclamation variaient, 15% des entreprises interrogées déclarant qu'il leur coûtait entre 1 000 et 5 000 EUR pour contester une demande, tandis que 24% des répondants assumaient un coût de 20 000 à 40 000 EUR pour contester une demande. Cela se compare à une valeur moyenne d'environ 580 000 EUR par demande contestée reçue par les administrations fiscales, bien qu'il faille noter que le nombre de réponses à cette question par les administrations était limité. Cet écart de coût dépend de l'État membre dans lequel l'entreprise est établie, de la nature du litige et des options juridiques disponibles dans l'État membre de la demande.
- **La technologie, la communication et le suivi:** Les réponses des entreprises interrogées montrent que, lorsqu'elles connaissent les points de contact dans l'administration fiscale d'un État membre, 86% d'entre elles estiment que ces points de contact sont très efficaces. En outre, une corrélation directe semble exister entre l'État membre auquel le contribuable envoie la plupart de ses demandes de remboursement de la TVA et sa connaissance des points de contact pour les requêtes. Cette relation peut indiquer que les contribuables tentent de s'informer sur les meilleurs moyens de communiquer avec les administrations fiscales avec lesquelles ils traitent le plus souvent. Pourtant, les entreprises et les agents intermédiaires interrogés lors de cette étude ont identifié plusieurs défis de communication avec les administrations fiscales. Les entreprises, d'une part, ont abordé des problèmes linguistiques dans les cas où les administrations fiscales ne communiquaient que dans les langues nationales plutôt que dans les langues des affaires largement utilisées. En revanche, les agents de remboursement de la TVA ont signalé des problèmes de

communication avec les administrations fiscales en général. Cela est particulièrement fréquent lorsque des informations supplémentaires ont été soumises par des agents intermédiaires. Des problèmes ont été signalés dans lesquels les administrations fiscales n'émettent pas de notification lorsqu'elles ont reçu des informations supplémentaires, et les agents intermédiaires ne reçoivent aucune information sur l'état de la demande tant que celle-ci n'a pas été acceptée ou rejetée.

Le remboursement de la TVA au niveau national

L'analyse des données sur les remboursements de la TVA collectées auprès des administrations fiscales et des entreprises de l'UE a permis de dégager les conclusions suivantes:

- **Le nombre et la composition des demandes:** En 2016, les administrations fiscales ont reçu environ 5,5 millions de demandes de remboursement, dont la valeur totale atteint 153,5 milliards d'EUR. La valeur moyenne d'une demande était donc juste en dessous de 28 000 EUR. Entre 2013 et 2016, le nombre total de demandes a augmenté de 6,4% et la valeur totale des demandes, de 2,3%. Par comparaison, le PIB nominal a connu une croissance de 7% sur la même période. Aucune fluctuation significative de la valeur moyenne par demande n'a été identifiée entre 2016 et 2018. Cette évolution suggère que les entreprises soumettent des demandes plus fréquemment.

- **La préparation et la soumission des demandes:** Environ 60% des entreprises interrogées ont déclaré qu'il leur fallait quatre heures ou moins pour préparer et soumettre une demande de remboursement, que des informations complémentaires soient demandées ou non. Selon ces entreprises, même dans les cas où des informations complémentaires sont demandées, les entreprises ne connaissent pas les coût supplémentaires au cours de la préparation et la transmission de la demande. Environ 42% des entreprises interrogées ont déclaré que la préparation d'une demande de remboursement entraînait des coûts inférieurs à 5 000 EUR, que les administrations fiscales demandent des informations complémentaires ou non. Ces coûts comprennent les coûts informatiques et autres frais généraux. 17% des entreprises interrogées considèrent que le processus de demande de remboursement de la TVA est trop compliqué et se sont donc abstenues de présenter une demande. Les répondants ont également indiqué ne pas avoir subi de TVA sur les intrants excédentaire (17%), ne pas avoir eu à traiter des demandes (50%) et le risque élevé d'audit comme les principales raisons pour lesquelles aucune demande de remboursement n'avait été transmise (16%). Bien que le coût de préparation d'une demande de remboursement de la TVA semble élevé (5 000 EUR) par rapport à la valeur moyenne d'une demande de remboursement en 2016 (28 000 EUR), les répondants à l'enquête auprès des entreprises étaient établis dans des États membres dans lesquels les demandes avaient des valeurs très variées (allant d'un minimum de 1 600 euros à un maximum de 158 000 euros), alors que la valeur de 28 000 est un chiffre moyen.

- **L'efficience du traitement:** Entre 2013 et 2016, les taux de traitement sont passés de 93% en 2013 à 91,7% en 2016. Ce changement peut s'expliquer par

l'augmentation du nombre de demandes au cours de la période, en supposant que la capacité des administrations fiscales à traiter ces demandes soit restée inchangée. Trois États membres avaient un taux de traitement considérablement inférieur à la moyenne, ayant traité beaucoup moins de demandes de remboursement en 2016.

- **Les retards:** En 2016, 4,7% des demandes de remboursement ont été réglées en dehors des délais prescrits par la directive 2008/9/CE, ce qui a entraîné une hausse du taux de retard (qui est passé de 3,5% en 2013 à 4,7% en 2016). Les remboursements tardifs représentaient 10% de la valeur totale de toutes les demandes, ce qui peut indiquer que les demandes de valeur supérieure risquent davantage d'être retardées. Dans les rares occasions où les demandes ont été réglées tardivement, les entreprises ont déclaré avoir subi des impacts négatifs sur leurs flux de trésorerie (33% des répondants), leurs investissements (40%) et leur recrutements (25%). En outre, 33% des entreprises interrogées ont eu du mal à obtenir des intérêts dus à cause du retard de paiement des administrations fiscales et auxquelles elles ont droit en vertu de la directive 2008/9/CE.
- **La vérification des demandes:** Les administrations fiscales de l'UE ont des processus différents pour vérifier les demandes, et les contrôles de vérification appliqués aux demandes sont en général liés à des facteurs de risques spécifiques aux entreprises et aux demandes. En 2016, les contrôles de vérification effectués dans quatre États membres ont permis d'identifier 6 500 demandes frauduleuses, pour une valeur de 2 milliards d'EUR. Les demandes frauduleuses identifiées représentaient donc environ 0,12% du nombre total de demandes au cours de la même période.
- **Les approbations et les rejets de demandes:** En 2016, les administrations fiscales de l'UE ont approuvé 99,5% des demandes traitées, entraînant une augmentation marginale de 0,1% entre 2013 et 2016. À 61 000 EUR, la valeur moyenne d'une demande rejetée était nettement supérieure à la valeur moyenne d'une demande approuvée (21 800 EUR). Les trois raisons de rejet des demandes les plus citées sont que les demandes ont été jugées frauduleuses, que les contribuables n'avaient pas communiqué d'informations complémentaires suffisantes ou valables, ou que les demandes ne répondaient pas aux exigences légales des systèmes nationaux de la TVA. Lorsque les demandes sont rejetées, les entreprises déclarent qu'elles subissent des effets négatifs sur les flux de trésorerie, les investissements et les recrutements, ainsi que des bénéfices réduits dans certains cas.
- **Litiges et appels:** Les contribuables ont contesté un nombre relativement réduit de demandes en 2016 (0,12%) et la grande majorité de ces litiges ont eu lieu au niveau administratif (94,3%). Les entreprises qui ont contesté une demande ont déclaré que dans presque tous les cas, les différends étaient réglés en moins de neuf mois (95% des répondants). En outre, 50% des entreprises interrogées ont abordé des dépenses inférieures ou égales à 10 000 EUR pour contester une réclamation, alors que la valeur moyenne d'une réclamation contestée valait environ 39 000 EUR. Les litiges ont plus de chances d'être décidés en faveur des administrations fiscales qu'en faveur des

contribuables. Cela n'est peut-être pas surprenant si l'on considère que les motifs de rejet les plus courants décrits ci-dessus laissent les administrations fiscales bien placées pour défendre leurs motifs de rejet d'une demande, et les différends au niveau administratif sont sous forme de revues effectuées en interne.

- **La technologie, la communication et l'appui:** Environ 50% des répondants à l'enquête auprès des entreprises ont décrit le soutien reçu des administrations fiscales comme très cordial ou cordial, et l' appui de ces administrations lors du processus de remboursement de la TVA a semblé susciter une satisfaction générale.

2.4. Principaux défis et suggestions d'amélioration

Les conclusions de l'analyse indiquent que, dans l'ensemble, les procédures de remboursement intercommunautaire et au niveau national fonctionnent relativement bien dans l'Union européenne, avec certaines variations entre les États membres.

Cependant, les systèmes actuels posent certains problèmes. Les entreprises et les administrations fiscales font face à ces problèmes, qui comprennent des défis propres aux remboursements intercommunautaire ou aux remboursements au niveau national, ainsi qu'à un certain nombre de défis qui s'appliquent aux deux.

Il est particulièrement important de surmonter ces défis, compte tenu des priorités de l'UE en matière de la lutte contre la fraude concernant la TVA, qui garantira l'équité pour toutes les entreprises tout en soutenant un secteur dynamique des MPME . En outre, il sera essentiel de trouver des solutions à ces problèmes étant donné l'introduction de changements structurels dans le système de TVA qui mettra davantage de pression sur le remboursement intercommunautaire et au niveau national. Parmi ces changements structurels, on compte l'évolution vers un système de commerce transfrontalier, l'imposition au lieu de destination, des propositions pour un guichet unique avec plus de fonctions (OSS) afin de donner effet au programme "commerce électronique 2021" et au régime définitif de TVA 2022, et à augmenter la provision de services transfrontaliers par les entreprises, ainsi que le recours croissant à des sous-traitants spécialisés enmodèles de gestion des entreprises.

Si ces problèmes ne sont pas résolus, ils peuvent affecter la performance des processus de préparation et de traitement des demandes de remboursement, et ainsi engendrer des tensions entre les entreprises et les administrations fiscales, voire mettre en question l'intégrité du droit fondamental de récupérer la taxe sur les intrants, fondamental au système de TVA de l'UE.

Ainsi, le tableau 2 présente chacun des défis identifiés dans l'analyse et présente des suggestions d'amélioration. Ces améliorations nécessiteront divers niveaux de coordination et de volonté politique afin d'être réalisées. Certaines exigeront la direction de la Commission et d'autres nécessiteront une action unilatérale au niveau des États membres.

De plus, les moyens par lesquels ces suggestions seront mises en œuvre peuvent être variables. Il peut suffire de mettre en œuvre des changements par le biais de circulaires sur les meilleures pratiques ou en apportant des modifications aux directives et pratiques administratives. Toutefois, si jugé nécessaire, certaines des suggestions décrites ci-dessous ne pourront être concrétisées que par des modifications de la directive adéquate et/ou de la législation nationale correspondante.

Table 2: Principaux défis et suggestions d'amélioration

Principaux défis	Suggestions d'amélioration
Thèmes généraux	
Au cours de cette étude, il est devenu apparent que les administrations fiscales de l'UE-28 ne collectent et /ou n'analysent pas systématiquement les données sur les remboursements de TVA. Cela augmente le risque de détection d'anomalies et de problèmes non résolus. En outre, il n'y a pas d'équivalent à la collecte centralisée des données sur les remboursements communautaire de la TVA du Comité permanent de la coopération administrative (SCAC). Ces défis limitent la possibilité d'utiliser les données dans et entre les États membres pour améliorer les processus.	Il serait souhaitable que les États membres élaborent des cadres consistants pour la collecte et l'analyse systématique des données relatives aux remboursements. En outre, des cadres de collecte de données harmonisés dans tous les États membres, tels que ceux développés par le SCAC, et un partage régulier des données pourraient conduire à des améliorations des processus et à une meilleure gestion des risques de fraude à la TVA.
Le rejet des demandes de remboursement de la TVA est généralement dû au fait que l'entreprise en question devait être enregistrée pour la TVA dans l'État membre de remboursement. Lors des entretiens, un certain nombre d'administrations fiscales ont déclaré que dans ces cas, des instructions détaillées sur la procédure d'enregistrement de la TVA étaient communiquées au demandeur si une demande de remboursement de la TVA était rejetée pour ces motifs. Cependant, les entreprises ne semblent pas souvent suivre les étapes requises décrites dans ce guide pour s'enregistrer en tant que commerçant étranger. Naturellement, cela constitue un risque pour l'intégrité de l'assiette TVA car une activité imposable peut potentiellement ne pas être taxée de manière appropriée. Cela est aggravé par le fait que les administrations fiscales semblent n'avoir peu ou pas de processus établi pour assurer le suivi auprès du service compétent pour les opérateurs étrangers immatriculés à la TVA.	Dans de tels cas, il est souhaitable que l'administration fiscale s'assure que les indications fournies au demandeur sont claires et faciles à suivre. De plus, les administrations fiscales peuvent souhaiter faire un suivi auprès du demandeur afin de lui fournir un soutien supplémentaire dans le processus d'enregistrement. Cela donne également aux administrations fiscales la possibilité de veiller à ce que les entreprises se conforment à l'obligation de s'enregistrer en tant que commerçant étranger. Ce faisant, les administrations fiscales doivent garder à l'esprit les barrières linguistiques potentielles. En outre, les administrations fiscales peuvent envisager de mettre en place un processus permettant de renvoyer systématiquement les cas vers le service compétent pour les opérateurs étrangers immatriculés à la TVA. Cela peut donner une assurance supplémentaire que le demandeur s'inscrit correctement pour la TVA et contribuer à ce que toutes les activités commerciales imposables soient taxées de manière appropriée et conformément aux règles nationales.
La récupération des intérêts sur les demandes de remboursement retardées et payées en dehors des délais s'est également révélée être un défi pour les entreprises. Ceci en dépit de l'existence d'un droit de	Dans le contexte des dispositions claires de la loi sur la TVA qui établissent le droit du contribuable de percevoir des intérêts sur le paiement tardif des remboursements intracommunautaire ou des remboursements au niveau national, la Commission pourrait souhaiter

Principaux défis	Suggestions d'amélioration
l'UE sur cette question. En ce qui concerne les remboursements intracommunautaires de TVA, l'article 26 de la Directive 2008/9 /CE définit le droit du contribuable de recevoir des intérêts de retard dans les cas où les administrations fiscales n'ont pas payé le remboursement dans les délais impartis par la Directive. En outre, en ce qui concerne le remboursement de la TVA, l'arrêt du 24 octobre 2013, Rafinaria Steaua Romana SA (Affaire C-431/12 EU: C: 2013: 686) a renforcé la nécessité pour les administrations fiscales de payer des intérêts lorsqu'un remboursement de la TVA n'est pas effectué dans un délai raisonnable.	approfondir l'analyse sur cette question. Le but est de garantir que les États membres respectent le droit de la TVA de l'UE au niveau national afin que les droits des contribuables ne soient pas violés.
Remboursements de TVA au niveau intracommunautaire	
Il a été constaté, tant auprès des entreprises que des administrations fiscales, que le rejet d'une demande de remboursement de la TVA s'explique généralement par le fait que la dépense sous-jacente n'est pas éligible au remboursement dans l'État membre du remboursement. Bien que des tentatives aient été faites pour harmoniser les règles de remboursement de la TVA, il existe une grande variété de règles de récupération qui diffèrent d'un État membre à l'autre, comme indiqué plus en détail en section 5.1. Les types de dépenses pour lesquels les différences entre les critères d'admissibilité aux remboursements étaient le plus souvent relevées étaient les frais d'hôtel et de logement, les frais de divertissement, les frais de restauration et les boissons, ainsi que les frais de déplacement (notamment les coûts des taxis et des transports publics). Par conséquent, le défi ici peut être un problème de complexité et de sensibilisation. En règle générale, les problèmes concernent les différences entre le montant pouvant être remboursé pour de telles dépenses, ainsi que le montant des pièces justificatives devant être soumises pour prouver que les dépenses ont été engagées à des fins commerciales et répondent aux critères d'éligibilité au remboursement.	Nous reconnaissons que des tentatives antérieures d'harmonisation des règles d'éligibilité des dépenses pour le remboursement de la TVA ont été infructueuses dans tous les États membres. Si la Commission le juge nécessaire, il serait peut-être utile de revoir ces discussions avec les États membres en raison de la prévalence de ce motif de rejet. Cependant, reconnaissant les difficultés potentielles à tenter de parvenir à un accord dans ce domaine, en l'absence de règles harmonisées, ce défi pourrait être résolu par une sensibilisation et/ou l'utilisation de technologie. Les entreprises pourraient être davantage sensibilisées aux règles nationales en assurant une meilleure accessibilité de l'administration fiscale et des orientations de la Commission, ainsi qu'en promouvant des points de contact spécifiques dans les administrations fiscales de chaque État membre. Cela pourrait être réalisé en incluant des liens vers ces ressources dans le portail de soumission des demandes. Une autre solution consisterait à intégrer dans le règlement sur le portail de soumission des demandes de remboursement des règles ou filtres qui bloquent les demandes de remboursement si les dépenses sont non remboursables dans l'État membre du remboursement.

Principaux défis	Suggestions d'amélioration
Toutefois, il convient de noter que lorsque les entreprises ont été informées de l'administration fiscale ou des conseils et de l'assistance de la Commission sur l'éligibilité des dépenses au remboursement, elles ont estimé ils étaient utiles dans l'ensemble.	
L'article 6 de la directive 2008/9/CE dispose que les contribuables qui effectuent des transactions donnant lieu ou non à un droit de déduction de la TVA ne peuvent réclamer un remboursement de la TVA à l'État membre de remboursement que pour les transactions conformes à l'article 5 de la directive 2008/9/CE. Pour atteindre cet objectif, les contribuables devraient réclamer la proportion respective de TVA en utilisant les règles en vigueur dans l'État membre d'établissement. La vérification des calculs au prorata constitue un motif commun de communication entre les États membres du remboursement et de l'établissement. Cependant, il semble qu'il existe un manque de consensus au sujet de la responsabilité ultime d'assurer que le prorata a été calculé correctement. En outre, les entreprises ont indiqué que l'interprétation des calculs au prorata constitue une cause fréquente de rejet des demandes de remboursement de la TVA par les États membres concernés par les remboursements intracommunautaires. Les entreprises interrogées établies en Suède et en Grèce, en particulier, semblent êtres confrontées à des difficultés de calcul au prorata lors de la présentation des demandes de remboursement intracommunautaires de la TVA. Dans les deux États membres, les entreprises interrogées ont indiqué que l'interprétation et la performance des calculs au prorata constituaient l'une des raisons les plus communes du rejet d'une demande de remboursement intracommunautaire de la TVA. Cela suggère que les règles de calcul au prorata des montants dans ces États membres d'établissement sont plus	Il serait souhaitable que la Commission examine ou sollicite des idées sur la pratique recommandée concernant les responsabilités des deux États membres d'établissement et de remboursement pour la vérification des calculs au prorata. Il convient de noter qu'il s'agit d'un domaine extrêmement complexe. Par exemple, une entreprise dans son ensemble peut être partiellement exonérée tout en ayant droit à un recouvrement intégral si la TVA correspondante est directement liée à un bien taxable. Ce sujet pourrait faire l'objet d'une discussion au sein du Forum de la TVA de l'UE.

Principaux défis	Suggestions d'amélioration
complexes et moins faciles à suivre par les contribuables.	
Le rejet des demandes de remboursement de la TVA était généralement justifié par le fait que le fournisseur avait facturé la TVA de manière incorrecte. Dans ces situations, les entreprises semblent incertaines et / ou ignorent que, dans la plupart des cas, il leur incombe de récupérer la TVA facturée de manière incorrecte auprès du fournisseur en question. C'est souvent une source de frustration pour les entreprises et une source potentielle de friction entre les entreprises et les administrations fiscales. De plus, les désaccords entre services au sein d'une administration fiscale nationale concernant une TVA incorrectement chargée peuvent aggraver les choses. Malgré les principes découlant de C 218/10 ADV Allround Vermittlungs AG (les États membres devraient adopter les mesures nécessaires pour que la TVA soit collectée correctement et que le principe de neutralité fiscale soit respecté), de tels désaccords peuvent conduire les demandeurs à rester coincés entre des points de vue opposés avec l'administration fiscale. Cette incertitude pourrait porter atteinte au droit fondamental au remboursement des entreprises.	Au minimum, il est nécessaire de mieux connaître les règles en matière de TVA et les mécanismes de récupération de la TVA facturée de manière incorrecte, en particulier pour les entreprises qui ne peuvent pas être établies dans l'État membre dans lequel la TVA a été perçue. Cela peut inclure davantage d'assistance et d'informations données aux entreprises, y compris des conseils actualisés à l'intention des fournisseurs sur la manière d'appliquer le traitement TVA approprié. De plus, la Commission voudra peut-être étudier les moyens de résoudre ce problème en incitant davantage les États membres à prendre plus de responsabilité dans l'application d'une position et une approche cohérentes. Cela peut également inclure la simplification des règles sur le lieu de fourniture, conformément au principe de destination, afin de réduire les cas de TVA facturée de manière incorrecte. En outre, un certain nombre d'entreprises ont suggéré que les administrations fiscales nationales assument davantage la responsabilité de surveiller la correction de la TVA facturée de manière incorrecte, plutôt que d'imposer une charge supplémentaire aux entreprises. Ce soutien pourrait prendre diverses formes. Par exemple, les administrations fiscales pourraient envoyer une lettre de notification au fournisseur et au demandeur déclarant que le traitement de la TVA est incorrect et le fournisseur devrait inverser la position et rembourser la TVA. Les administrations fiscales pourraient aussi, à leur discrétion, rembourser la TVA dans les cas où le contribuable a le droit de récupération intégrale et où il n'y aurait aucune perte pour l'administration fiscale. Les suggestions décrites ci-dessus peuvent être discutées lors du forum de l'EU sur la TVA afin d'évaluer les meilleures pratiques administratives qui peuvent être mises en œuvre.

Principaux défis	Suggestions d'amélioration
Un écart de perception semble exister entre les points de vue des administrations fiscales et des entreprises sur le nombre de demandes des informations supplémentaires émises. Les administrations fiscales ont signalé des taux de questions relativement bas, tandis que les entreprises ont relevé dans l'enquête que les demandes d'informations additionnelles de la part des administrations fiscales étaient reçues assez fréquemment. En outre, les informations demandées semblent être de plus en plus portées sur le format et plus variées, comprenant à la fois des informations spécifiques aux dépenses (factures et motifs des dépenses, par exemple) et des informations relatives aux entreprises (contrats commerciaux et contrats de travail, par exemple).	Le Conseil voudra peut-être examiner si des demandes d'information supplémentaire sont raisonnables. Cela inclut la prise en compte de la proportionnalité des demandes de certains documents, de l'acceptabilité des preuves alternatives, ainsi que des coûts liés à la traduction de documents commerciaux potentiellement longs, tels que des contrats. En outre, la Commission pourrait envisager de revoir les délais fixés dans la directive 2008/9/CE pour que les entreprises fournissent ces documents, afin de leur donner le temps nécessaire pour se conformer à une demande d'informations complémentaires. En outre, les États membres devraient être encouragés à fournir aux entreprises des informations sur les meilleures pratiques en matière d'informations et de documents qui peuvent y être attachés lors du remboursement de la TVA. Cela pourrait permettre de réduire le nombre de demandes d'informations supplémentaires et d'accroître la capacité des administrations fiscales à traiter les demandes d'indemnisation dans les délais. Enfin, il est conseillé d'inciter les administrations fiscales à enregistrer les informations relatives aux entreprises de manière appropriée et à appliquer des techniques de profilage des risques appropriées, afin d'éviter la demande continue d'informations similaires ou identiques par les entreprises.
Un autre défi identifié est celui du problème de langue lors de la demande de remboursement de la TVA. Plus spécifiquement, les entreprises ont été invitées à communiquer et à fournir aux administrations fiscales une documentation et des informations supplémentaires dans les langues nationales. Une analyse plus détaillée de la législation nationale dans les États membres de l'UE mettant en œuvre la directive 2008/9/CE a montré que cinq États membres	La Commission pourrait étudier la possibilité de réaliser des gains d'efficacité supplémentaires grâce à l'utilisation de langages commerciaux largement acceptés, comprenant, par exemple, des informations "de base" pour une demande, telles que la demande de remboursement de la TVA et les factures justificatives. En outre, il pourrait être envisagé de recommander aux États membres de déterminer de quel État membre d'établissement ils reçoivent la grande

Principaux défis	Suggestions d'amélioration
(République Tchèque, Pologne, Roumanie, Slovénie et Espagne) acceptent les demandes de remboursement de la TVA ainsi que des informations supplémentaires uniquement dans leur langue nationale. Deux autres États membres (l'Autriche et la France) ont noté que, de manière générale, toutes les communications et la documentation devraient être dans leurs langues nationales respectives. Cependant, l'anglais est également accepté et peut être utilisé par les demandeurs, si nécessaire. Enfin, un État membre (Malte) n'a pas précisé les langues à utiliser dans le processus de remboursement de la TVA. Bien que l'article 12 de la directive 2008/9/CE dispose que les États membres peuvent spécifier la langue à utiliser dans une demande de remboursement de la TVA, il ne semble pas efficace pour les administrations fiscales d'imposer une charge supplémentaire aux contribuables en ne permettant pas la communication dans une langue des affaires largement acceptée.	majorité des demandes de remboursement de la TVA. Cela permettra aux États membres de remboursements intercommunautaires d'adapter leurs exigences linguistiques et de gagner en efficacité dans la communication avec les contribuables dans le processus de remboursement de la TVA. Enfin, nous savons que la Commission teste actuellement des demandes de décisions privées concernant des situations intercommunautaires avec un certain nombre d'États membres. Les États membres participants ont accepté que les demandes puissent être soumises dans leur langue officielle ou en anglais. La Commission pourrait envisager d'étendre ce programme à tous les États membres et d'inclure d'autres langues acceptées par les États membres, en fonction des besoins spécifiques de chaque État membre.
Remboursement de la TVA au niveau national	
L'analyse des cadres juridiques et administratifs nationaux a permis de mettre en évidence un certain nombre d'inadéquations entre la fréquence avec laquelle les déclarations de la TVA sont produites et les remboursements de la TVA réclamés. Par exemple, l'Italie autorise uniquement les entreprises à réclamer le remboursement de la TVA sur une base annuelle, mais leur permet de produire des déclarations de la TVA plus fréquemment. Cette inadéquation pourrait avoir des effets défavorables sur les flux de trésorerie, ce qui pourrait être aggravé lorsque des retards et des rejets se produisent, ou lorsque des garanties financières sont demandées. Les risques pourraient également être plus grands pour les entreprises qui sont généralement en position de remboursement, comme les exportateurs ou les commerçants qui effectuent régulièrement des produits à taux zéro. Des problèmes similaires existent lorsque	Pour faire face à ces risques potentiels, les délais de production des déclarations et de présentation des demandes pourraient être alignés de manière à ce qu'un remboursement puisse être demandé avec la même fréquence que la production des déclarations de la TVA. Ce faisant, les flux de trésorerie liés à la TVA seraient égalisés, ce qui atténuerait les risques financiers. En outre, afin d'atténuer l'incidence financières et les risques liés à l'obligation de fournir des garanties financières de la part des entreprises, il pourrait être envisagé de relever le seuil des réclamations nécessitant de telles garanties. Une autre solution consiste à alléger le fardeau des entreprises en leur fournissant une compensation financière pour les coûts liés au maintien des garanties financières. Cependant, avant de prendre d'autres

Principaux défis	Suggestions d'amélioration
les pratiques nationales en matière de la TVA exigent le report de la taxe d'entrée excédentaire plutôt que de permettre un remboursement immédiat en espèces. Cela pourrait générer des risques financiers indésirables pour les contribuables, ce qui pourrait aller à l'encontre du principe établi dans l'affaire C-274/10, Commission/République de Hongrie, qui précisait que les contribuables ne devraient pas être exposés à des risques financiers liés aux remboursements.	mesures, il serait souhaitable de s'assurer de l'étendu de l'impact des inadéquations entre la fréquence des dépôts et celle des demandes d'indemnisation et dans quelle mesure elles génèrent des risques financiers pour les contribuables. En outre, il sera important de comprendre les coûts administratifs supplémentaires imposés aux entreprises et aux contribuables.
Les administrations fiscales imposent fréquemment des demandes d'informations additionnelles et ces demandes semblent être un facteur commun de retard dans le traitement des remboursements de la TVA. Selon les entreprises et les administrations fiscales interrogées, les demandes des originaux et/ou de copies de factures font partie des informations les plus fréquemment demandées.	Les retards dans le traitement des demandes de remboursement de la TVA pourraient être réduits en intégrant les demandes de routine des originaux et/ou des copies de factures dans le processus de soumission des demandes. Des analyses supplémentaires seront nécessaires pour étudier les coûts et les avantages de cette opération, ainsi que pour déterminer si des dispositions spéciales seraient nécessaires pour les entreprises en situation de remboursement chronique (par exemple, des opérateurs à taux zéro ou à taux réduit).

3. Introduction

3.1 About this study

The timely receipt of VAT refunds and VAT reimbursements is of importance to European businesses.[3] This is particularly true of micro-, small- and medium-sized enterprises (MSMEs), for whom delays and refusals can have adverse financial consequences.

As such, the issue of VAT refunds and reimbursements is a topic of importance for the European Commission ("the Commission") in its efforts to further develop the internal market and to reduce unnecessary administrative burdens on, and costs for, businesses (whether operating across borders or within a single EU jurisdiction).

The Commission has requested a study that thoroughly evaluates the current regime and highlights potential problems and areas of difficulty encountered by taxable persons in making VAT refund and reimbursement claims, as well as by the tax administrations of EU Member States in handling such claims.

Through the adoption of a proactive approach to assessing the application, implementation, and enforcement of VAT legislation, the Commission aims to improve the efficiency and legal certainty of VAT refunds and reimbursements for the ultimate benefit of consumers and businesses. The study will also enable the Commission to focus its efforts on ensuring compliance with, and minimise breaches of, VAT legislation in cases where it can make a significant difference, thereby improving the efficiency of the internal market.

3.2 Background

Businesses often have to pay VAT on business related expenses in a foreign country while having no taxable activity or establishment in that country. Examples of such business related expenses include VAT paid on business travel, on events and conferences organised in a foreign country and on fuel purchased by transport companies. Given that, in principle, the incidence of VAT should fall on final consumers, businesses should be entitled to recover the tax they incur on such expenses.[4]

In order to facilitate this, countries across the world have put in place a variety of mechanisms. Some jurisdictions do not have a refund procedure, but instead allow recovery of the tax through a registration mechanism. For example, in Canada, businesses can register to recover VAT if they do not conduct taxable activity in the

[3] For the purpose of this study, VAT refunds are defined as a repayment under the auspices of Directive 2008/9/EC, as implemented in domestic legislation, of VAT incurred in a Member State other than a Member State in which the taxpayer is established or registered for VAT (i.e. non-domestic repayments). On the other hand, VAT reimbursements are defined as a repayment under the auspices of Article 183 of Council Directive 2006/112, as implemented in domestic legislation, of deductible input VAT incurred in excess of output VAT due in the Member State in which the taxpayer is registered for VAT (i.e. domestic repayments).
[4] Charlet, A. and Buyde, S. (2009) "VAT and GST Refunds" Available at: https://www.taxjournal.com/articles/vat-and-gst-refunds-20488 [Accessed on: 18th September 2018].

country but have incurred VAT.[5] Other jurisdictions, such as New Zealand, have put in place exemptions for charging VAT when supplies are made to non-resident companies.[6] Meanwhile, the European Union has an established refund mechanism.

In a domestic context, given the nature of VAT, businesses can pay more VAT on their purchases than they collect on their sales. This is particularly the case for traders that make reduced or zero-rated supplies and new businesses. In such instances, businesses should, in principle, be entitled to claim the difference between input and output tax from tax administrations.[7]

In the European Union, the rights of taxpayers to refunds and reimbursements are established in European VAT law.

VAT refunds

Article 170 of Council Directive 2006/112/EC provides that taxable persons established in one Member State, who are not established in the Member State in which they purchase goods and services or import goods subject to VAT, shall be entitled to obtain a refund of that VAT insofar as the goods and services are used for the purposes of certain transactions; there defined as transactions referred to in Article 169, and transactions for which the tax is solely payable by the customer in accordance with Articles 194 to 197 or Article 199. To qualify for a refund, businesses need to meet the following conditions:

- Businesses cannot be established in the Member State of Refund.
- Businesses cannot supply goods or services in the Member State of Refund, except:
    - Exempted transport and ancillary services (Article 144, 146 – 149, Article 151 – 153 and Article 159 of Directive 2006/112/EC).
    - Supplies to customers liable for payment of the related VAT under the reverse-charge mechanism (Article 194-197 or Article 199 of Directive 2006/112/EC).
- Businesses cannot be covered by the special scheme for small businesses and flat-rate scheme for farmers.[8]

Historically, detailed refund procedures were developed in the so called 'Eighth Directive' (Council Directive 79/1072/EC). The Eighth Directive was developed to

[5] Charlet, A. and Buyde, S. (2009) "VAT and GST Refunds" Available at: http://www.oecd.org/ctp/consumption/42945441.pdf [Accessed on: 18th September 2018].
[6] Ibid.
[7] Harrison, G. and Krelove, R. (2005) "IMF: Working Paper: VAT Refunds: A Review of Country Experience" [online] Available at: https://books.google.co.uk/books?hl=en&lr=&id=PhDRqJz34bsC&oi=fnd&pg=PT7&dq=vat+refunds&ots=EkzolG7_K0&sig=qyNoMbaBJMJVPgqz-4mpSxRjouU#v=onepage&q=vat%20refunds&f=false [Accessed: 18th September, 2018].
[8] COM(2004) 728 final on 29th October 2004, "Proposal for a Council Regulation amending Regulation (EC) No 1798/2003 as regards the introduction of administrative cooperation arrangements in the context of the one-stop scheme and the refund procedure for value added tax". Available at: http://ec.europa.eu/transparency/regdoc/rep/1/2004/EN/1-2004-728-EN-F1-1.Pdf.

promote harmonised refund arrangements, when typically at that time businesses would incur foreign input VAT on such items of expense as:

- Travel and living costs in order to attend meetings, exhibitions and fairs;
- Fuel for the transportation of goods;
- Processing/ tolling service; and,
- Work on movable goods sent for repair in another Member State.

Prior to the adoption of the Eighth Directive, discrepancies between the individual arrangements for VAT refund claims in force in Member States were deemed to give rise to impediments to trade as well as distortions of competition between traders. Therefore, the introduction of Community rules was designed to foster the effectiveness of the internal market, including the increased liberalisation of the movement of people, goods and services.

However, the Eighth Directive's paper-based scheme proved to be problematic in practice for both traders and national administrations – it was slow, cumbersome and costly, as well as lacking in legal certainty. In fact, according to Commission data it was estimated that approximately 53% of large businesses had not requested refunds despite being eligible on the grounds of the system being too burdensome.[9]

Therefore, in order to address the malfunctioning of the Eighth Directive refund regime, in June 1998 the Commission put forward a proposal for a Directive for a new and improved system.[10] Under this proposed system, taxable persons would recover VAT directly through declarations submitted in the Member State where they were established (effectively a one-stop shop for cross-border deductions). This system was designed to substantially simplify matters for traders since they would be able to recover VAT charged to them in another (indeed any other) Member State in the same way as their national (i.e. domestically incurred) VAT.

Despite considerable support for the proposal, the Council was initially unable to agree its adoption, primarily due to concerns regarding the proposal that traders would recover VAT in accordance with the deduction rules of the Member State of Establishment rather than in line with the rules of the Member State of Refund in which the expenses were incurred. However, removing this provision, the Commission put forward a new proposal for a Directive in 2004.[11] As part of the EU VAT Package, the Council adopted Directive 2008/9/EC of 12 February 2008. It maintains the Eighth Directive's fundamental principles while modernising the practical procedures. Accordingly, via a portal website managed by the tax administration of the Member

[9] COM(2004) 728 final on 29th October 2004, "Proposal for a Council Regulation amending Regulation (EC) No 1798/2003 as regards the introduction of administrative cooperation arrangements in the context of the one-stop scheme and the refund procedure for value added tax". Available at: http://ec.europa.eu/transparency/regdoc/rep/1/2004/EN/1-2004-728-EN-F1-1.Pdf.
[10] COM(1998) 377 final on 17th June 1998, "Proposal for a Council Directive amending Directive 77/388/EEC as regards the rules governing the right to deduct Value Added Tax". Available at: https://core.ac.uk/download/pdf/148871793.pdf.
[11] COM(2004) 728 final on 29th October 2004, "Proposal for a Council Regulation amending Regulation (EC) No 1798/2003 as regards the introduction of administrative cooperation arrangements in the context of the one-stop scheme and the refund procedure for value added tax". Available at: http://ec.europa.eu/transparency/regdoc/rep/1/2004/EN/1-2004-728-EN-F1-1.Pdf.

State in which the taxable person is established, taxpayers are now able to submit claims electronically for the refund of VAT incurred in another Member State. Directive also introduced an obligation for Member States to pay interest in the case of late refund payments. In theory, this should speed up refunds and improve the overall functioning of the internal market.

Nonetheless, eight years after the entry into force of Directive 2008/9/EC, the Commission receives a significant number of complaints via SOLVIT. SOLVIT is an on-line problem solving network that handles complaints by both businesses and citizens on the misapplication of EU Law. In particular, the network handles complaints regarding VAT refund claims. In fact, complaints about delayed claims are amongst the commonly reported issues via the SOLVIT network.[12] The difficulties with the cross border processes were also highlighted at the 9th meeting of the EU VAT Forum which showed that businesses and tax administrations have different perceptions of how the refund process is working. Businesses expressed concern that the process is getting more complicated and increasingly burdensome, while in the view of tax administrations the process is managed smoothly (i.e. in a fair, practical and proportional way).

From the Commission's perspective, it is important to conduct a proper evaluation of the size of potential problems e1ncountered by taxable persons, as well as Member State tax administrations. As such, this study will ascertain how well founded the perceptions are on both sides (businesses and tax administrations), and identify the reasons for delays or refusals of refunds, existing good practices, and possible further improvements.

In 2004, as well as attempting to address the obvious shortcomings of the Eighth Directive, the Commission also recognised the growing importance of a well-functioning system to facilitate the structural changes taking place with respect to the rules governing the place of supply for VAT purposes,[13] as effected by the EU VAT Package. These new rules moved the EU VAT system towards a more destination-based model and away from an origin-based model, with VAT accounted for by the customer using the reverse charge mechanism[14] or via a local vendor registration in the customer's country of establishment with the option to use the One Stop Shop ('OSS') mechanism[15] to simplify compliance obligations. At the same time, to combat VAT fraud many Member States extended the use of optional reverse charges for certain supplies when provided by a non-established trader to a locally established trader, as well as introducing domestic reverse charge regimes.[16]

The use of the reverse charge or an OSS releases a non-established trader from certain VAT obligations such as the requirement to submit local VAT returns. As a consequence, when that trader has incurred VAT in another Member State in relation

[12] European Commission. *"EU VAT Forum, subgroup on Prevention and Solution of Double Taxation – Presentation Sheet of SOLVIT".*
[13] Ibid.
[14] e.g. General rule implemented in 2010 for B2B services.
[15] e.g. Specific rules implemented in 2015 for B2C telecoms, broadcasting and electronic ('TBE') services.
[16] Assessment of the application and impact of the optional 'Reverse Charge Mechanism' within the EU VAT system. Available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/common/publications/studies/kp_07_14_060_en.pdf.

to a supply subject to a reverse charge or covered by the OSS, the trader is obliged to reclaim this VAT via the refund procedure, rather than via a local VAT return submission. For example, following changes to the place of supply rules, taxable persons could incur foreign VAT for the purpose of making supplies in another Member State without a corresponding requirement to fulfil a domestic VAT registration in that Member State in the following circumstances (non-exhaustive list):

- The local sourcing of goods (e.g. parts and other consumables) related to the work on or valuation of movable property situated in another Member State;
- The local sourcing of goods (e.g. parts and other consumables) related to the provision of services connected with immovable property where the business customer is located in the jurisdiction of refund and applies the reverse charge on receipt of the foreign trader's service;
- Services provided by sub-contractors connected with immovable property located in another Member State – incidences of the use of subcontractors for this type of work (installation, construction, repair) has increased hugely as part of a concerted attempt to realise globally competitive business models that achieve economies of scale, at the same time as the definition of immovable property under EU VAT law has significantly widened;
- The provision of intermediary services; and,
- A non-established taxable person buying and selling goods in another Member State would ordinarily be obliged to register for and charge VAT on their sales in that jurisdiction which would also enable them to access input VAT recovery through the local VAT return. However, in certain cases, the local customer is now obliged to apply a reverse charge leaving the non-established business to claim back VAT via the refund procedure. For supplies where the OSS is used, a similar result arises since the OSS mechanism does not include input VAT deduction functionality.

In summary, an effective VAT refund system is essential to fulfil the fundamental right of a taxable person to be relieved entirely from the burden of VAT. As an integral part of the VAT system that right should not, as a general rule, be limited. However, despite the efficient design of the VAT refund system, it appears that in practice it is currently working at a sub-optimal level. Moreover, the importance of the VAT refund system is growing. This is due to structural changes in the overall framework of the VAT system, particularly with regard to the direction of travel in favour of a more destination based system for cross-border trade. In this respect it should be noted that further developments are anticipated in the form of the proposals for an extended OSS to give effect to the 2021 E-commerce Package and the 2022 Definitive VAT Regime. Changing business practices have also played their part with more services being provided on a cross-border basis in line with the increasing ease of trade within the internal market and the globalisation of the economy, as well as a growth in the use of specialist subcontractors within business models.

VAT reimbursements

Council Directive 2006/112/EC contains a number of provisions governing the right of a taxable person to deduct input VAT incurred in a domestic scenario via a VAT reimbursement claim. The main provisions are as follows:

- Article 168 – the scope of and entitlement to deduct VAT;
- Article 169 – the right of deduction for transactions carried out outside the Member State of the taxable person, as well as for exempt and financial transactions;
- Articles 173-175 - proportional deduction in respect of goods or services used by a taxable person both for transactions in respect of which VAT is deductible and for transactions in respect of which VAT is not deductible;
- Articles 176-177 - restrictions on the right of deduction;
- Article 178 – conditions to exercise the right of deduction;
- Article 179 – the mechanism for deducting VAT by subtracting input VAT from output VAT;
- Articles 180-182 – optional rules for Member States to determine the conditions and detailed rules for authorising a taxable person to make a deduction in certain circumstances;
- Article 183 – reimbursement or carry forward of excess where the amount of deductions exceeds the amount of VAT due; and,
- Articles 184-192 – adjustments of deductions.

In contrast to the clear legal framework for cross-border VAT refunds, Article 183 of Council Directive 2006/112/EC gives Member States the discretion to determine how the right to reimbursement should be implemented into domestic legislation, particularly as to how and when such a claim can be made.

In the absence of a more detailed and specific legal framework, the Court of Justice of the European Union ("CJEU") has given rulings that set out a number of principles for Member States to follow. For example, the case *C-274/10 Commission v Republic of Hungary* clarified the scope and conditions of a taxpayer's right to reimbursement by declaring that while *"Member States have certain freedom in determining the conditions for refund of excess cannot be concluded from that fact alone that provision must be interpreted as meaning that no control may be exercised under European Union law over the procedures established by Member States for the refund of excess VAT".*

In addition, the CJEU's rulings have consistently reinforced that a taxpayer's right to deduct input VAT incurred is a fundamental right. Any conditions placed on it should not affect its basic application or effectiveness. Examples of CJEU cases where this basis was established were *Judgment of 22 October 2015, Sveda, Case C-126/14 EU:C:2015:712; Judgment of 14 September 2017, Iberdrola Inmobiliaria Real Estate Investments, Case C-132/16 ECLI:EU:C:2017:683; and Judgment of 16 July 2015, Larentia + Minerva, Cases C-108/14 and C-109/14 ECLI:EU:C:2015:496.*

The CJEU cases that have set out the key principles in respect of reimbursements are as follows:

Table 3: Key principles of CJEU case law relating to VAT reimbursements

Area	Case reference	Principle arising from the case
Time limits for making a claim	Judgment of 21 January 2010, Alstom Power Hydro, Case C-472/08 EU:C:2010:32 (Case C-472/08 Alstom Power Hydro).	Member States are not precluded from having a time limit for businesses to make reimbursement claims.
	Judgment of 21 March 2018, Volkswagen AG, Case C-533/16 EU:C:2018:204 (Case C-533/16 Volkswagen AG).	Where a Member State has placed a time limit on the recovery of input VAT, the time limit should begin to run from the point at which the substantive and formal conditions for VAT recovery have been fulfilled. In practice, this is when a VAT invoice is issued to or received by the taxpayer.
	Judgment of 12 April 2018, Biosafe, Case C-8/17 EU:C:2018:249 (Case C-8/17 Biosafe).	In cases where invoices have to be corrected, the time limit for recovery of VAT begins to run from the point at which the customer has received the correct VAT invoice, not when the original invoice was received.
Time limits for processing claims	Judgment of 12 May 2011, Enel Maritsa Iztok 3, Case C-107/10 EU:C:2011:298 (Case C-107/10 Enel Maritsa Iztok 3).	Repayments should not be delayed by Member States for an unreasonable period of time.

Area	Case reference	Principle arising from the case
	Judgment of 6 July 2017, Glencore Grain Hungary, Case C-254/16 EU:C:2017:522.	The period of time reasonable for the repayment of a reimbursement may be extended in order to carry out a tax investigation, and the extended time will not be regarded as unreasonable as long as the extension does not go beyond what is necessary to complete this investigation.
Financial risks generated by reimbursement conditions	Judgment of 28 July 2011, Commission v Republic of Hungary, Case C-274/10 EU:C:2011:530 (Case C-274/10 Commission v Republic of Hungary).	Exposing taxpayers to financial risk in respect of repayments, for example by making repayments conditional on meeting certain requirements that would generate financial risk for taxpayers over and above the risks generated by the requirements of the baseline VAT system, is prohibited.
Withholding reimbursements	Judgment of 18 October 2012, Mednis SIA, Case C-525/11EU:C:2012:652 (Case C-525/11 Mednis SIA).	Repayments should only be withheld by Member States for justifiable reasons, such as suspected fraud being investigated.
Claim verification procedures	Judgment of 10 July 2008, Alicja Sosnowska, Case C-25/07 EU:C:2008:395 (Case C-25/07 Alicja Sosnowska).	Member States are not prohibited from adopting precautionary national measures to ensure the accuracy of VAT declared, but the measures should not place a disproportionately high burden on taxpayers.

Area	Case reference	Principle arising from the case
Late payment interest	Judgment of 24 October 2013, Rafinaria Steaua Romana SA, Case C-431/12 EU:C:2013:686 (Case C-431/12 Rafinaria Steaua Romana SA).	Confirms the requirement for Member States to pay interest where a reimbursement is not paid within a reasonable period.
	Judgment of 28 February 2018, Nidera B.V., Case C-387/16 EU:C:2018:121 (Case C-387/16 Nidera B.V.).	Emphasises the need for Member States' tax administrations to pay interest for delayed repayments and prohibits the arbitrary reduction of interest.
Offsetting against other tax debts	Judgment of 16 March 2017, Bimotor SpA, Case C-211/16 EU:C:2017:221 (Case C-211/16 Bimotor SpA).	Member States are not prevented from applying legislation which offsets a taxpayer's other tax debts against a VAT reimbursement claim, provided the taxpayer is not deprived of the basic right to reimbursement and tax recovery does not become impossible.
Eligibility criteria	Judgment of 18 December 1997, Garage Molenheide BVBA, Cases C-286/94, C-340/95, C-401/95, C-47/96 EU:C:1997:623 (Cases C-286/94, C-340/95, C-401/95, C-47/96 Garage Molenheide BVBA).	The CJEU ruling established that it is the responsibility of a Member State's national court to examine that criteria applied to the eligibility for a VAT reimbursement are proportionate.
Right to reimbursement	Judgment of 14 February 1985, Rompelman, Case C-268/83 EU:C:1985:74 (Case C-268/83 Rompelman).	VAT is deductible when the taxable person has the intention to carry out an activity that is eligible for a VAT reimbursement and has adequate proof for this.

Area	Case reference	Principle arising from the case
	Judgment of 3 March 2005, Fini H, Case C-32/03 EU:C:2005:128 (Case C-32/03 Fini H).	VAT incurred for activities of the taxable person after the end of the activities remains deductible.
	Judgment of 22 October 2015, PPUH Stehcemp, Case C-277/14 EU:C:2015:719 (Case C-277/14 PPUH Stehcemp).	VAT invoiced by a non-existent taxpayer should be deductible (for cases of fraud).
	Judgment of 19 July 2012, Littlewoods Retail, Case C-591/10 EU:C:2012:478 (C-591/10 Littlewoods Retail).	The taxpayer has a right to receive reimbursement of the tax paid in breach of EU law, including interest payments. However, it is for Member States to set the conditions, in compliance with EU principles of equivalence and effectiveness.
	Judgment of 11 April 2013, Rusedespred, Case C-138/12 EU:C:2013:233 (Case C-138/12 Rusedespred).	This case examines the possibility to obtain a refund of VAT invoiced in error, subject to the condition that the invoice is corrected. The CJEU determined that a condition attached to a claim for reimbursement must not be impossible to satisfy and the principle of neutrality can be relied on.
Payment of reimbursement	Judgment of 25 October 2001, Commission vs Italy, Case C-78/00 EU:C:2001:579 (Case C-78/00 Commission vs Italy).	The reimbursement of excess VAT in the form of government bonds is not compatible with the VAT system.

Despite the fact that EU VAT law does not provide for significant harmonisation in this specific context, the Commission appeared to have received complaints about VAT reimbursement procedures. In particular, issues reported appear to be around the

processing and repayment of VAT reimbursement claims. At the same time, a number of factors have increased, in the hands of businesses, the amount of deductible input VAT versus output VAT due, thus increasing the overall need for a well-functioning domestic VAT reimbursement system. For example:

- In an increasingly globalised economy with growing cross-border supplies of goods and services subject to VAT in the customer's jurisdiction under the destination principle, exporters face difficulties in securing reimbursement when there is little or no output VAT against which to offset their input VAT as a result of making zero-rated supplies.
- There is also a trend toward the introduction of domestic reverse systems across different industry sectors and products in an attempt to fight fraudulent activity – again, this reduces the amount of output VAT due against which to offset input VAT incurred.
- Difficulties tackling fraudulent activity within the EU VAT system together with advancements in technology have led to the introduction of split payment mechanisms,[17] whereby customers pay VAT due directly to the tax administrations or to the supplier's ring-fenced bank account, rather than to the supplier themselves. By eliminating the need for the supplier to collect output VAT, the mechanism mitigates the prospect of VAT fraud. Italy, for example, has already implemented a limited split payment system and recently Romania introduced a similar mechanism. More Member States, for example Poland and the UK, are currently considering the introduction of such a system. However, while a split payment mechanism may constitute a useful tool to safeguard VAT collection, it also necessarily increases the incidence of developing excess input VAT over output VAT.

It is evident that current VAT reimbursement system appears to be working at a sub optimal level. In light of the growing structural changes to the EU VAT place of supply rules and the global economic environment and business models, it is becoming increasingly important to ensure effective procedures are in place for granting VAT reimbursement.

With the aim of tackling the problem of the reimbursement of VAT at the domestic level the Commission considers it would thus be appropriate to conduct a detailed analysis of the various domestic reimbursement systems and procedures by describing their characteristics and structures and by verifying whether they are in line with principles underlined by the CJEU. Accordingly, the study should identify the reasons of constraints, bottlenecks or other problems that cause delays or that may generate financial risks for taxable persons.

[17] Analysis of the impact of the split payment mechanism as an alternative VAT collection method. Available at: https://ec.europa.eu/taxation_customs/sites/taxation/files/split_payment_report2017_en.pdf.

3.3 Objectives

Given the importance of ensuring the smoothness of both VAT refund and reimbursements, the underlying purpose of this study is to:

- Support the development of improvements to the procedures by reviewing how the EU VAT Directives have been implemented into domestic law;
- Make an assessment of administrative procedures and practices currently in place in Member States; and,
- Identify the circumstances and reasons for any constraints or delays in the repayment of VAT that entail financial risks for taxable persons.

The main objectives of the study are to:

- Provide an overview of the functioning of the refund procedure from Directive 2008/9/EC and the reimbursement procedure from Directive 2006/112/EC at the level of individual Member States, highlighting potential problems which could hinder the smooth functioning of the refund or reimbursement process;
- Provide an overview of the administrative procedures governing the processing of VAT refund and reimbursement claims in each Member State, highlighting potential problems which could hinder the smooth functioning of the refund or reimbursement process;
- Indicate the nature and magnitude of problems reported, based on the information gathered from surveys of businesses and EU-28 tax administrations; and,
- Provide suggestions from businesses and EU-28 tax administrations on how the VAT refund and reimbursement process could be improved.

3.4 Structure of this report

The remainder of this report is structured as follows:

Section 4 provides a brief overview of the approach taken and research questions answered by this study.

Section 5 presents a review of the findings with respect to VAT refunds.

Section 6 gives a review of the findings with respect to VAT reimbursements.

Section 7 presents the conclusions of the study, including suggestions for improving the procedure for claiming VAT refunds and reimbursements.

Appendix 1 contains a detailed description of the methodological approach used for this study.

Appendix 2 contains a non-exhaustive summary of some of the situations that might give rise to refundable or reimbursable VAT.

Appendix 3 contains the limitations identified in data collected from EU-28 tax administrations, VAT refund agents and businesses.

Appendix 4 contains a summary of the information collected through consultation with members of the International VAT Association.

Appendix 5 contains acknowledgments of the support received from stakeholders of the study.

4. Research strategy and data limitations

The purpose of this section of the report is to provide a brief overview of the research strategy and the limitations present in the data that this yielded.

4.1 Research strategy

The structure of the study is shown against the research techniques used in table 4.

Appendix 1 of this report contains a more detailed overview of the research techniques employed throughout this study. In addition, Appendix 5 acknowledges the support and contribution of the sample of VAT refund agents and representatives of EU-28 tax administrations surveyed, as well as VAT experts from the PricewaterhouseCoopers network.

Table 4: Summary of study sections

Task no.	Description	Research technique(s)
Task 1	Summary of the domestic legislation and administrative procedures that implement the relevant provisions of the EU VAT Directives concerning VAT refunds and reimbursements. Analysis of potential problems in domestic legislation and administrative procedure which could hinder the smoothness of the refund or reimbursement process.	Cross-country analysis of domestic legal and administrative frameworks providing the right to VAT refunds and reimbursements against relevant EU Directives and principles established in CJEU case law.
Task 2	Analysis of the experiences of businesses, particularly MSMEs, of VAT refund processes in place in EU Member States, highlighting potential problems and providing suggestions for improvement.	Questionnaire survey of 455 MSMEs in Cyprus, Germany, Greece, Poland, Romania, Spain and Sweden covering both VAT refunds and reimbursements. 431 businesses responded that they had experience in either making a refund or reimbursement claim. These businesses also passed the data cleaning process from over 2,000 businesses sampled. Questionnaire survey of VAT refund agents. Questionnaire survey of four
Task 3	Analysis of the experiences of businesses, particularly MSMEs, of VAT reimbursement procedures in place in EU Member States, highlighting potential problems and providing suggestions for improvement.	

Task no.	Description	Research technique(s)
		representatives of large business and VAT practitioners.
Task 4	Analysis of tax administrations' experiences of VAT refund procedures in place in each EU Member State, highlighting potential problems and providing suggestions for improvement.	Questionnaire survey of EU-28 tax administrations covering both VAT refunds and reimbursements. Semi-structured interviews with nine EU-28 tax administrations covering both VAT refunds and reimbursements.
Task 5	Analysis of tax administrations' experiences of VAT reimbursement procedures in place in each EU Member State, highlighting potential problems and providing suggestions for improvement.	

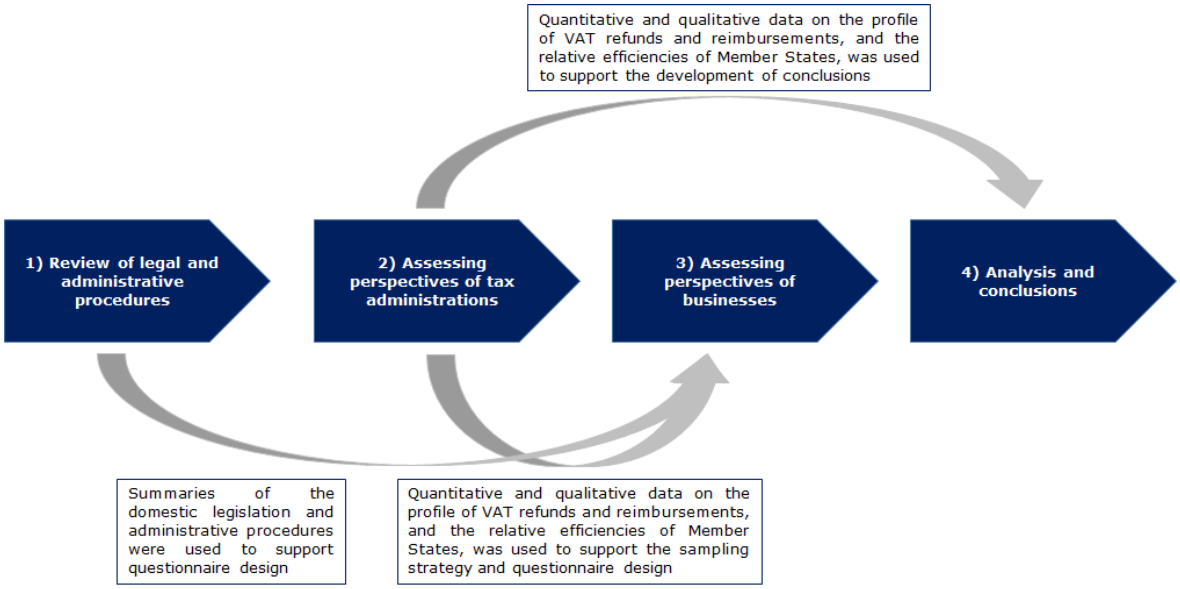
Putting this structure into practice requires an understanding of the profile of VAT refund and reimbursement claims according to a range of indicators. However, the effectiveness of VAT refund and reimbursement procedures are not well understood, and there is very limited data available in the public domain, aside from the post-filing index of the *Paying Taxes report*.[18]

To overcome this challenge, preliminary collection of qualitative and quantitative data was used to develop an understanding of the profile of VAT refund and reimbursement claims and of the relative efficiencies of Member States in processing such claims. The data collected supported the development of subsequent research strategies and questionnaires for use with businesses.

The research approach is illustrated in Figure 1, which breaks the study down into four main phases and highlights the use of data collected in earlier phases to shape research techniques in later phases.

Figure 1: Overview of research approach

[18] Paying Taxes is a joint report between the World Bank Group and PwC which provides in-depth analysis into the tax and related compliance burden of a case study company in 190 economies around the world. The latest edition of the report "Paying Taxes 2019" was published in November 2018 and relates to the data of calendar year 2017. A copy of the latest report can be found at www.pwc.com/payingtaxes.



Source: PwC analysis

Please note that, at the request of the Commission, the findings of the review of domestic legislation and administrative procedures that implement the relevant provisions of the EU VAT Directives concerning VAT refunds and reimbursements (task 1) are not contained in this report. The findings of this component of the study are contained in a separate report designed to be read in conjunction with the contents of this report.

4.2 Research questions

In order to achieve the aims of the study, a series of overarching questions have been addressed through the data yielded by the research strategy. These questions have been designed to establish a better understanding of the makeup of VAT refund and reimbursement claims, as well as reconciling the views and experiences held by businesses with those of EU-28 tax administrations.

The overarching questions are as follows:

Table 5: Summary of overarching questions for VAT refunds and VAT reimbursements

VAT refund questions	
1.	What drives the distribution of VAT refund claims across the EU-28?
2.	What is the composition of VAT refund claims across the EU-28?
3.	How do businesses prepare and submit VAT refund claims?
4.	How efficient are the EU-28 tax administrations at processing claims?

5.	How many claims are queried?
6.	How many claims are approved and what are the most common reasons for a VAT refund claim being rejected?
7.	Do VAT refund agents achieve better results than taxpayers preparing and submitting their own claims?
8.	How widespread are delays, what drives them and what impacts do they have on businesses?
9.	How frequent are disputes and why do they occur?
10.	How effective is communication and support between tax administrations?
11.	Does technology help or hinder the process?
VAT reimbursement questions	
1.	What drives the distribution of VAT reimbursement claims across the EU-28?
2.	What is the composition of VAT reimbursement claims across the EU-28?
3.	How do businesses prepare and submit VAT reimbursement claims?
4.	How efficient are EU-28 tax administrations at processing claims?
5.	How many claims are queried?
6.	What are the approval rates and levels of rejection for VAT reimbursements?
7.	How widespread are delays, what drives them and what impacts do they have on businesses?
8.	How frequent are disputes and why do they occur?
9.	How effective is communication and support between tax administrations?
10.	What is the role of technology in the process?

4.3 Data limitations

Before presenting the findings from analysis of the data generated by the research strategy it is important to recognise a number of issues that may limit the interpretation of the data.

When reviewing the data, a number of instances of inconsistent or incomplete data have been identified. This restricts the extent of the analysis that can be carried out as it limits the number and variety of metrics that can be considered.

To the extent possible, supplementary data has been collected to overcome these limitations. However, it has been noted in the presentation of the analysis where this has not been possible.

Appendix 3 documents the full extent of the data limitations. A number of the key data limitations are set out below:

- The German tax administration did not provide quantitative or qualitative data with respect to VAT refunds. Nor does the German tax administration provide data to the European Commission's Standing Committee on Administrative Cooperation (SCAC).
- The Maltese tax administration did not provide quantitative or qualitative data for either VAT refunds or reimbursements. Data relating to Malta that has been used in this report was provided by the European Commission.
- With regards to both VAT refunds and reimbursement, only a few Member States provided data on claims disputed and appealed at an administrative and judicial level. Only Latvia, Lithuania, Greece, Hungary and France provided data on disputed VAT refund claims. Similarly, Bulgaria, Estonia, Latvia, Poland and Spain provided data on disputed VAT reimbursement claims.
- A limited number of Member States provided detailed data on VAT reimbursements, with most Member States only providing data for 2016. In order to fully utilise this limited data, this report has used a different combination of Member States when analysing data for the period 2013-2016 and for 2016 by itself. This is further explained in the relevant subsection and Appendix 3.
- No substantive data on the number and value of VAT reimbursement claims queried was received from any Member State.
- Although businesses established in Cyprus were included in the country sample for the business survey, no respondents had handled VAT refunds in the last three years and, could therefore, not provide experiences on the VAT refund procedure
- Although the sample sizes used for the business and VAT refund agent surveys are too small to yield results that can be generalised to the rest of their respective populations, the data yielded by these surveys provides useful insights into the views and experience of businesses.

Given the data limitations, different combinations of Member States have been used throughout the analysis. This is to ensure that the most complete data set available is used for each category analysed. The combinations of Member States are described at the start of each section.

5. Analysis and key findings

5.1 VAT refunds

The purpose of this section of the report is to present analysis of the data on VAT refunds collected through the various components of this study, as well as the key findings of that analysis.

As described in section 4, the analytical approach aims to provide answers to a number of overarching questions designed to establish a better understanding of the makeup of VAT refund claims, and to reconcile the views and experiences held by micro, small and medium sized businesses with those of EU-28 tax administrations.

Table 6 summarises the key statistics discussed in the context of each research question.

Table 6: Summary of key VAT refund statistics

Summary of key VAT refund statistics	
Research question	**Key statistics**
What drives the distribution of VAT refund claims across the EU-28?	As data on VAT refund claims are based on Member State of Refund, rather than Member State of Establishment, determining any specific drivers across Member States is not possible. It is more likely that a broad number of different variables determine the distribution of VAT refund claims by Member States.
What is the composition of VAT refund claims across the EU-28?	In 2016, 670,000 claims were received by EU Member States (excluding Germany). Between 2013 and 2016, the total number of claims received increased by 12.4%. This growth rate is higher than the nominal GDP growth for the same Member States (8%). This could indicate that the cost of making a VAT refund claim has reduced over time. The majority of such claims were for a value of less than EUR 1,000 and less than 5% of all VAT refund claims received were for a value of more than EUR 30,000.
How do businesses prepare and submit VAT refund claims?	The VAT refund agents surveyed as part of this study collectively accounted for 2.3% by value and 4.4% by number of VAT refund claims received by EU tax administrations in 2016. A majority of businesses surveyed who process claims in-house (71%) have IT systems in place to help prepare and submit a claim. Most of the businesses surveyed stated that they take

Summary of key VAT refund statistics	
Research question	**Key statistics**
	between two and five hours to prepare and submit claims regardless of whether additional information is requested. The reason for this may be that businesses tend to collect information and documentation in preparation of the main claim submission. Overall, only 6% of respondents stated that they do not have any experience in handling VAT refund claims. The main reasons for this were mostly non-process related, for example, the business having not incurred any foreign VAT or VAT amounts being too small to be eligible for a refund. Moreover, 12% of the businesses surveyed stated that an increased risk of VAT audit or investigation was the main reason for them not submitting a claim. and Only 8% of respondents noted that claiming a VAT refund was too expensive.
How efficient are EU-28 tax administrations at processing claims?	The processing rate of VAT refund claims (i.e. the share of claims received that have been processed in a year) has decreased since 2014, falling to 86% in 2016, from a high of 92% in 2014.
How many claims are queried?	In 2016, tax administrations in 26 EU Member States (excluding Germany and the United Kingdom) queried just over 60,000 claims, equating to a query rate of 9%. Responses from businesses show that the tendency of tax administrations to request additional information is widespread across the EU and appears to be increasingly formalistic. Approximately 70% of the businesses surveyed received requests for additional information frequently, very frequently or almost always. This may be explained by the fact that some of the businesses surveyed submitted a large share of their claims to Member States of Refund with query rates higher than the EU average. However, this connection could only be established for businesses surveyed in Greece, which submitted approximately 16% of their claims to Cyprus as a Member State of Refund. Cyprus had a query rate of 41% in 2016, which was significantly above the EU average. Businesses surveyed in other Member States of

Summary of key VAT refund statistics	
Research question	**Key statistics**
	Establishment included in the business survey submitted large proportions of their VAT refund claims to the German and UK tax administrations, for which no data on query rates was available.
How many claims are approved and what are the most common reasons for a VAT refund claim being rejected?	In 2016, tax administrations in 26 EU Member States had a claim approval rate of 94%. Approval rates have increased by 1.8% over the period 2013-2016. Decisions seem to be made on a case-by-case basis, and there does not appear to be a relationship between approvals and types of expenses or additional information requests. Businesses recorded invoice discrepancies, a lack of sufficient documentary evidence, VAT having been incorrectly charged by suppliers and the business requiring a local VAT registration as the most common reasons for claims being rejected by tax administrations. This aligns with responses received from tax administrations and VAT refund agents. When rejections do occur, businesses indicated that they experience adverse cash flow impacts (35% of respondents), deferral of investment (42%) and hiring (28%), and in some instances reduced profits (18%).
How widespread are delays, what drives them and what impacts do they have on businesses?	Between 2013 and 2016, instances of delays in the VAT refund process have fallen by 85% across the EU. By 2016, just 1.02% of claims submitted to EU tax administrations were paid outside statutory deadlines. When delays do occur, businesses indicated that they can have adverse impacts on cash flow or result in the deferral of investment or hiring. In addition, businesses indicated that they experience challenges in receiving late payment interest from tax administrations. Nearly one third of businesses surveyed reported that they never, very rarely or rarely receive interest for claims that are paid late. In Member States where tax administrations fail to pay late interest, a further burden is put on taxpayers as a result.

Summary of key VAT refund statistics	
Research question	**Key statistics**
Are VAT refund agents more efficient than taxpayers preparing and submitting claims on their own?	In 2016, three VAT refund agents prepared and submitted approximately 30,000 claims, which amounted to 4.5% of all claims processed by tax administrations in 27 EU Member States. The average value of a claim submitted by the VAT refund agents surveyed was EUR 2,400, significantly lower than the average value of a claim received by tax administrations in 2016. This suggests that businesses use agents for low value, high volume claims, but also for more complicated claims, which are less standardised.
How frequent are disputes and why do they occur?	Taxpayers disputed a small number of claims in 2016 (0.23%) and the majority of these disputes occurred at an administrative level (81%). This trend is confirmed by the businesses surveyed, as 81% of the disputes they entered into were at the administrative level. The value of a claim did not appear to relate to the level at which the appeal was heard, with the average value of a disputed claim at the judicial level being lower than at the administrative level. Given the additional cost of disputes being heard at a judicial level it would have been expected that this route is used only for the higher value claims. Further investigation into the nature of claims disputed at the administrative and judicial levels would be warranted to explain this in more detail. Overall, the costs to dispute a claim varied with 15% of respondents to our business survey stating that it cost them between EUR 1,000 to EUR 5,000 to dispute a claim whilst 24% of respondents incurred a cost of EUR 20,000 to EUR 40,000 to dispute a claim. This compares to an average value per disputed claim received by tax administrations of approximately EUR 580,000, although it has to be noted that the number of responses in this area was limited. This cost variance depends on the Member State in which the business is established, the nature of the dispute and the legal options available in the Member State of dispute.

Summary of key VAT refund statistics	
Research question	**Key statistics**
How effective is communication and support between tax administrations?	Most tax administrations were of the opinion that the exchange of information on pro rata calculations was 'neither effective nor ineffective'. Responses from the businesses surveyed showed that, where businesses are aware of contact points in a Member State, 86% of businesses deemed these contact points to be highly effective or effective. However, despite this, respondents to the business and VAT refunds agent survey raised issues around communicating with tax administrations. Businesses experienced language problems where tax administrations only communicated in national languages rather than widely used business language such as English. VAT refund agents, on the other hand, reported problems communicating with tax administrations more generally.
Does technology help or hinder the process?	60% of the 217 businesses surveyed that process claims in-house noted that they have IT systems in place to support the preparation of cross-border VAT refund claims. Moreover, just under half of all tax administrations surveyed stated that they had encountered significant issues with the online claim submission portals operated by Member States of Establishment. VAT refund agents surveyed also highlighted some issues such as attachment size limits by some Member States of Refund and unclear guidance on the storage of invoices and other supporting documentation.

Source: European Commission data, tax administration data, VAT refund agent data, PwC analysis

5.1.1 Key drivers of VAT refund claims across the EU-28

Key findings: Based on the analysis on key drivers of VAT refund claims, macroeconomic and geographical variables have not impact on the value of VAT refund claims a Member State receives. One of the key issues is that VAT refund data are on a Member State of Refund basis, rather than Member State of

Establishment, so the variables driving the distribution of VAT refund claims are likely to be different for each Member State.

Understanding the potential drivers behind the geographical distribution of VAT refund claims across the EU-28 will help to explain why some Member States of Refund receive more claims than others. Exploring the causes of the distribution of VAT refund claims across Member States will to give an early indication of potential problems (e.g. unexpectedly low or high levels of claims).

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. For the purposes of this section, EU-26 refers to:

- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Identifying potential drivers of VAT refund claims

As outlined in Appendix 1, VAT incurred on many routine transactions undertaken by businesses will not be eligible for refund under Directive 2008/9/EC. There are a limited number of situations in which a business that is engaged in making taxable supplies will pay VAT in another Member State but not make taxable supplies in that Member State against which the VAT paid can be reclaimed.

Accordingly, it is problematic to identify drivers that could explain the distribution of VAT refund claims. Moreover, as the analysis is being conducted on a Member State of Refund basis, drivers will need to be identified that might explain why a Member State of Refund would be more attractive to businesses from different Member States of Establishment.

For the purposes of this report the following drivers, and corresponding macroeconomic and geographic variables, have been selected:

- The relative efficiency and user friendliness of the VAT system of a country encourages a larger number of refund claims; and
- A large number of people and businesses who travel to or through a specific country may incur expenses eligible for a refund.

The two drivers listed above provide a theoretical background for exploring different variables, both macroeconomic and geographic. With both potential drivers, a number of variables were available for the analysis:

- VAT revenues: Total VAT revenues for a country represents the amount raised through the VAT system in a given year. This is used as a proxy for the relative efficiency and user friendliness of a VAT system.

- Intra-EU imports: Imports of goods by EU Member States from within the European Union in a given year. This is used as a proxy for movement of businesses who may incur expenses that could be eligible for a VAT refund.
- Total length of borders with other EU-28 Member States: The overall length of borders a country within the EU has with its neighbours. This could act as a proxy for intra-EU imports as it captures the likelihood of an EU Member State trading over land with its neighbours.

Analysis of potential drivers

Using data on the value of VAT refund claims received by Member States of Refund over the period 2012-2016 and macroeconomic and geographical data for the same period, several economic models were built to try to understand the explanatory power of these variables on the distribution of VAT refund claims.

As well as the macroeconomic and geographical variables discussed above, a number of additional variables were included as controls to account for regional variations in VAT refund claims. This means the results obtained for the coefficients of the macroeconomic data will be more closely related to variations in VAT refund data, rather than being influenced by country specific variations or differences, or the economic size of a country.

Summary

After building and testing several economic models, the results showed that intra-EU imports and VAT revenues were too strongly correlated with each other to be used in the model together. The reason for this is likely to be that they are both driven by an external factors, for example economic growth, and so cause the results to be biased. It is possible to use one of either intra-EU imports or VAT revenues, but this model did not pass robustness tests.

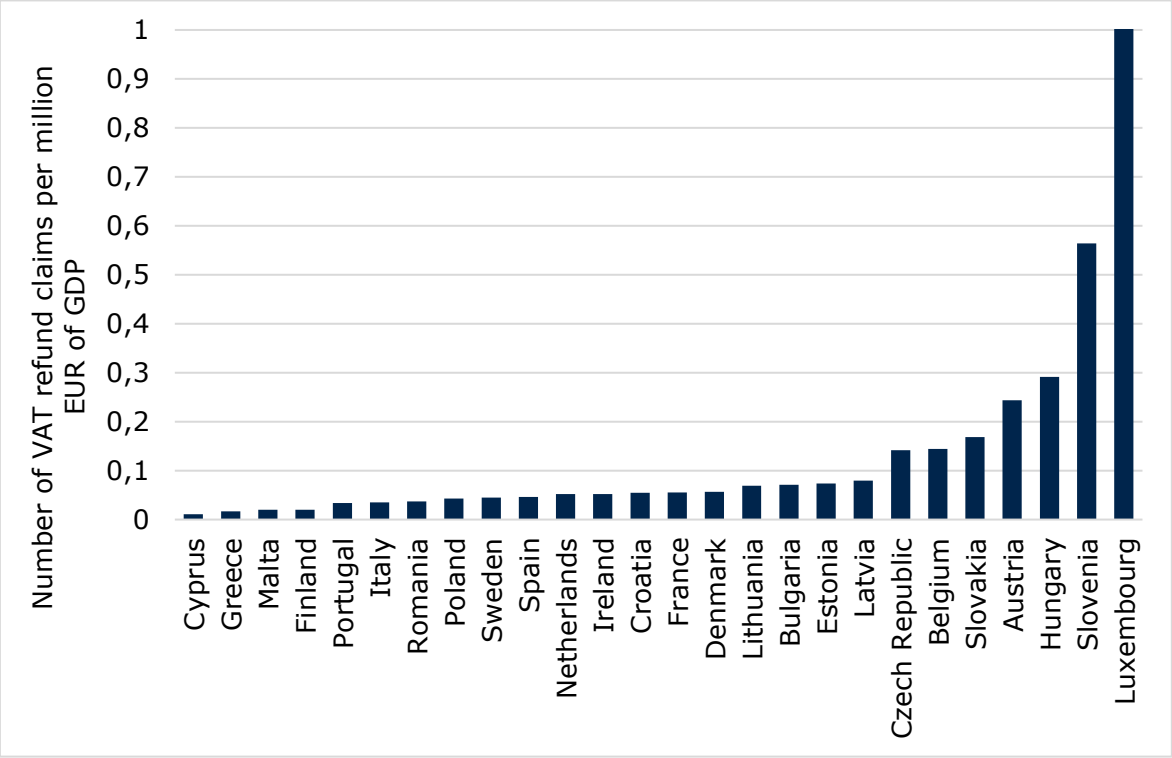
While geographical variables are likely to play their part in affecting the value of VAT refund claims, the fact they do not vary over time means that economic analysis cannot be undertaken to understand the explanatory power they have over the distribution of VAT refund claims.

One of the key issues here is that VAT refund claims data is on a Member State of Refund basis, so indicators used in the analysis need to look at drivers that might explain why a Member State of Refund is more attractive to businesses. This means there are likely to be very different drivers for different Member States on why they receive VAT refund claims. Some of these reasons are likely to be based on geography while others will be based on, for example, the efficiency of the VAT system in a given country.

Analysing data on the number of VAT refund claims received per million Euros of GDP in 2016 shows that Luxembourg, Slovenia and Hungary received the highest number of VAT refund claims per million Euros of GDP while Cyprus, Greece and Finland received the least. . This can be seen in

Figure 2.

Figure 2: Number of VAT refund claims received per million Euros of GDP in 2016



Source: Tax administration data, PwC analysis

5.1.2 Composition of VAT refund claims across the EU-28

Key findings: The number of VAT refund claims has increased year-on-year by 12% over the four year period from 2013-2016. However, this growth rate has been slowing in recent years from 5% growth in 2013-2014 to only 3.5% in 2015-2016.

The average value of claims received[19] by Member States declined by 5% over the four years, from EUR 5,200 in 2013 to EUR 4,900 in 2016. The average value per claim across the EU-24 was EUR 5,900 in 2016. Despite the increase in the number of VAT refund claims, the majority of such claims are for a value of less than EUR 1,000, as is the case for 15 of the 19 Member States of Refund. Furthermore, less than 5% of all claims in 18 of the 19 Member States had a value over EUR 30,000. However, for 80% of Member States, claims over EUR 30,000 amounted to over 50% of the total combined value of claims.

From a Member State of Establishment perspective, the majority of claims were

[19] For the purposes of this section of the report, claims received refers to those VAT refund claims received by a tax administration in a given calendar year.

made by businesses in Eastern Europe, with Poland, Romania and Bulgaria accounting for the highest number of claims. A higher number of claims may originate in Eastern European Member States due to the importance of exports to these economies. Comparing this to data on Member States of Refund, this suggests that Member States of Refund that receive a high number of claims are less likely to also be a Member State of Establishment in which a significant volume of claims originated.

This section of the report analyses the composition of VAT refund claims received by tax administrations across the EU-26. Developing an understanding of the composition of VAT refund claims, both from a Member State of Refund and Member State of Establishment perspective, will highlight cross-country differences and regional trends.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

- EU-24: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Poland, Romania, Slovakia, Slovenia, Spain and Sweden.

- EU-20: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

- EU-19 (for the purpose of distribution of value refund claims by value): Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, France, Greece, Hungary, Ireland, Italy, Lithuania, Romania, Portugal, Poland, Slovakia, Slovenia and Spain.

- EU-19 (for the purpose of total number of VAT refund claims originated in Member State of Establishments): Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Portugal, Poland, Romania, Slovakia, Slovenia, Spain and Sweden.

- EU-17: Belgium, Bulgaria, Denmark, Estonia, Greece, Hungary, Italy, Ireland, Latvia, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

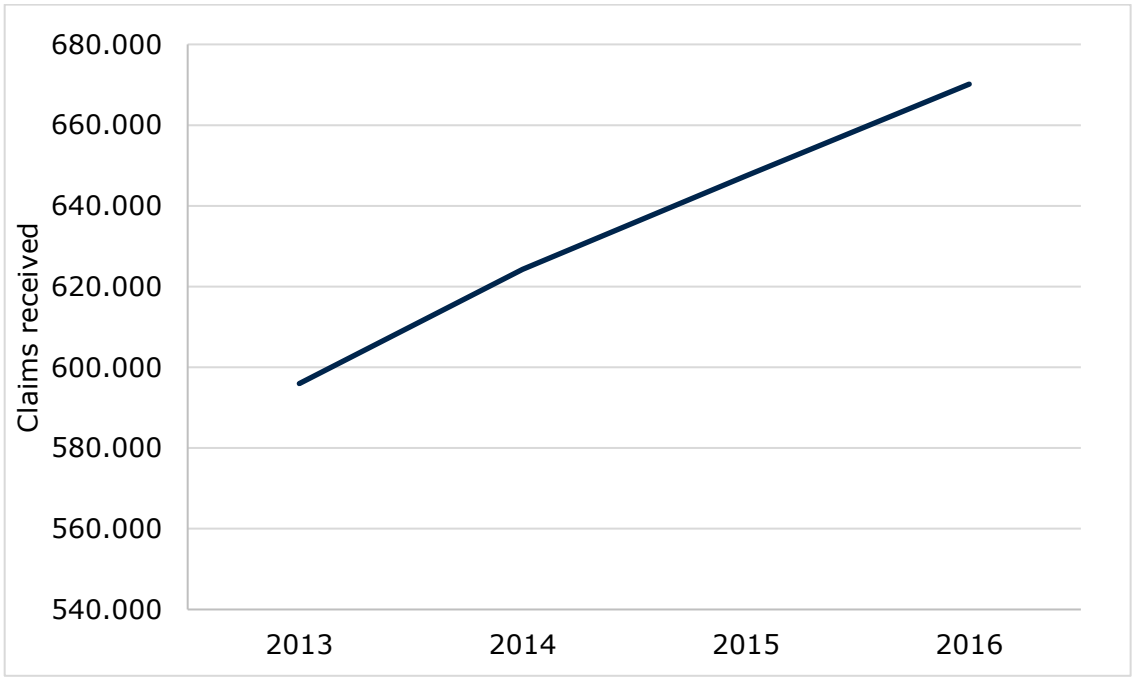
- EU-16: Belgium, Bulgaria, Denmark, Estonia, Greece, Hungary, Italy, Ireland, Latvia, Luxembourg, Netherlands, Poland, Romania, Slovakia, Slovenia and Spain.

- EU-15 (for the purpose of average value of a claim originated in Member State of Establishments): Belgium, Bulgaria, Croatia, Denmark, Greece, Italy, Latvia, Lithuania, Luxembourg, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Number of VAT refund claims received by EU-27 Member States

All Member States except Germany and the United Kingdom provided information on the number of claims received for the period 2013-2016. For26 Member States, the total number of claims received increased continuously year-on-year, increasing by 12% over the four year period. However, the average annual rate of growth also slowed year-on-year, from a 5% increase between 2013 and 2014, to 3.5% in 2015-16. Nevertheless, by 2016 the number of claims received by the EU-26 reached a four-year high of 670,157.

Figure 3: Number of VAT refund claims received across the EU-26 over the 2013-2016 period

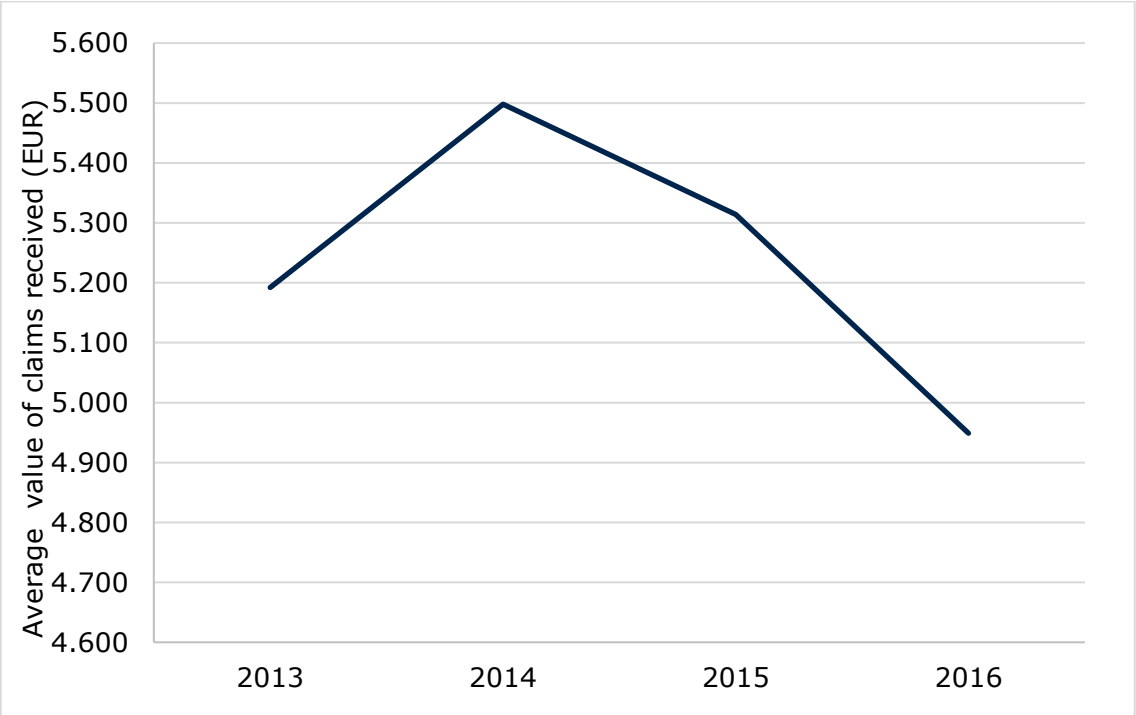


Source: European Commission data, PwC analysis

Average value of VAT refund claims received by Member State of Refund

Data on the value of VAT refund claims received over the period 2013-2016 was provided by 20 tax administrations. The average value per claim across the EU decreased between 2015 and 2016 to its lowest level in four years, the second consecutive year in which the average value per claim has fallen. In total, the average value per claim decreased by 5% over the four years, from approximately EUR 5,200 in 2013 to EUR 4,900 in 2016.

Figure 4: Average value per claim received across the EU-20 over the 2013-2016 period

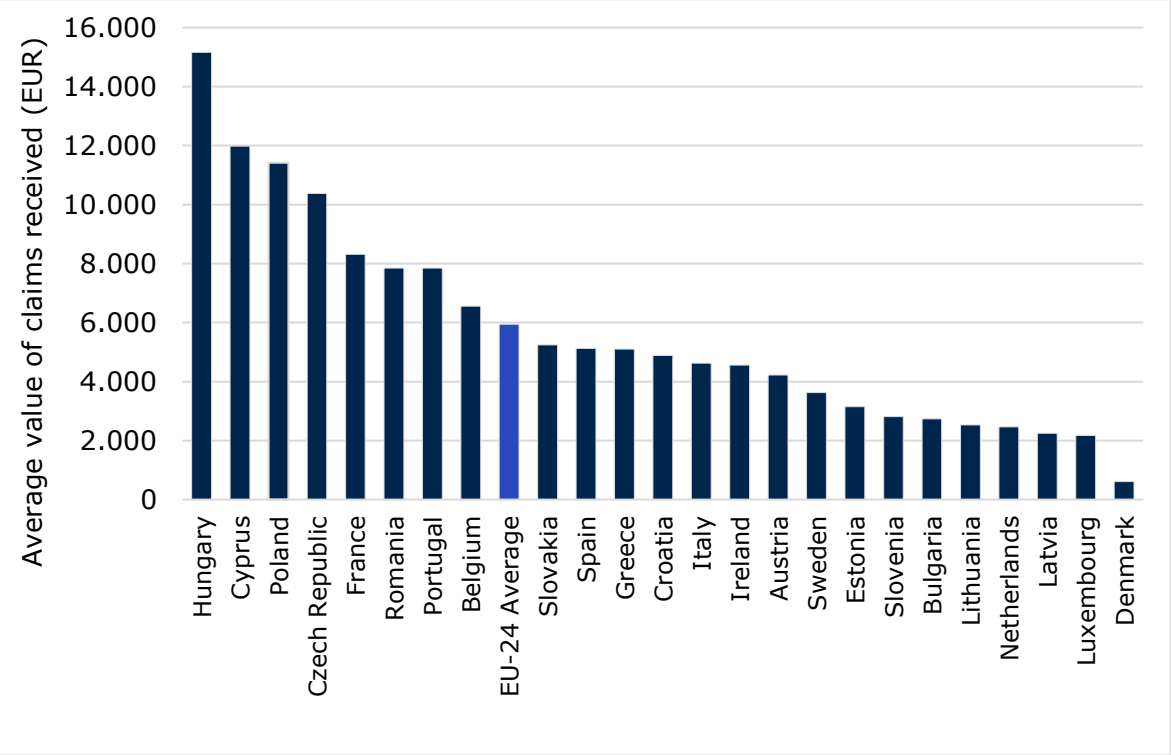


Source: Tax administration data, PwC analysis

The data necessary to calculate the average value per claim in 2016 at a Member State level was provided by 24 tax administrations. The average value per claim received in 2016 was found to vary significantly, ranging from as low as EUR 610 per claim in Denmark to EUR 15,200 in Hungary. The average across the EU-25 was EUR 6,000 and more than half of all Member States reported an average value per claim of EUR 3,000-8,000. It is important to note that this could be driven by administrative practices as much as by cross-country differences in expenditure by non-established businesses. For instance, businesses may choose to make claims on a more regular basis or file upload restrictions on online submission portals may result in the artificial division of a claim across multiple submissions.

Regionally, there was a strong tendency towards higher-value claims in Southern and Eastern Europe. Excluding the median country (Italy), there were no Member States of Refund from Northern Europe and only two (France and Belgium) from Western Europe in the top 50% highest values per claim. Equally, only one Member State of Refund each from Southern and Eastern Europe (Slovenia and Bulgaria respectively) were located in the bottom 50%.

Figure 5: Average value of claims received across the EU-24 in 2016



Source: Tax administration data, PwC analysis

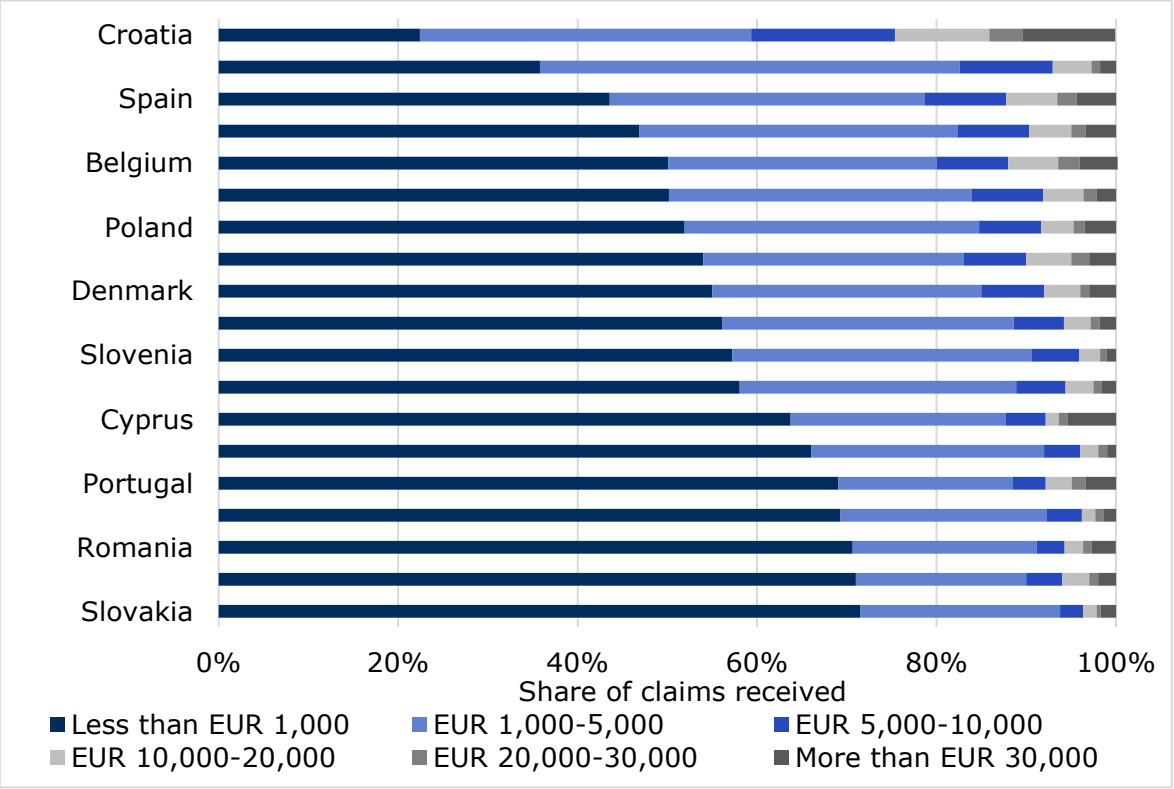
Distribution of VAT refund claims received by value

In order to determine whether these average values were reflective of the actual value of most claims, or whether they had been skewed by a smaller number of particularly high/low value claims, a breakdown of claims received across value categories was collected from 19 tax administrations.

For 15 of the 19 respondents, claims with a value of less than EUR 1,000 constituted more than half of all claims received, and more than two-thirds for 6 of the 19 respondents. A large proportion of claims in all 19 Member States of Refund were for less than EUR 5,000.

At the other end of the scale, claims with a value of over EUR 30,000 constituted less than 5% of all claims in 18 of the 19 Member States of Refund. Even when extended to claims above EUR 20,000, the share of all claims still remained below 5% for 19 Member States. The exception to this rule was Croatia, where only 22% of claims were worth less than EUR 1,000, and 10% were worth over EUR 30,000.

Figure 6: Share of claims received by Member States in 2016 by value

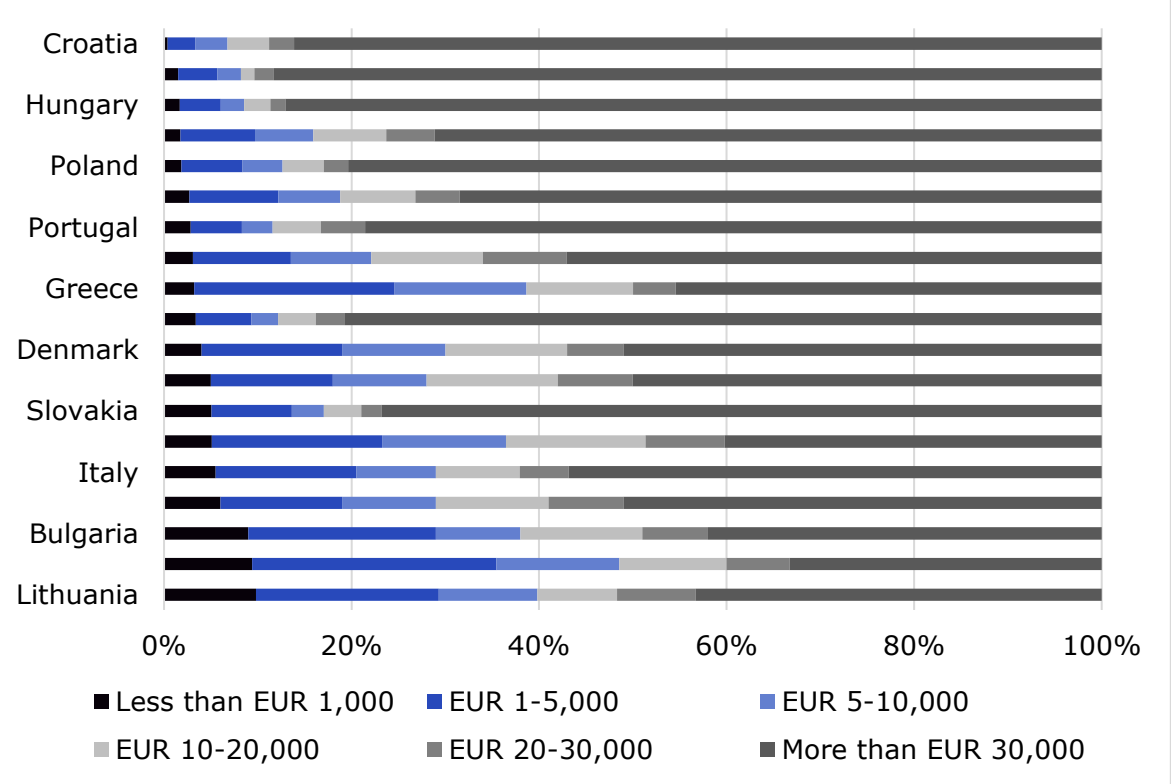


Source: Tax administration data, PwC analysis

The number of claims across different value categories was also collected from EU tax administrations to show the relative contribution of claims in each value category contributed to the total value of VAT refund claims received. For example, the previous metric showed that claims with a value of less than EUR 1,000 made up 57% of claims received by Slovenia. However, further analysis shows that these claims only made up 9% of the total value of claims received in 2016.

In general, the data showed a mirror image of the previous metric. While claims with a value of less than EUR 1,000 made up a large proportion of all claims received by number in most Member States of Refund, claims with a value of over EUR 30,000 made up a large proportionof the total value for most Member States also. For 15 of the 19 Member States of Refund, claims worth more than EUR 30,000, though small in number, accounted for more than all the claims in every other category of value combined. In almost 74% of Member States, claims worth over EUR 30,000 amounted to less than 5% of the total number of claims received but over 50% of their combined value. This trend was less evident in Slovenia, where claims with a value of over EUR 30,000 only contributed to a third (33.3%) of the total value of claims received in 2016.

Figure 7: Total value of claims received in 2016 per Member State by category of value



Source: Tax administration data, PwC analysis

Distribution of VAT Refund claims by expense type

Article 9 of the 2008/09/EC Directive lists expense categories that are eligible for VAT refund. However, eligibility rules for some of these expense categories vary by Member State of Refund. An overview of these differences is set out below:[20]

- **1= Fuel:** In most Member States, a VAT refund is allowed on fuel related expenses provided it is used for business purposes. However, it is worth noting that in Portugal, only 50% of the VAT on diesel, LPG, natural gas and biofuel is refundable. Similarly, in Romania, VAT on fuel related costs is only 50% refundable.

- **2= Hiring of means of transport:** Similar to fuel related expenses, most Member States allowed refund claims on VAT incurred when hiring vehicles for business purposes. No significant differences in eligibility rules were identified.

[20] Information on the eligibility rules can be found in the European Commission's country-by-country guides (Vademecums) to claiming VAT refunds

- **3= Expenditure relating to means of transport (other than goods and services referred to under codes 1 and 2):** Similar to expense types 1 and 2, most Member States allow VAT refund claims on expenditure relating to means of transport.

- **4= Road tolls and road user charge:** No issues relating to VAT refund claims on road tolls were identified in most Member States were identified. However, only VAT incurred on highway tolls on motor vehicles with "gross weight equal to or more than 3.5 tones" are eligible for VAT refund.

- **5= Travel expenses, such as taxi fares, public transport fares:** VAT incurred on taxi fares is only partially refundable in Estonia and non-refundable in Hungary and Lithuania. No other issues were identified in other Member States.

- **6= Accommodation:** VAT incurred on accommodation is refundable in most Member States provided it is incurred for business purposes. However, in Greece and France VAT incurred on accommodation for the benefit of company personnel, representatives and management is not refundable. Furthermore, in Portugal VAT incurred on accommodation related to the organisation of an event to promote the business is only partially refundable. Similarly, VAT incurred on accommodation relating to entertainment is not refundable. In Finland, immovable property that the staff use for residence or recreational purposes is not entitled to VAT refund. Lastly, in Denmark VAT on accommodation needs to be specifically provided in the invoice in order to be refundable.

- **7= Food, drink and restaurant services:** Eligibility rules for VAT refund claims on food, drink and restaurant services vary across Member States. In Member States such as Austria and Denmark, VAT incurred on food related expenses is refundable provided these expenses have a business purpose. Similarly, in Latvia and Sweden VAT incurred on food related expenses is partially refundable. Poland allows VAT refund claims on food and beverages so long as certain conditions are met. In contrast, Member States such as Hungary, Greece, Netherlands, Ireland and Spain do not allow VAT refund claims on food and drinks. Furthermore, in Belgium, Malta and Romania VAT refund claims on alcoholic beverages are permitted provided it is intended for resale.

- **8= Admissions to fairs and exhibitions:** No issues were identified with regards to claims falling under this expense category.

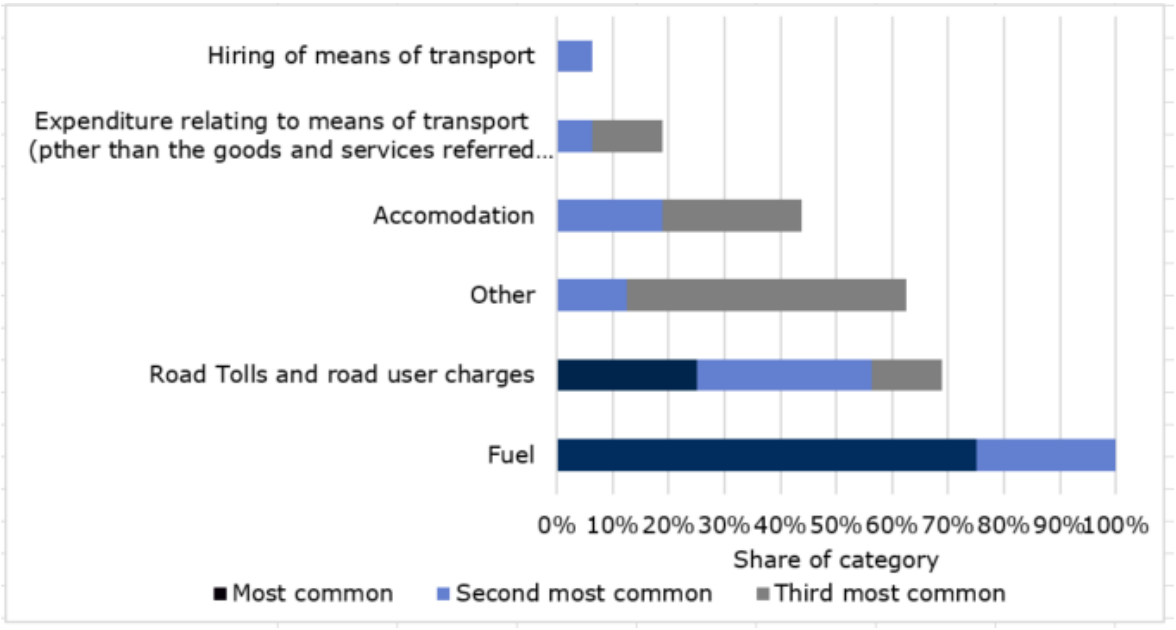
- **9= Expenditure on amusement, luxuries and entertainment:** Austria, Bulgaria, Croatia, Czech Republic, Greece, Ireland, Finland, Hungary, Latvia, Portugal and Spain do not allow VAT refund claims on expenses relating to entertainment. In contrast, some Member States allow such claims provided the expense meets certain conditions. For example, in Cyprus VAT incurred on entertainment services provided to employees is refundable. In Malta, if the entertainment service is provided in the normal course of an economic activity

the VAT incurred on it will be refundable. In the Netherlands, business entertainment within a certain threshold is eligible for VAT refund claims and in Sweden any entertainment expense that is considered unreasonable will not be eligible for VAT refund. In Denmark, entertainment related expenses such as restaurant meals are eligible for a partial VAT refund claim. Similarly, in Lithuania, VAT refund claims on entertainment related expenses are only partially refundable.

- **10= Other:** Tobacco related expenses can potentially fall under this category. VAT refund claims on tobacco products is not allowed in Portugal and Spain. In contrast, in Belgium, Malta and Romania VAT refund claims on tobacco products are only refundable if it is "intended for resale". Expenses relating to construction and restoration are also likely to fall under this expense category and are not eligible for VAT refund in Latvia and Hungary.

Tax administrations were also asked to list the most common expense types being claimed. 17 Member States provided a breakdown of claims received by expense type. Figure 8 shows that, fuel was the most common expense type followed by road tolls and road user charge. Road tolls and road user charges and fuel were the second most common expense types. The expense type categorised as 'other' represented half of the third most common expense types claimed.

Figure 8: Most common expense categories being claimed across the EU-17 in 2016

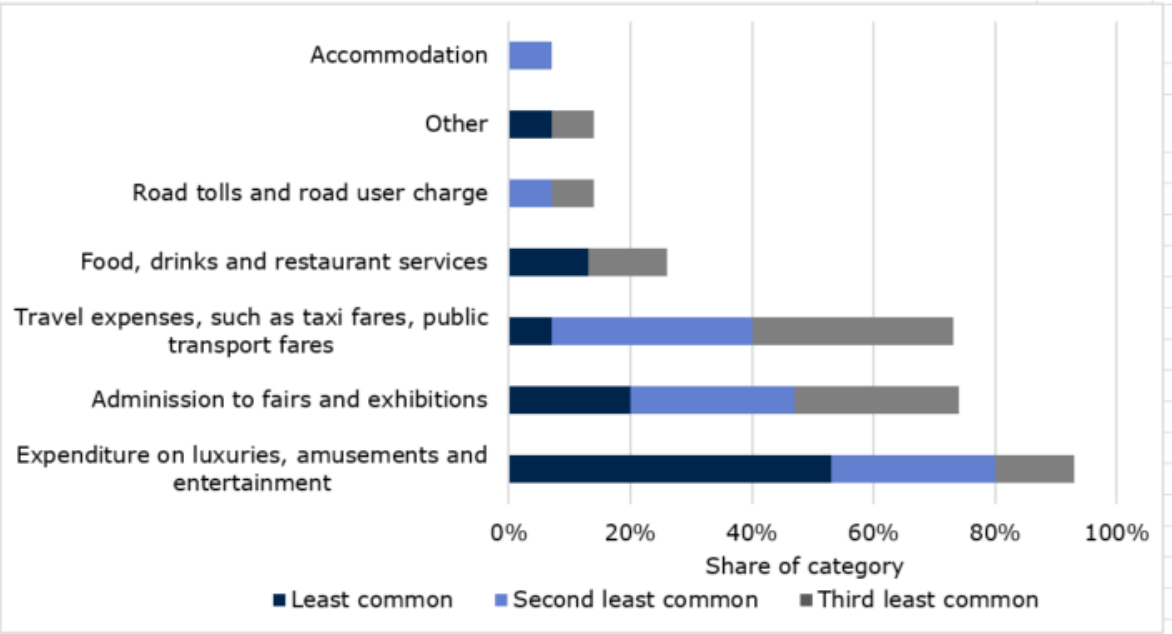


Source: Tax administration data, PwC analysis

Figure 9 shows that, expenditure on luxuries, amusements and entertainment and admission to fairs and exhibitions were the least common expense type being claimed. This is likely to be due to the fact that these expense types are ineligible for refund in several Member States. One Member State, Ireland, recorded accommodation as the second least common expense type being claimed and two Member States, Latvia and

Estonia, recorded road tolls and road user charges as the least common expense types.

Figure 9: Least common expense categories being claimed across the EU-16 in 2016



Source: Tax administration data, PwC analysis

In addition, data collected from VAT refund agents shows that fuel and road tolls, and road user charges were recorded as the most common expense type. This is consistent with the trend identified in tax administration data.

Claims received by Member States of Establishment

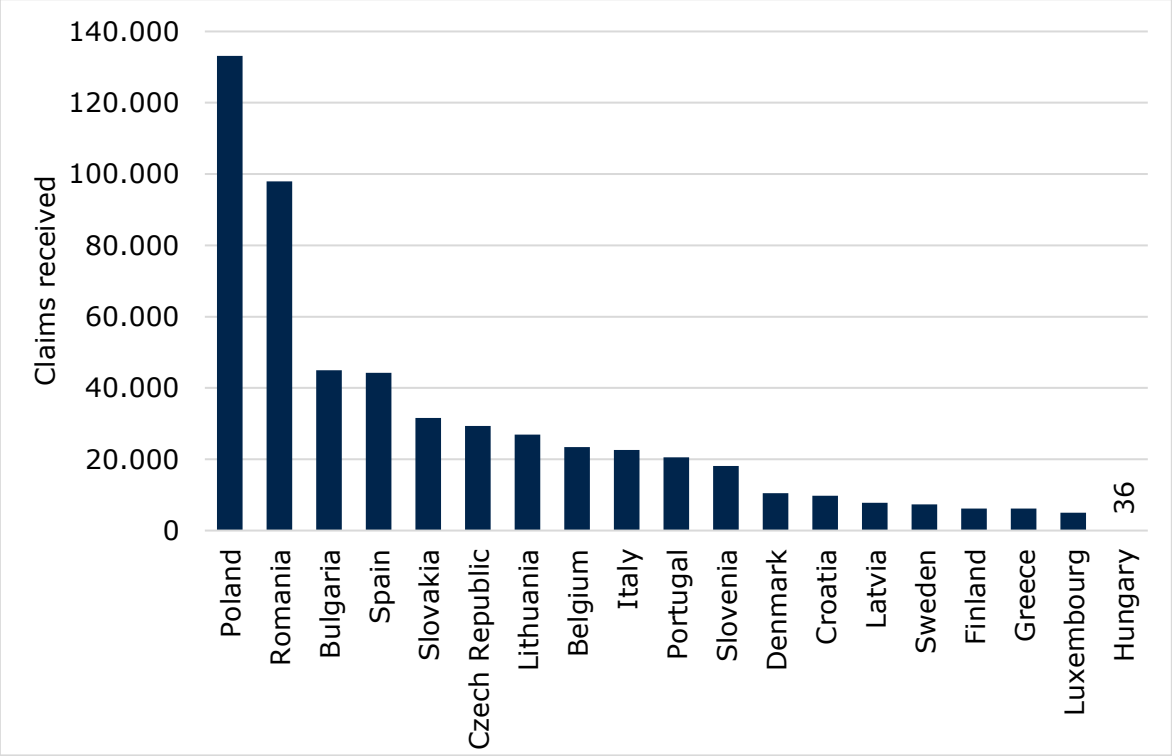
Data on the number and value of VAT refund claims received from businesses in their role as a Member State of Establishment was collected from 19 of the 28 Member States.

As illustrated in Figure 10, the largest number of VAT refund claims originated in Poland, Romania and Bulgaria with 133,000 claims, 100,000 claims and 45,000 claims respectively. All three Member States forwarded the largest proportion of these claims to Austria as a Member State of Refund with 10.7%, 13.8% and 12% respectively.

On the contrary, the lowest number of VAT refund claims originated in Hungary, with only 36 claims in 2016. This was followed by Luxembourg with 5,000 claims, and Greece and Finland with 6,200 claims respectively. Hungary and Greece forwarded more than 20% of their claims to Austria, which again was the Member State of Refund to which the biggest share of claims was forwarded. However, claims originating in Luxembourg were mostly forwarded to France (25.9%) and claims originating in Finland mostly forwarded to Sweden (28%). It should be noted that

these Member States are neighbouring countries, which may be the reason for a higher share of claims being forwarded from Luxembourg to France and from Finland to Sweden.

Figure 10: Total number of VAT refund claims originated in the EU-19 Member States of Establishment in 2016



Source: Tax administration data, PwC analysis

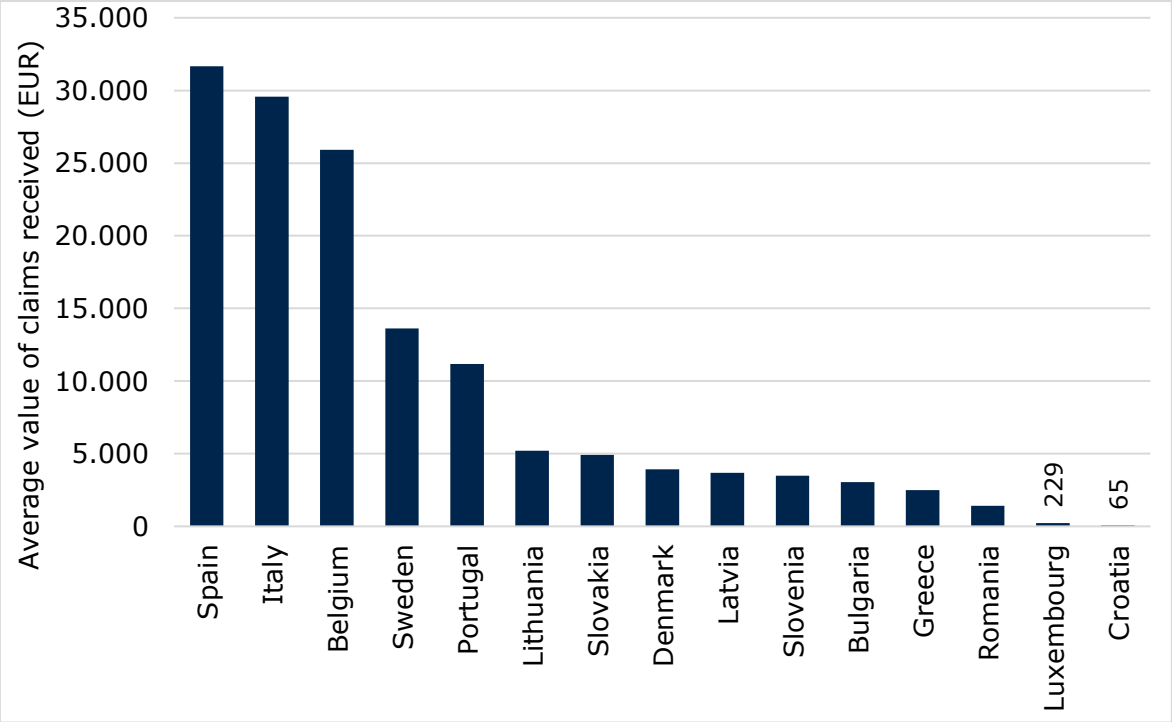
Moreover, responses collected through the business survey showed that businesses surveyed in the respective Member States of Establishment submitted their claims to a wide variety of Member States of Refund. However, businesses appear to submit VAT refund claims frequently to tax administrations in Germany and the United Kingdom, with both or either of these countries being in the top three Member States of Refund from which businesses surveyed claimed a VAT refund.

Businesses surveyed in Sweden sent the largest proportion of VAT refund claims to Germany (23%) followed by VAT refund claim submissions to Austria (13%) and the United Kingdom (10%). In Greece, VAT refund claims submitted by businesses were predominantly forwarded to the tax administrations in the United Kingdom (26%), Cyprus (16%) and Bulgaria (11%). Spanish businesses surveyed claimed a VAT refund most frequently claimed a VAT refund from France (19%), Germany and Italy (12% respectively) and respondents to the business survey in Poland noted that the Member State of Refund they sent most of their claims to are Germany (15%), France (10%) and Belgium (7%). German businesses surveyed noted Austria (13%), France (11%) and Belgium (7%) as the most common Member States of Refund, whereas Romanian

business responses showed that claims were forwarded to the United Kingdom and Bulgaria (12% respectively) and Germany (10%).

Out of the 19 Member States of Establishment that provided data on the volume of VAT refund claims submitted to them by businesses established in their Member States, 15 also provided information on the value of these claims. As illustrated in Figure 11, the largest claims originated in Spain and Italy, with an average value per claim of approximately EUR 32,000 and EUR 30,000 respectively. The Member States of Establishment in which the claims with the lowest average value originated were Croatia and Luxembourg, with EUR 70 and EUR 230 respectively.

Figure 11: Average value of a claims originated in the EU-15 Member States of Establishment in 2016



Source: Tax administration data, PwC analysis

Summary

Tax administrations are receiving more VAT refund claims every year. Between 2013 and 2016, the number of claims received by EU tax administrations grew at an annual average rate of between 3 and 5%.

VAT refund claims also seem to be becoming less valuable. The average claim received by EU tax administrations decreased by nearly 5% between 2013 and 2016. The average value per claim was lowest in Denmark, Luxembourg and Latvia, and highest in Hungary, Cyprus and Poland.

In general, the data showed a mirror image of the previous metric. While claims with a value of less than EUR 1,000 made up a large proportion of the number of claims received by most Member States of Refund, claims with a value of over EUR 30,000 accounted for a large proportion of the total value of claims for most Member States.

Refund claims are most commonly made for fuel, but road tolls and accommodation are also common reasons for claims. In comparison, few claims are received for expenditures on luxuries and entertainment, admission to exhibitions, travel expenses, or food and drink.

Claims most frequently originate in Member States of Establishment in Eastern Europe. Poland, Romania and Bulgaria are the three Member States of Establishment in which the highest number of refund claims originated in 2016. A particularly high number of claims originated in the first two, with Poland having forwarded more than 133,000 claims and Romania nearly 98,000 claims in 2016. Spain, Italy and Belgium, however, produced the highest value claims on average in 2016, with an average value per claim over twice as high as those originating in any almost every other Member State in 2016.

5.1.3 VAT refund preparation and submission

Key findings: Article 7 of Directive 2008/9/EC states that claimants shall submit an electronic refund application to the Member State of Refund through an online portal operated by the Member State of Establishment.

Large proportion of the 217 businesses surveyed that process claims in-house noted that they have IT systems in place to support the preparation of VAT refund claims. In comparison, large business respondents indicated they have not purchased IT systems dedicated to supporting the preparation of VAT refund claims. This was attributed to the fact that large businesses have comprehensive IT solutions to help with the preparation of VAT refund claims among other functions.

While all Member States of Refund allow third parties, such as VAT refund agents, to make a claim on behalf of a business through a Power of Attorney (POA), tax administrations across these Member States of Refund differ in the manner in which they manage the process of acquiring a PoA. Furthermore, all VAT refund agents surveyed indicated that there were no substantial fees incurred by taxpayers in appointing an agent other than legal fees associated with the PoA. Businesses surveyed also suggest that the costs associated with appointing a VAT refund agent are relatively low.

Businesses recorded that they take approximately the same time to prepare and submit a claim regardless of whether additional information is requested. This can potentially attributed to the fact that businesses already collect some of the additional information when preparing the claim initially.

Businesses identified, language and/or translation problems as the most common issue faced when preparing and submitting a VAT refund claim followed by communicating with tax administrations and difficulties complying with requests for additional information. This is particularly problematic since, as seen in section 5.1.5, businesses perceive that requests for additional information are relatively common.

Furthermore, a large proportion of the businesses acknowledged that the process for

making VAT refund claims had improved in the last 5 years.

Businesses that had no experience in making a claim recorded that not having incurred any foreign VAT and VAT amounts being too small to be eligible for a refund as outlined in Article 17 of Directive 2008/9/EC as the most common reasons for not making a claim. Thus, this indicates that most businesses surveyed are aware that they can make a claim but are simply not eligible to do so.

This section of the report builds an understanding of how businesses prepare and submit VAT refund claims, as well as common issues experienced during the process. Understanding the claim preparation and submission process will not only help to identify potential means to improve efficiency, but it will also highlight differences in the perceptions held by businesses and tax administrations on the smoothness of process.

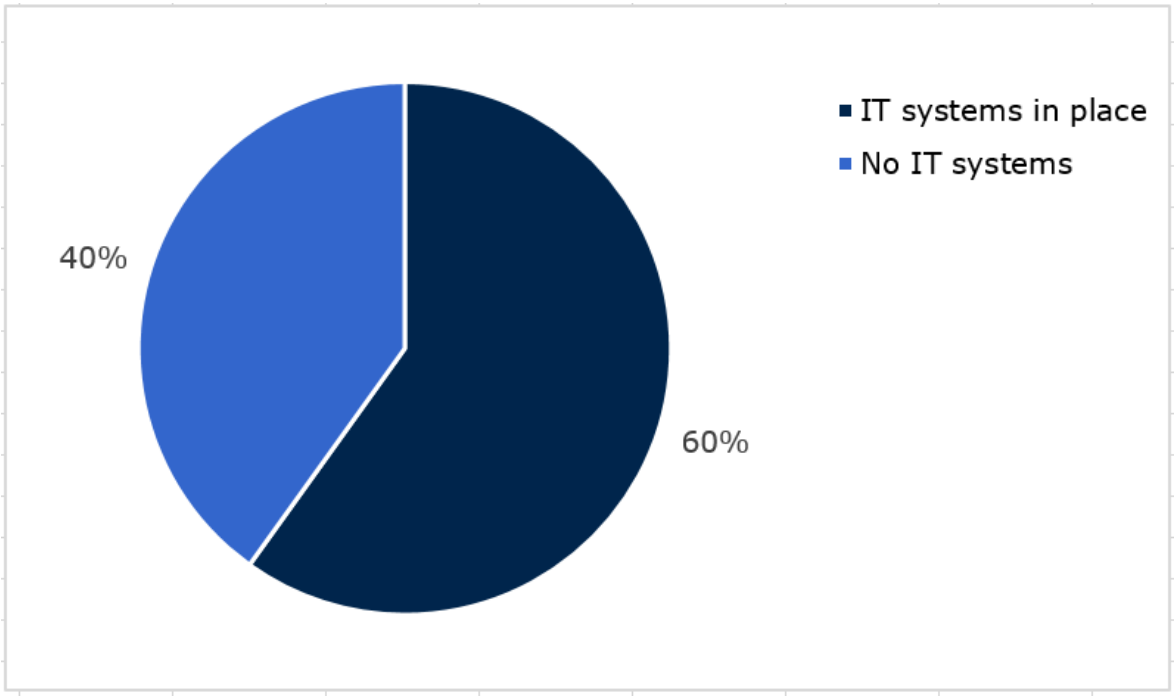
How do business prepare and submit VAT refund claims?

Article 7 of Directive 2008/9/EC states that claimants shall submit an electronic refund application to the Member State of Refund through an online portal operated by the Member State of Establishment. As such, the claim submission process is entirely electronic, although claim preparation may be paper-based and subsequent communication with the tax administrations in the Member State of Refund may be conducted via post.

Businesses eligible for a VAT refund may choose to prepare and submit the claim in-house or with the help of a specialist VAT refund agent appointed to act on their behalf. There are a number of specialist VAT refund agents operating in the EU-28. Indeed, the VAT refund agents surveyed as part of this study, collectively, accounted for 2.3% by value and 4.4% by number of VAT refund claims received by EU-28 tax administrations in 2016. Although the agents surveyed only accounted for a relatively small share of VAT refund claims, the small sample size indicates that the agent population as a whole could account for a significant share (both by value and volume) of VAT refunds. Section 5.1.8 will analyse the effectiveness of VAT refund agents.

Of the 217 businesses surveyed that process claims in-house, 60% of respondents noted that they have IT systems in place to support the preparation of cross-border VAT refund claims. In comparison, large business respondents indicated they have not purchased IT systems dedicated to aiding the preparation of VAT refund claims. This seems surprising as they are likely to be in a position where they are more able to invest in software than small businesses. However, it may be that larger businesses have comprehensive IT solutions that help with the preparation of VAT refund claims among other functions.

Figure 12: Number of businesses that purchased IT systems to support the preparation and submission of VAT refund claims



Source: PwC analysis

Accepted language by Member States of Refund for the purpose of submitting a VAT refund claim

Article 12 of Directive 2008/9/EC states that Member State of Refund may specify the language or languages that can be used when making a VAT refund claim. Table 7 below highlights the primary and secondary languages that businesses can submit a VAT refund claim in each EU-28 Member State of Refund. 60% of the Member States of Refund list English among the primary languages. Of the 11 Member States of Refund that do not list English as a primary language, five consider it to be the secondary language. Only six Member States of Refund, namely Czech Republic, Malta, Poland, Romania, Slovenia and Spain do not have English listed as either the primary or secondary language for communication.

Table 7: Accepted language by Member States of Refund for the purpose of submitting a VAT refund claim

Member State	Primary Language	Secondary Language
Austria	German	English

Member State	Primary Language	Secondary Language
Belgium	English, Dutch, French, German	No specified languages
Bulgaria	Bulgarian, English	No specified languages
Croatia	Croatian, English	No specified languages
Cyprus	Greek	English
Czech Republic	Czech	No specified languages
Denmark	Swedish, English, German	No specified languages
Estonia	Estonian, English	No specified languages
Finland	Finnish, Swedish, English	No specified languages
France	French	English
Germany	German, English	No specified languages
Greece	Greek, English	No specified languages
Hungary	Hungarian, English	No specified languages
Ireland	English, Irish	Bulgarian, Croatian, Czech, Danish, German, Greek, Spanish, Estonian, Finnish, French, Hungarian, Italian, Lithuanian, Latvian, Maltese, Dutch, Polish, Portuguese, Romanian, Slovakian, Slovenian, Swedish and Turkish.
Italy	Italian	English
Latvia	Latvian, English	No specified languages
Lithuania	Lithuanian, English	No specified languages
Luxembourg	French, German	English
Malta	No specified languages	No specified languages
Poland	Polish	No specified languages
Portugal	Portuguese, English	No specified languages
Romania	Romanian	No specified languages
Slovakia	Slovak, English	No specified languages
Slovenia	Slovene	No specified languages
Spain	Spanish	No specified languages
Sweden	Swedish, English	No specified languages
The Netherlands	Dutch, English, German	No specified languages
United Kingdom	English	No specified languages

Source: PwC analysis

How do businesses appoint a VAT refund agent?

In understanding more about the process of appointing a VAT refund agent, qualitative data has been gathered from the Phase 2 agents' questionnaire, where four of the six agents surveyed provided the data. Two of those four agents completed the questionnaire in respect of all Member States, while the other two chose to provide data in respect of individual Member States, namely Germany, Hungary, Portugal, Italy and the United Kingdom.

All of the EU-28 allow third parties, such as agents, to act on a taxpayer's behalf, usually through a Power of Attorney (PoA). However, data suggests that Member States have different ways of managing the process of acquiring a PoA. Certain Member States accept digital copies of the PoA attached to each refund application, while others require original hard copies to be mailed to the tax administration.

The process of appointing a VAT refund agent appears to be particularly quick in Germany. This was highlighted by two agents: one in a response covering the whole of the EU and the other in a Germany specific response. The fact that an electronic copy of a PoA can be used may explain this.

Two other agents, responding in respect of Hungary and Portugal, suggested these Member States may have particularly straightforward processes as typically a simple PoA is all that is required to appoint an agent. In contrast, another agent responding in respect of Italy, observed that a signed hardcopy of the PoA has to be initially provided with the first claim, with electronic copies being used for subsequent applications.

The process of appointing a VAT refund agent

Data gathered from the Phase 2 agents' questionnaire suggests that the process of appointing a VAT refund agent is generally straightforward across the EU with most Member States having an electronic process. Generally, the portals operated by the Member States of Establishment through which the refund application is submitted have detailed instructions on how to register an agent to act on a taxpayer's behalf. Depending on whether the agent holds a local VAT registration (i.e. is established in the country where the refund application is being filed), different procedures may be followed.

The process of registering the agent on the VAT refund portal

Data from the VAT refund agents surveyed suggests that there are differences regarding the actual administrative procedures followed when registering a VAT agent on the refund portal. For example, two agents in responses which covered the whole of the EU noted that in the United Kingdom and the Netherlands the process of appointing an agent takes considerably longer than in other Member States as parts of the registration process are conducted by post. In the United Kingdom for example, the process is split into three stages; initially the agent inputs certain taxpayer information into the online portal, then a PIN is generated which is directly sent to the taxpayer by post. Finally, the taxpayer forwards the PIN to the agent and the registration procedure is completed.

In terms of costs associated with appointing an agent, the experience of all of the agents surveyed indicates that there are no substantial fees incurred by taxpayers in appointing an agent, other than the legal fees associated with the PoA. In cases where a taxpayers has a number of entities for which it appoints agents to deal with VAT refunds, the level of the legal fees would increase proportionately as the taxpayer would be required to provide a PoA to each entity.

The data gathered from the online business survey also suggests that the costs associated with appointing an agent are relatively low. More than 50% of the 87 businesses that appointed external agents suggested that such costs range between EUR 250 to EUR 5,000.

With regards to the time it takes to appoint an agent, qualitative data gathered from the Phase 2 agents' questionnaire suggests that it takes about two weeks to appoint a VAT refund agent to act on taxpayer's behalf. For the Member States where an electronic copy of the PoA is accepted, this can be done much more quickly.

Two agents, in responses which covered all Member States, observed that the process of appointing a VAT refund agent takes the longest in the United Kingdom, Netherlands and Malta.

Similarly to the UK, Netherlands and Malta also use a paper based system to send login codes to applicants. Although taxpayers apply online, the codes are received by post and have to be forwarded to the agent. This reduces the efficiency of the process and can cause delays.

Agents suggested that the process of appointing a VAT agent was quickest in Belgium and Germany.

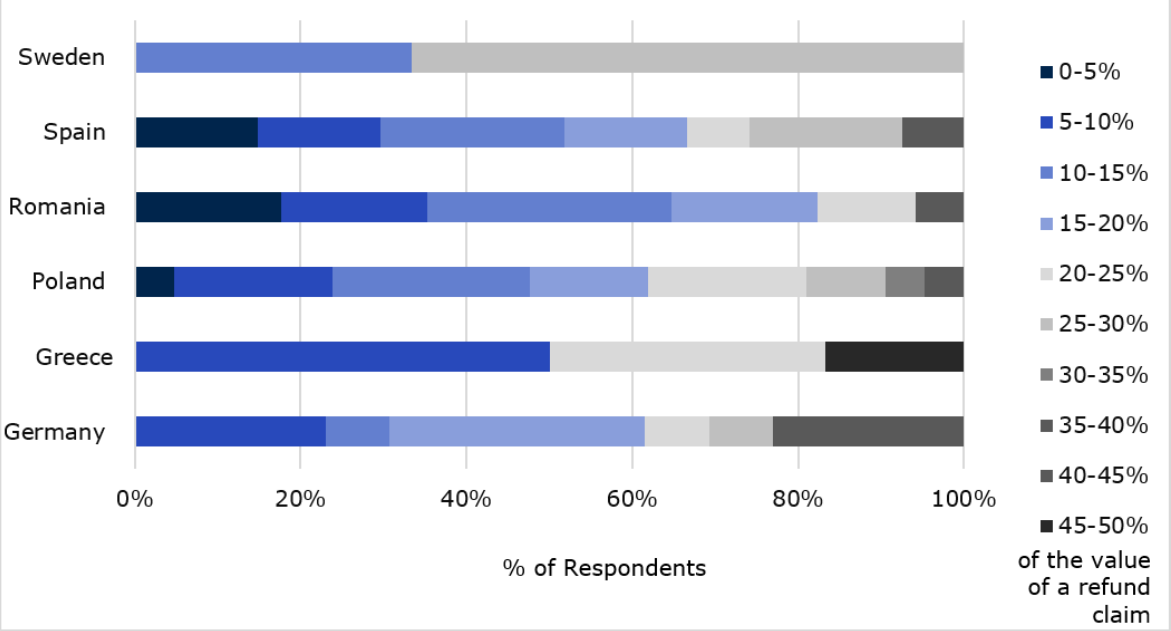
Costs for businesses to utilise the service of VAT refund agents

Of the 304 businesses surveyed that made a VAT refund claim in the last three years, only 29% claimed that they employed an external VAT refunds agent to prepare and submit VAT refund claims on their behalf.

Figure 13 provides an overview of the average cost charged by VAT refund agents to prepare and submit a VAT refund claim relative to the value of a claim. The proportion paid to VAT refund agents varies greatly by the country in which businesses are registered. For example, three of the six business respondents in Greece using a VAT

refund agent recorded that that they pay 5% to 10% of the VAT claimed to this agent. In Poland, however, responses from the businesses surveyed varied more widely. 19% of the 21 businesses surveyed in Poland responded that they pay 5% to 10% of the VAT value claimed to their VAT refund agent. The same share of businesses stated that they pay approximately 20% to 25%, and 24% responded that they pay 10% to 15% of the claimed value to VAT refund agents.

Figure 13: Commission charged by VAT refund agents as a percentage of average VAT refund claim value



Source: PwC analysis

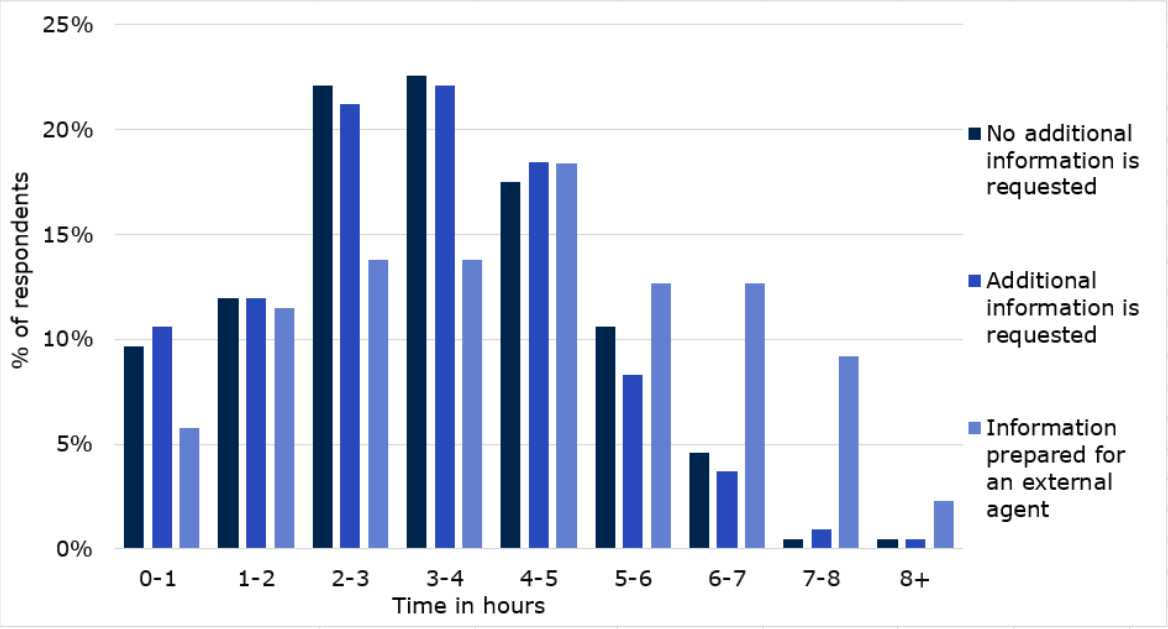
How long does it take to prepare and submit a VAT refund claim?

Figure 14 compares how long businesses take to prepare and submit claims where no additional information is requested and where additional information is requested. It also includes the time taken by businesses to prepare information for a VAT refund agent to submit a claim on their behalf.

Interestingly, respondents to the business survey that submit claims directly take similar amounts of time regardless of whether additional information is requested. Most businesses surveyed estimated that they take two to five hours to prepare and submit claims. The reason for businesses taking approximately the same time to prepare claims regardless of whether additional information was requested may be that businesses already collect some of the additional information when preparing the claim initially. In fact, of the 217 businesses surveyed that prepare and submit claims in-house, 65% observed that they find it easy to address additional information requests by tax administrations.

On the other hand, responses from businesses on how long they take to prepare information for external agents were more varied. Most of the businesses surveyed that employ external agents responded that they take between two and eight hours to prepare information. The reason for this may be that businesses are typically employing external agents to assist with more challenging claims. As discussed later in the report, claims that are of higher value or relate to a particular expense types are more likely to be queried and subsequently delayed or rejected. If a claim is more likely to be scrutinised, it may have additional requirements with regards to preparation and submission. Therefore, the fact that businesses appear to take longer to prepare the information for agents may be attributable to the nature of claims that agents deal with. Equally, this could be attributed to VAT refund agents requesting a larger volume of information upfront in case a claim is subsequently queried by the Member State of Refund.

Figure 14: Time taken by businesses to prepare and submit VAT refund claims



Source: PwC analysis

What issues are commonly encountered by businesses?

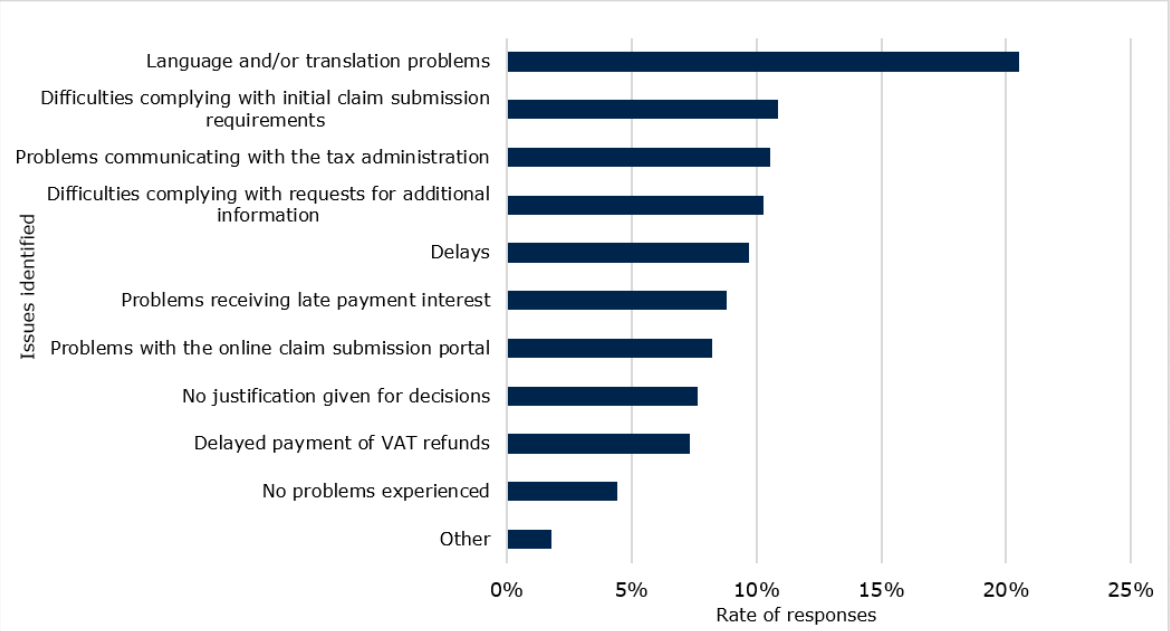
Out of 217 businesses surveyed that process claims in-house, 129 businesses provided a response on the most common issues faced when submitting a VAT refund claims and the Member State of Refund with which they faced these issues. Germany

(17%) was ranked as the most common Member State of Refund where businesses had experienced issues. Belgium (9%), Bulgaria (9%) and France (7%) were other Member States of Refund where businesses recorded that they had encountered difficulties. The fact that most businesses face problems in Germany, Belgium and France may be due to high volume of claims businesses submit to these Member States of Refund.

Figure 15 illustrates common issues encountered by businesses when making a VAT refund claim. With approximately 21% of responses, language and/or translation problems were recorded as the most common issue face by businesses. This was followed by problems in communicating with tax administrations and difficulties in complying with requests for additional information. This is particularly problematic as requests for additional information are very common, with 92% of the 217 businesses surveyed who process claims in-house recording that they have experience in addressing additional information requests. The businesses surveyed mentioned that they find tax administrations' requirements with regards to additional information and documents particularly burdensome. Furthermore, as recorded in section 5.1.7, issues with regards to invalid documentation was one of the most common reasons for claims to be rejected.

Language and/or translation problems, as well as difficulties with complying with additional information requests, appeared to be a particular problem for business when dealing with the German tax administration. According to the businesses surveyed, language and/or translation problems were encountered for approximately 21% of claims and difficulties with additional information request for nearly 26% of claims submitted to Germany as a Member State of Refund. Moreover the businesses surveyed stated that the tax administration with which they had the most problems in communicating with was Bulgaria (17% of responses).

Figure 15: Common issues businesses encountered by businesses when making VAT refund claim



Source: PwC analysis

Qualitative data gathered from the Phase 2 agents' questionnaire highlights a few Member States where communication issues arise due to different languages being used, in particular where certain Member States require taxpayers to provide invoices and supporting documentation in the local language.

Two agents, in responses covering the whole EU, observed significant communication and language issues in dealing with refund claims in Croatia, Bulgaria, Hungary, Czech Republic, France, Lithuania, Poland, Romania, Spain, and Italy.

In these Member States, VAT refund agents struggle to deal efficiently with queries from the tax administrations as a translation is often required. This causes delays in processing the claims and also poses other challenges such as the risk of changes in interpretation of the query due to translation issues.

In Italy, for example, other languages such as English or French seem to be accepted as means of communication. However, all required official documentation should be in Italian. Both agents whose responses covered all Member States observed this phenomenon in a few other Member States, notably in the Czech Republic and Romania, where all supporting documentation submitted to substantiate a claim must be in the local language.

The experience of the VAT refund agents suggests that whenever translation of official documentation is required, the associated costs can pose a significant burden especially if there are long documents such as contracts that need to be translated in full. Other important issues are the associated notary and apostille costs and delays that may hamper the process and make it harder to meet filing deadlines. Depending on the volume of documents that need to be translated and notarised, the costs associated with a claim may outweigh the amounts being reclaimed. In such cases, translation costs can make it uneconomic for a VAT refund agent to pursue a claim.

Engagement with tax administrations:
Submitting claims - Language requirements

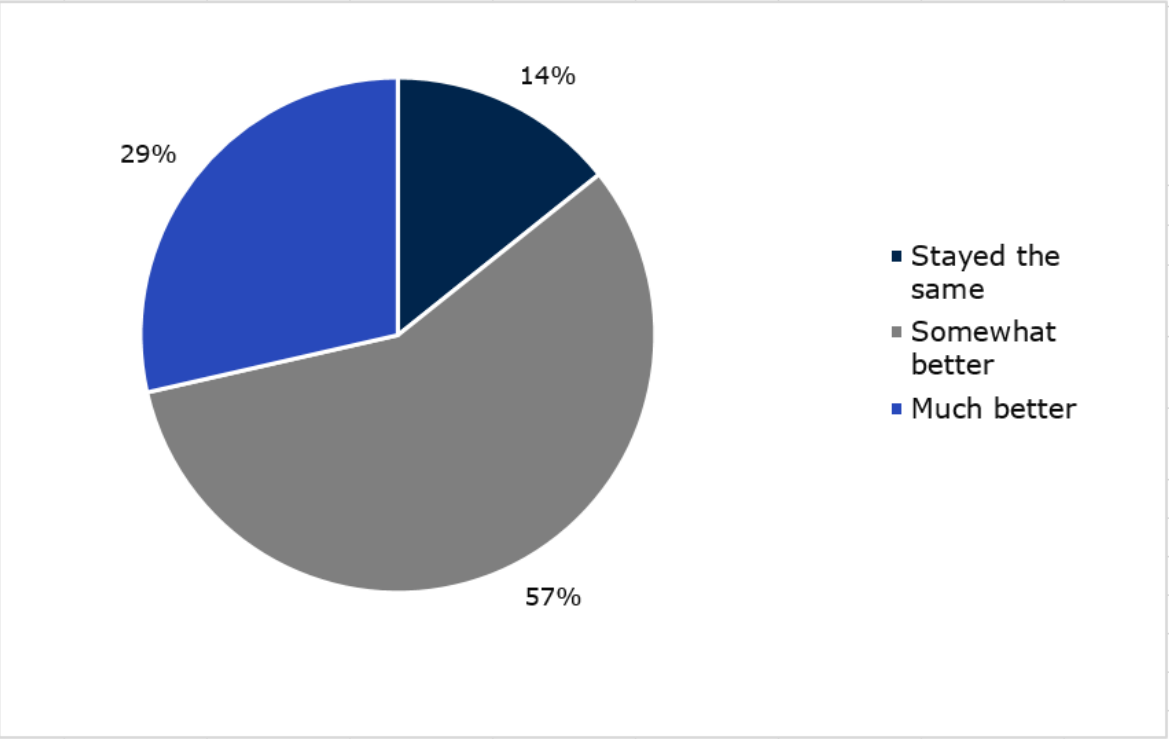
Tax administrations reported negative experiences resulting from the use of different languages by Member States when submitting claims, in particular those where communication is only permissible in the native language. The Danish tax administration stated that it often assists Danish companies in translating correspondence from other Member States of Refund, noting that requiring Member States to communicate in either English, French or German would be a significant improvement. The Czech tax administration reported strong negative experiences resulting from the fact that communication is only permissible in Czech. The administration noted concerns that if a second permissible language for communication was introduced, it would be difficult to justify the choice of language to other Member States who speak neither.

Improvements

Figure 15 shows how businesses perceive the process for claiming a VAT refund to have changed over the last five years. None of the businesses surveyed considered that the process had worsened in this period of time. However, over 85% of businesses considered the process to have improved while only 14% considered it to have remained the same. It should be noted that the number of responses from the businesses surveyed was limited in this area.

Businesses also provided examples of positive and negative experiences that they had with regards to making refund claims. Delays in processing claims, issues pertaining to language and lack of communication were some of the negative experiences that businesses reported. However, at the same time businesses acknowledged the fact that some tax administrations are very effective in communicating. The German tax administration was acknowledged for effective communication by businesses in Sweden and Romania.

Figure 16: Changes to the process of claiming a VAT refund over the last five years



Source: PwC analysis

Why might a business not submit a VAT refund claim?

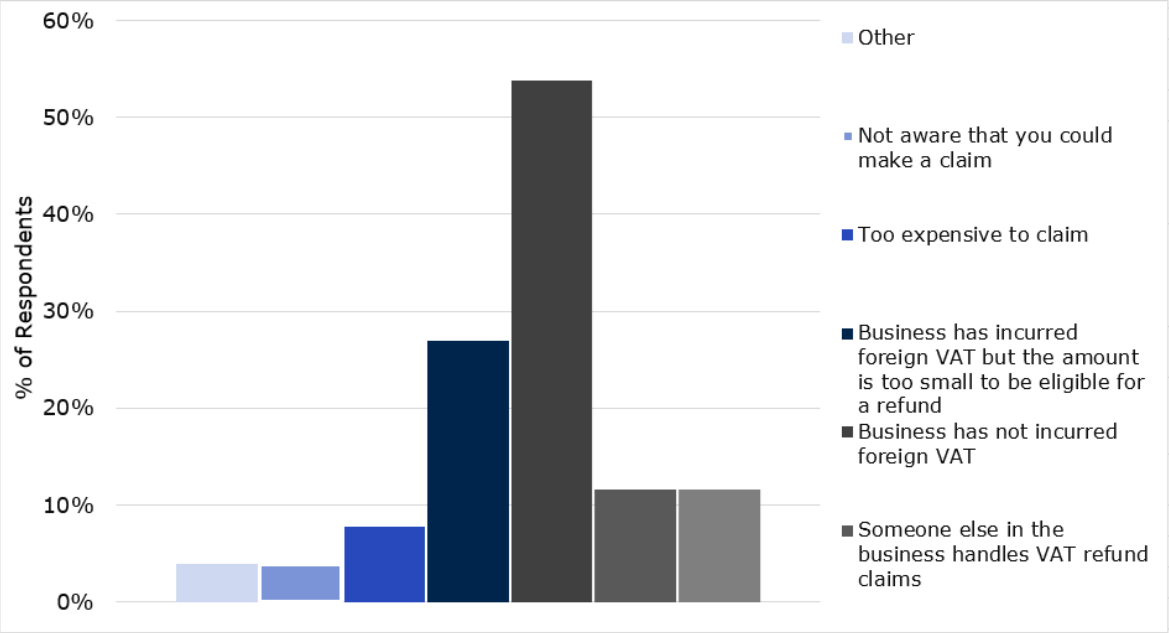
Of the 434 business surveyed, 26 respondents stated that they do not have experience in handling VAT refund claims.

Figure 17 highlights the potential reasons why these businesses might not submit a VAT refund claims.

The businesses surveyed recorded not having incurred any foreign VAT (54%) and VAT amounts being too small to be eligible for a refund in the Member State of Refund (30%) as the most common reasons for not having made a claim. This indicates that most of the businesses surveyed are aware that they can make a VAT refunds claim, but are simply not eligible to do so. This is further supported by the fact that only one business surveyed responded that they did not know about the possibility of submitting a VAT refund claim.

Interestingly, an increased risk of VAT audit or investigation (12%) was the third most common reason among the businesses surveyed for not submitting a VAT refunds claim. In addition, 8% of the businesses responded that it is too expensive for them to claim VAT.

Figure 17: Reasons why a business might not submit a VAT refund claim



Source: PwC analysis

Summary

Article 7 of Directive 2008/9/EC states that claimants shall submit an electronic refund application to the Member State of Refund through an online portal operated by the Member State of Establishment. Businesses can either prepare and submit a claim in-house or employ an external agent to do the same.

The majority of the 217 businesses surveyed that process claims in-house noted that they have IT systems in place to support the preparation of VAT refund claims. In comparison, large business respondents indicated they have not purchased IT systems dedicate to aiding the preparation of VAT refund claims.

With regards to employing an external agent, while all Member States of Refund allow third parties such as VAT refund agents to make a claim on behalf of a business through a POA, tax administrations across these Member States of Refund differ in the manner in which they manage the process of acquiring a PoA.

All VAT refund agents surveyed indicated that there were no substantial fees incurred by taxpayers in appointing an agent other than legal fees associated with the PoA. Businesses surveyed also suggest that the costs associated with appointing an agent are relatively low. Furthermore, the proportion of VAT refund claimed paid to VAT refunds agents varied greatly by the country in which businesses are registered.

Businesses also provided data on how long it takes for them to prepare and submit a claim in instances where no additional information is requested, where additional information is requested and where they have to prepare information for external agents. Businesses recorded that they take approximately the same time to prepare and submit a claim regardless of whether or not additional information is requested. This can potentially be attributed to the fact that businesses already collect some of the additional information when preparing the claim initially.

Businesses identified language and/or translation problems as the most common issue faced by businesses followed by communicating with tax administrations and difficulties complying with requests for additional information.

Furthermore, a majority of the businesses surveyed acknowledged that the process for making VAT refund claims overall had improved in the last five years.

Finally, businesses who stated that they had no experience making claims were asked what the common reasons for this were. These businesses recorded that not having incurred any foreign VAT and VAT amounts being too small to be eligible for a refund as the most common reasons for not making a claim. Thus, this indicates that most businesses surveyed are aware that they can make a claim but are simply not eligible to do so.

5.1.4 Processing efficiency of EU-28 tax administrations

Key findings: The processing rateof VAT refund claims has decreased from a high of 92% in 2014 to 86% in 2016, which suggests that tax administrations have become less efficient in handling VAT refund claims received.[21]

The absolute number of claims received has increased over the same period, which, under the assumption that there has been no change in the ability of tax administrations to process claims, may explain the decrease in processing rate. However, considering structural changes in the VAT system and a consistent growth in cross-border trade, tax administrations will have to ensure they are prepared to process an increasing number of claims going forward.

The largest proportion of claims were processed in Northern and Western Europe, with Member States of Refund in these regions accounting for all five of the highest processing rates across the EU. In contrast, the fewest claims were processed in Southern and Eastern Europe, with all five of the worst performing Member States of Refunds being located in these regions.

Moreover, claims tended to have a higher average value in Southern and Eastern European Member States, which may suggest that claims are submitted less

[21] The processing rate is calculated as the number of claims for which a decision was made in a given calendar year as a percentage of the number of claims received during the same calendar year plus the claims brought forward from the previous calendar year. Due to data limitations, it has not been possible to exclude claims received during a given calendar year but carried forward to the next calendar year for processing. As such, the processing rates may be understated.

frequently and are more difficult to process. This is also supported by the fact that a Member State in these regions takes longer to process claims on average.

Directive 2008/9/EC does not explicitly state a time limit for Member States of Establishment to forward claims originating in their countries to the respective Member States of Refund. This is reflected by a wide disparity in the time taken by Member States of Establishment to forward a claim to the Member State of Refund. For example, Italy took on average 14 days to forward a claim originated in their country to the respective Member State of Refund, whereas the average duration to forward a claim in Latvia, Slovenia and Sweden was only one day.

In order to evaluate the current VAT refund regime and to assess its strengths and weaknesses, this section will examine the efficiency of tax administrations in processing VAT refund claims. Understanding the relative processing efficiency of tax administrations will help to further understand the reasons behind perception gaps about process effectiveness between businesses and tax administrations. This will consequently help with the evaluation by highlighting potential areas for improvement.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

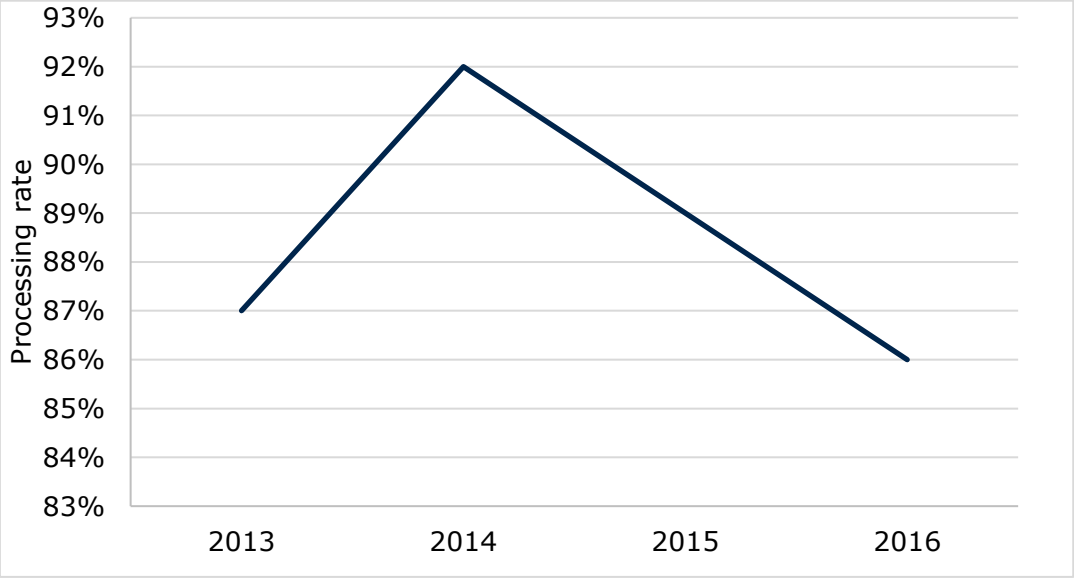
- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-21: Bulgaria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Greece, Hungary, Ireland, Italy, Finland, Luxembourg, Lithuania, Latvia, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-11: Bulgaria, Greece, Hungary, Italy, Latvia, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden.
- EU-9: Belgium, Bulgaria, Estonia, Finland, France, Hungary, Ireland, Portugal and Spain.

Tax administration processing rates

Data on the number of claims received and processed during 2016 were collected from EU-26 tax administrations. Using this data, a processing rate for each tax administration was calculated (i.e. the number of claims processed in 2016 as a percentage of the total number of claims brought forward from 2015 and received in 2016).

Across the EU-26, the processing rate was 86% in 2016. This was the lowest level over the period 2013-2016, down from a high of 92% in 2014.

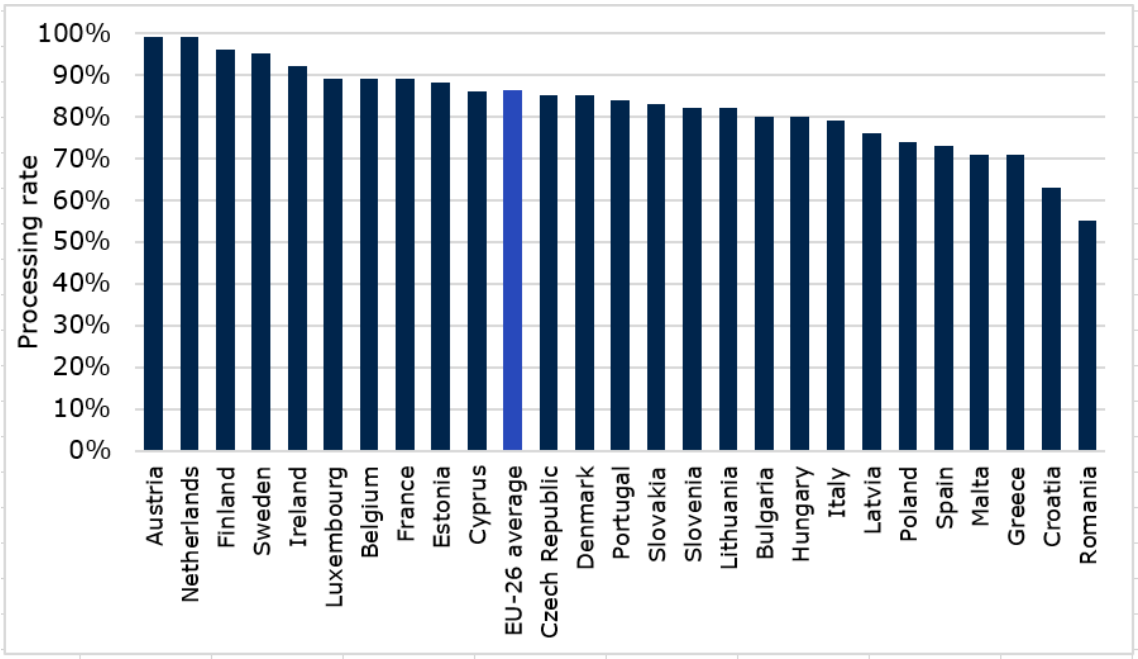
Figure 18: Processing rate across the EU-26 in 2013-2016



Source: European Commission data, tax administration data, PwC analysis

In 2016, sixteen Member States of Refund reported a processing rate below the EU-26 average, and 10 recorded a rate above this level. The rate ranged from 55% in Romania, to 99% in Austria and the Netherlands. The best performing Member States of Refund in this regard were concentrated in Northern and Western Europe, with nine of the 10 Member States with the highest processing rates located in these regions. In contrast, the least efficient Member States of Refund were located entirely in Southern and Eastern Europe, with all five of the worst performing Member States of Refund located here.

Figure 19: Processing rates per EU-27 Member State in 2016



Source: European Commission data, tax administration data, PwC analysis

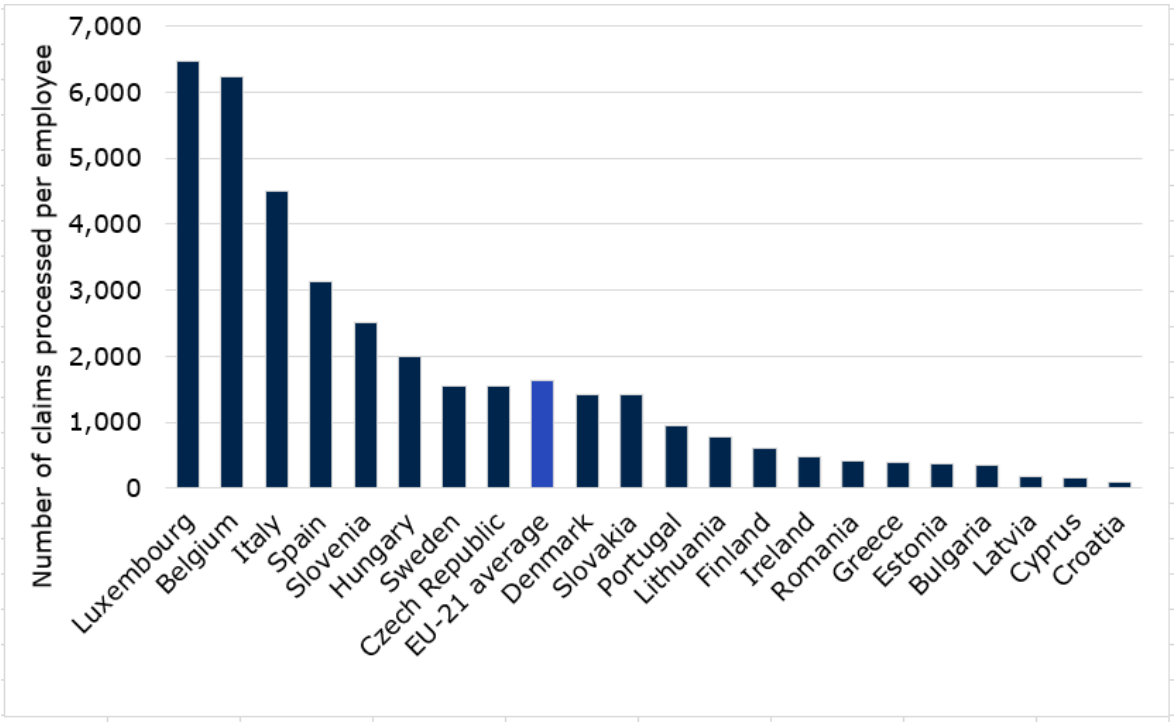
Processing workloads

Data on the number of full time equivalent (FTE) employees working within the department responsible for processing VAT refund claims was collected from EU-21 tax administrations. Using this data it is possible to calculate the number of VAT refund claims processed per FTE employee.

The average number of claims processed per employee in 2016 across these Member States was 1,600. This ranged from 6,500 in Luxembourg to 90 in Croatia. There appears to be a direct correlation between processing rate and volume of claims processed per employee in most Member States. The only exception to this is Cyprus. While the processing rate in Cyprus was above the EU-26 average (86%), the volume of claims processed per employee was below the EU-21 average and second lowest (150). It is not clear whether this is variance is due to under/over-staffing or differences in productivity.

Regional trends were less obvious here. The bottom five Member States of Refund featured in Northern, Southern, and Eastern Europe. This is likely to be at least partially the result of a relatively small data set. I t is possible that regional performance could be differentiated if data on all 28 Member States of Refund was available.

Figure 20: Claims processed per employee perEU-21 Member State in 2016

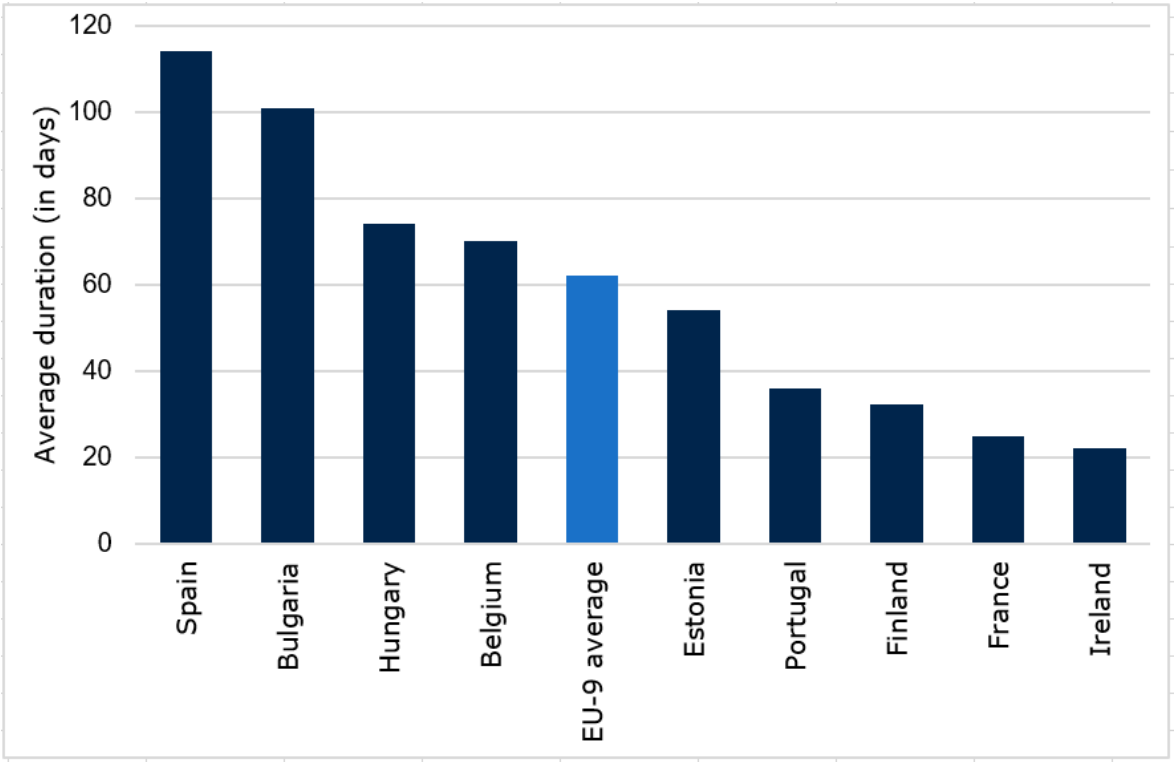


Source: European Commission data, tax administration data, PwC analysis

Processing duration of Member States of Refund

Across the nine Member States for which the average time taken to process a claim (excluding queried or rejected claims and those paid outside Article 19 deadlines) in 2016 was available, the average duration was just over 60 days. Ireland and France were the two best performing countries, reporting average durations of 22 and 25 respectively. The worst performing countries were Spain and Bulgaria, with Bulgaria taking over four times as long and Spain over five times as long to process a claim on average than the best performing country in the sample. Though the sample is less than one-third of all EU Member States, there was, nevertheless, a strong trend towards longer durations in Southern and Eastern European Member States. The three best performing Member States were all located in Northern and Western Europe, while the three worst performing Member States were all located in Southern and Eastern Europe.

Figure 21: Average duration of processing claims per EU-9 Member State in 2016



Source: Tax administration data, PwC analysis

Processing duration of Member States of Establishment

Data with regards to the processing duration of claims received in their role as a Member State of Establishment was collected from 11 Member States across the EU. Directive 2008/9/EC does not explicitly state a specific time limit for that Member State of Establishment should adhere to when forwarding claims to a Member States of Refund. Therefore, there may be a question as to whether delays in forwarding claims result in an overall delay or extension in the time required to process a VAT refund claim from start to finish.

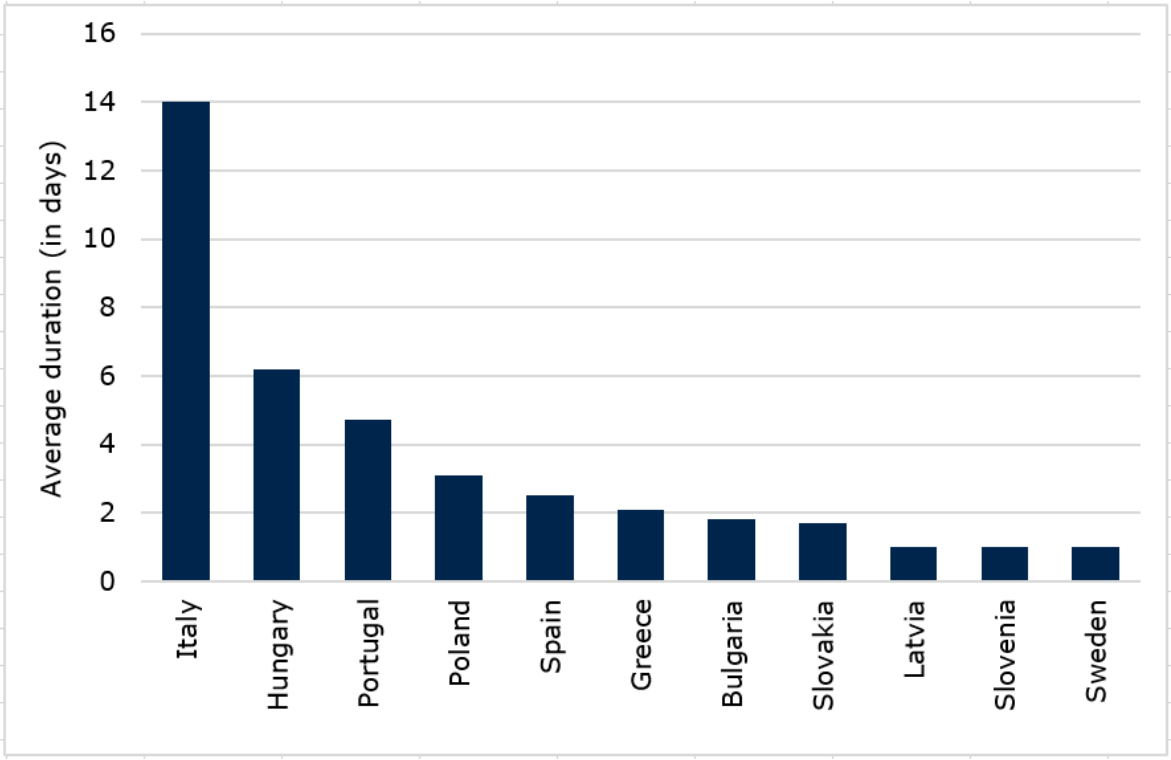
As illustrated in Figure 22, Italy was the Member State of Establishment that took the longest to forward claims to the respective Member State of Refund, taking 14 days on average. Interestingly, the Italian tax administration provided information showing that it takes them the same amount of time to forward a claim to any of the EU-27 Member States of Refund.

Italy was followed by Hungary and Portugal, taking on average six days and five days respectively to forward claims. As for Italy, the time it took Hungary to forward claims did not depend on the Member State of Refund the claims were sent too. However, in the case of Portugal, the forwarding of claims to Bulgaria and Croatia took seven days longer than the time it took to forward a claim to any other EU Member State. On the other hand, Portugal only took one day and two days to forward claims to Malta and Estonia respectively, confirming that in Portugal the time taken to process a claim varies.

Latvia, Slovenia and Sweden were the Member State that processed claims originating in their countries the quickest, on average taking one day to forward a claim to the

respective Member State of Refund. As for Italy and Hungary, no difference in the processing duration was experienced in these Member States of Establishment.

Figure 22: Average duration for EU-11 Member States of Establishment to forward claims originating in their Member State



Source: Tax administration data, PwC analysis

Summary

The processing efficiency of tax administrations fluctuated in the years 2013-2016, with an increase in the processing rate of tax administrations in 2014 followed by a return to 2013 levels in the subsequent two years.

For 2016, Austria, the Netherlands and Finland were found to be the most efficient Member States at processing claims, while Romania, Croatia and Greece were found to be the least efficient. On average, Member States of Refund in Northern and Western Europe were more efficient than Southern and Eastern European Member States.

There was a significant variance in the number of claims processed per employee among Member States in 2016. Luxembourg processed 6,500 claims per employee in 2016, while Croatia processed only 90. No regional trends in Member State efficiency were observed.

Ireland and France were the most efficient Member States measured by processing duration in 2016. Conversely, Spain and Bulgaria were the least efficient. On average, the Bulgarian tax administration took over four times as long and the Spanish tax administration over five times as long to process a claim than the best performing Member States. The Italian tax administration took the longest to forward a claim originating in their Member State, while Sweden, Slovenia and Latvia took the least time.

Finally, Directive 2008/9/EC does not explicitly state a time limit for Member States of Establishment to forward claims originating in their countries to the respective Member States of Refund. This is reflected by a wide disparity in the time taken by Member States of Establishment to send a claim to the Member State of Refund. For example, Italy took on average 14 days to forward a claim originating in their country to the respective Member State of Refund, whereas the average duration to forward a claim in Latvia, Slovenia and Sweden was only one day.

5.1.5 Queried claims

Key findings: Query rates have remained fairly static across the EU-26, with growth of only 0.13% from 2014-2016 despite the absolute number of claims having increased by 5.7 percentage points over the same period. In contrast, businesses perceived that requests for additional information were very common.

The average value of a queried claim was EUR 23,400 in 2016 which was significantly higher than the average value of a claim received, which stood at EUR 4,700.

Southern and Eastern Member States of Refunds reported higher query rates compared to the EU-26 average. This is interesting considering information received for some of these Member States suggests a lower processing efficiency with fewer claims being processed per employee than in other Member States.

The main driver for additional information requests appears to be the value of a claim, with higher value claims being queried more regularly across the EU. However, results from analysis of country-level data suggests that the composition of claims received is also a factor taken into account by the Member State of Refund. Analysis of claims queried by expense type outlined in Directive 2008/9/EC suggests that Member States of Refund adopt different approaches for querying particular expenses. For example, claims for fuel expenses were queried more regularly.[22] The expense category "other" was also queried frequently as well. However, this was to be expected considering the nature of this category. Expenses included in this category are more likely to have their own specific circumstances and are, therefore, more difficult to standardise and process.

According to tax administrations, businesses and VAT refunds agent, the most commonly requested additional information are original and copies of invoices and proof of business activity.

This section of the report will explore how frequently VAT refund claims are queried and what drives the decision to query a claim.

[22]For the purposes of this section of the report, queried claims refers to refund claims that were queried by tax administrations after submission and paid within the deadlines stipulated by Article 21 of Directive 2008/9/EC (i.e. a decision to approve or refuse the refund claim should be made within two months of receiving the requested information, or within two months of the expiry of a one-month time limit given to the claimant to provide the additional information requested).

Analysis of the size of claims and expense types queried will help to construct an understanding of what drives the decision to query and what additional information is requested. In addition, examining how businesses respond to queries, how long it takes them to do so and whether VAT refund agents are more efficient will help to highlight potential inefficiencies.

Summary of data limitations

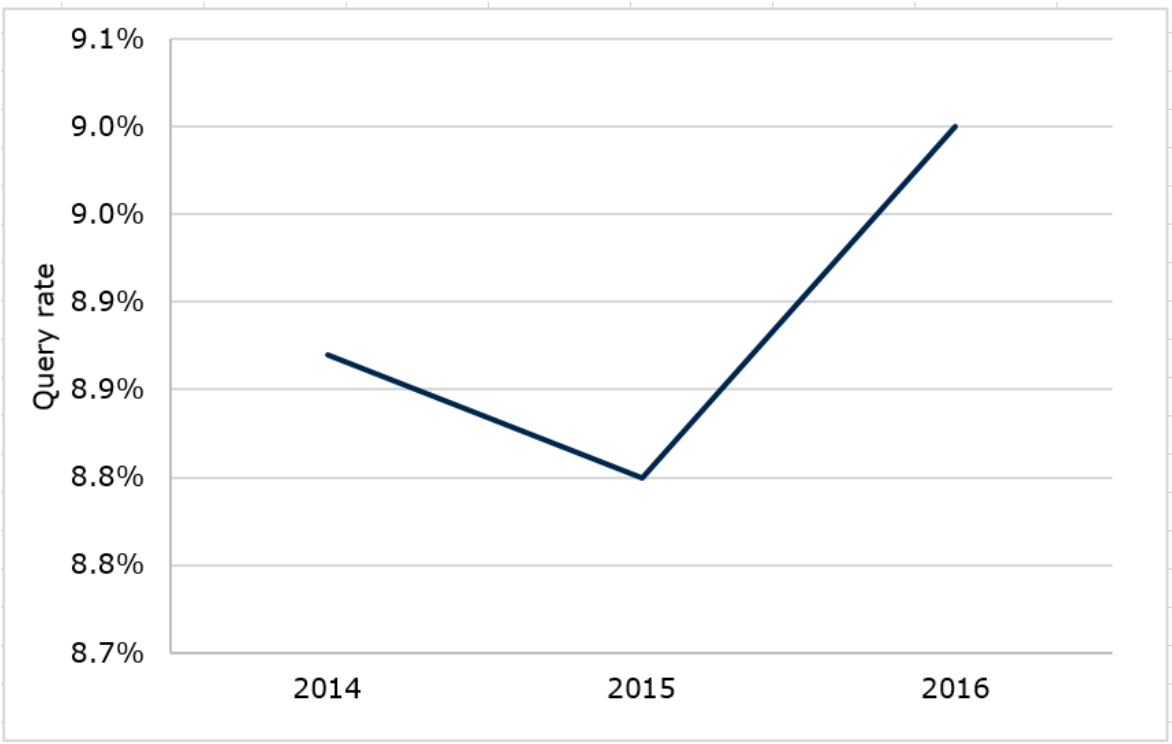
Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden
- EU-22: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-20: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-11 (for the purpose of most common expense types for which additional information was requested): Austria, Bulgaria, Czech Republic, Finland, Greece, Hungary, Italy, Lithuania, Slovakia, Slovenia and Sweden.
- EU-11 (for the purpose of percentage of claims queried within different value categories across the EU-11 Member States in 2016): Bulgaria, Croatia, Denmark, Finland, France, Hungary, Ireland, Lithuania, Portugal, Slovakia and Slovenia

Number of VAT refund claims queried

In 2016, tax administrations in the EU-26 queried just over 60,000 claims of the approximately 669,000 claims processed, equating to a query rate of 9%. Looking at the period 2014-2016, the absolute number of claims queried has increased consistently by 5.7% over the period 2014-2016, from a minimum of approximately 57,000 claims in 2014. Overall, as illustrated in Figure 23, the query rate has fluctuated slightly over this three year period, with a decrease from 8.9% in 2014 to 8.8% in 2015, and a small subsequent increase to 9% in 2016.

Figure 23: Query rates across the EU-26 over the 2014-2016 period

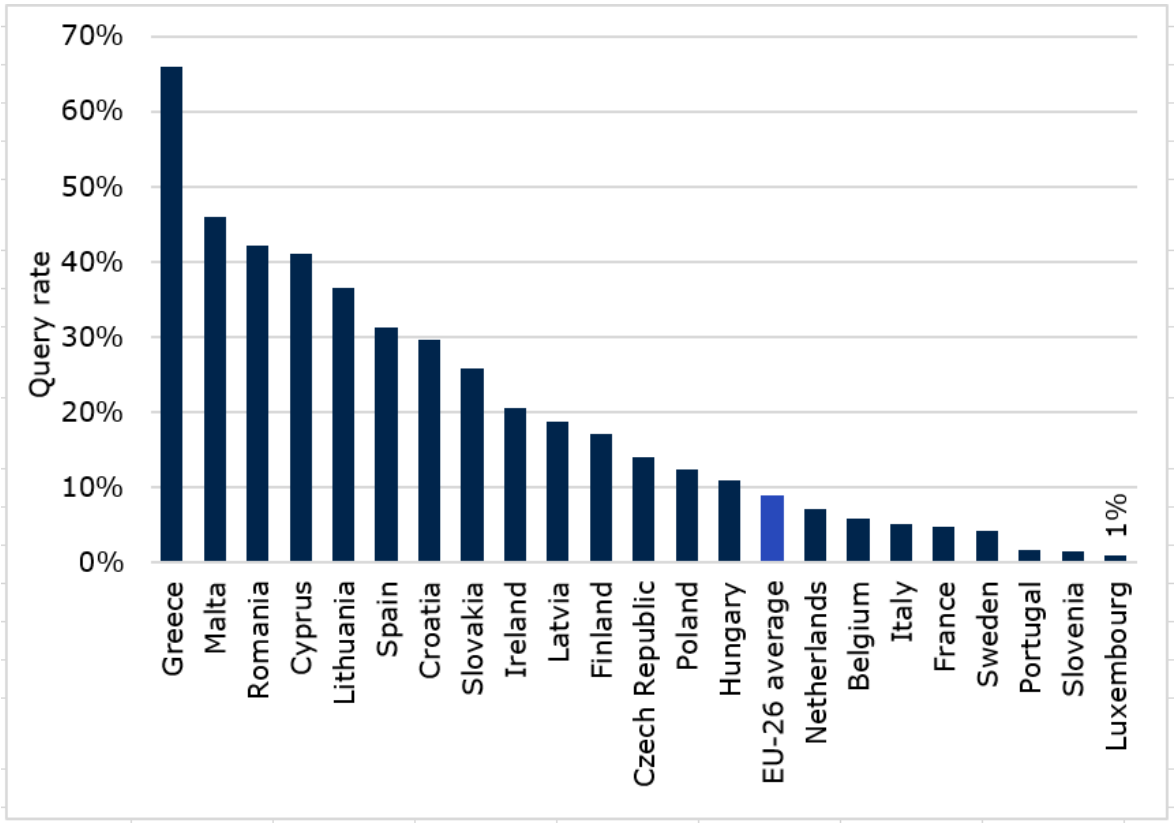


Source: European Commission data, tax administration data, PwC analysis

Looking at a detailed breakdown of query rates per Member State, as illustrated in Figure 24, 14 of the 26 Member States analysed had a query rate above the EU-26 average of approximately 9% in 2016. Tax administrations in Greece, Malta and Romania were identified as having queried a significant proportion of the claims processed in 2016, with query rates of 66%, 46% and 42% respectively. Conversely, the Member States with the lowest query rate in 2016 were Bulgaria, Denmark and Estonia, all having queried less than 0.5% of claims processed.

Information received from the Romanian and Greek tax administrations showed that both Member States make further checks rather than rejecting a claim where additional information requested from an applicant is not received within the deadlines set by Directive 2008/09/EC. Moreover, both tax administrations provided, compared to other Member States, a relatively long list of documents that are commonly requested. The Greek tax administrations stated that in many cases scanned copies of documents are either missing or not legible and have to be re-requested, license cards for international transportation for new applicants have to be obtained, or the power of attorney has to be requested in cases where the beneficiary of the bank account is not the claim applicant. Additional information requests in Romania are usually made for invoices and associated documents such as contracts or orders, documents regarding the scope of the purchase, proof of economic activity and final beneficiaries or the power of attorney for the person designated to receive the refund.

Figure 24: Query rate per EU-26 Member State in 2016



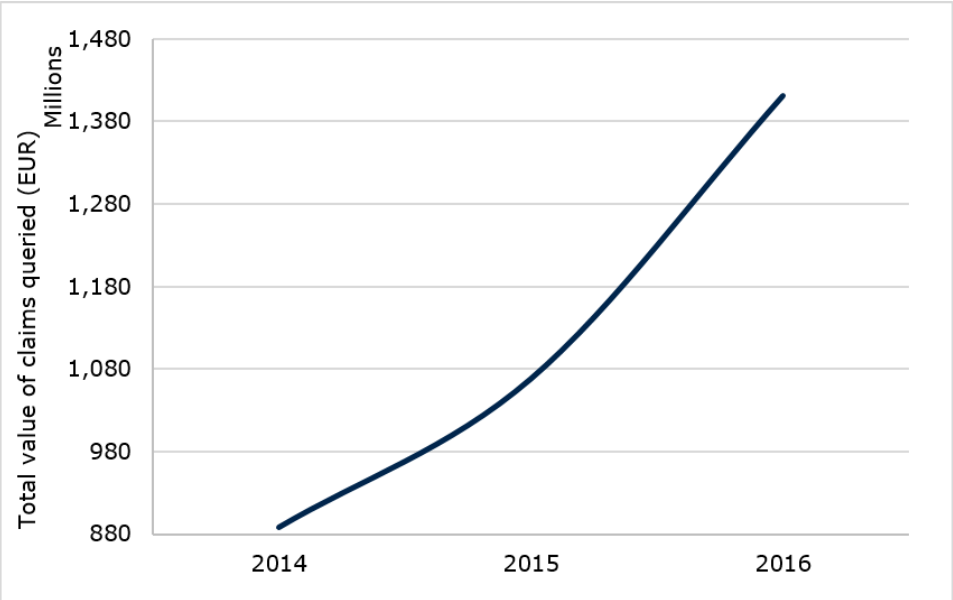
Source: European Commission data, tax administration data, PwC analysis

Value of VAT refund claims queried

In 2016, the value of claims queried across the EU-26 equated to approximately EUR 1.4 billion. Looking at the period 2014-2016, as illustrated in

Figure 25, the total value of claims queried increased significantly, growing by 58.8% over the period. This is in sharp contrast to the development of the volume of queried claims, which only saw a modest increase over the same three-year period.

Figure 25: Total value of claims queried across the EU-26 from 2014-2016

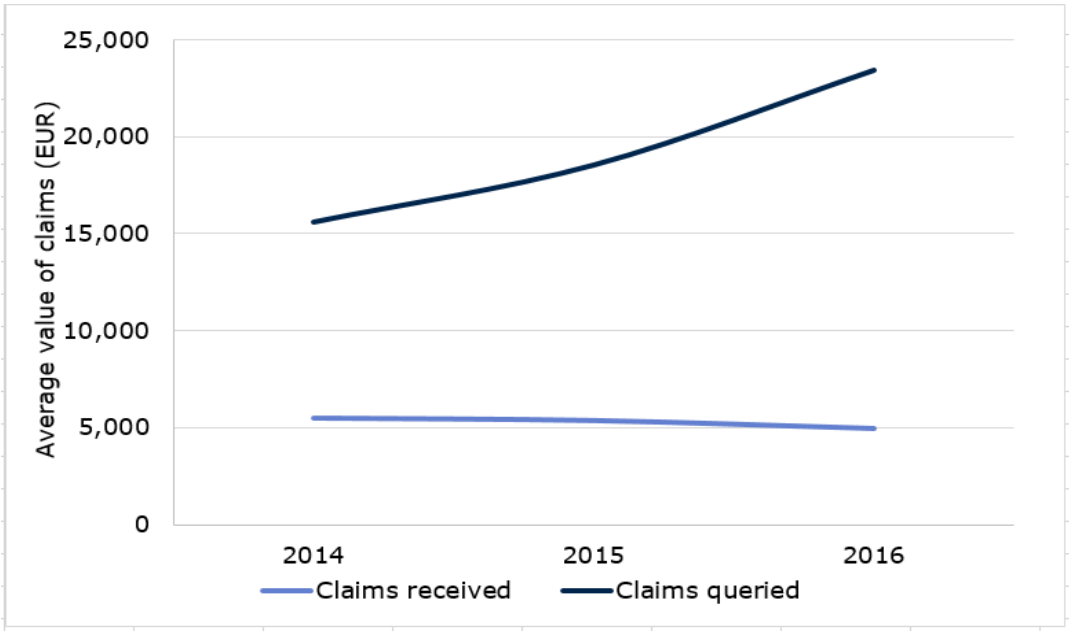


Source: European Commission data, tax administration data, PwC analysis

In 2016, the average value per claim queried across the EU-26 was EUR 23,400 compared to an average value per claim received in the EU-20 of just over EUR 4,700. As shown in Figure 26: Comparison of the average value of claims queried in EU-26 and claims received in EU-20

, the average value of a queried claim was consistently higher than the average value of a claim received by tax administrations over the period 2014-2016. This suggests that tax administrations use a risk based approach and target higher-value claims in their verification processes.

Figure 26: Comparison of the average value of claims queried in EU-26 and claims received in EU-20



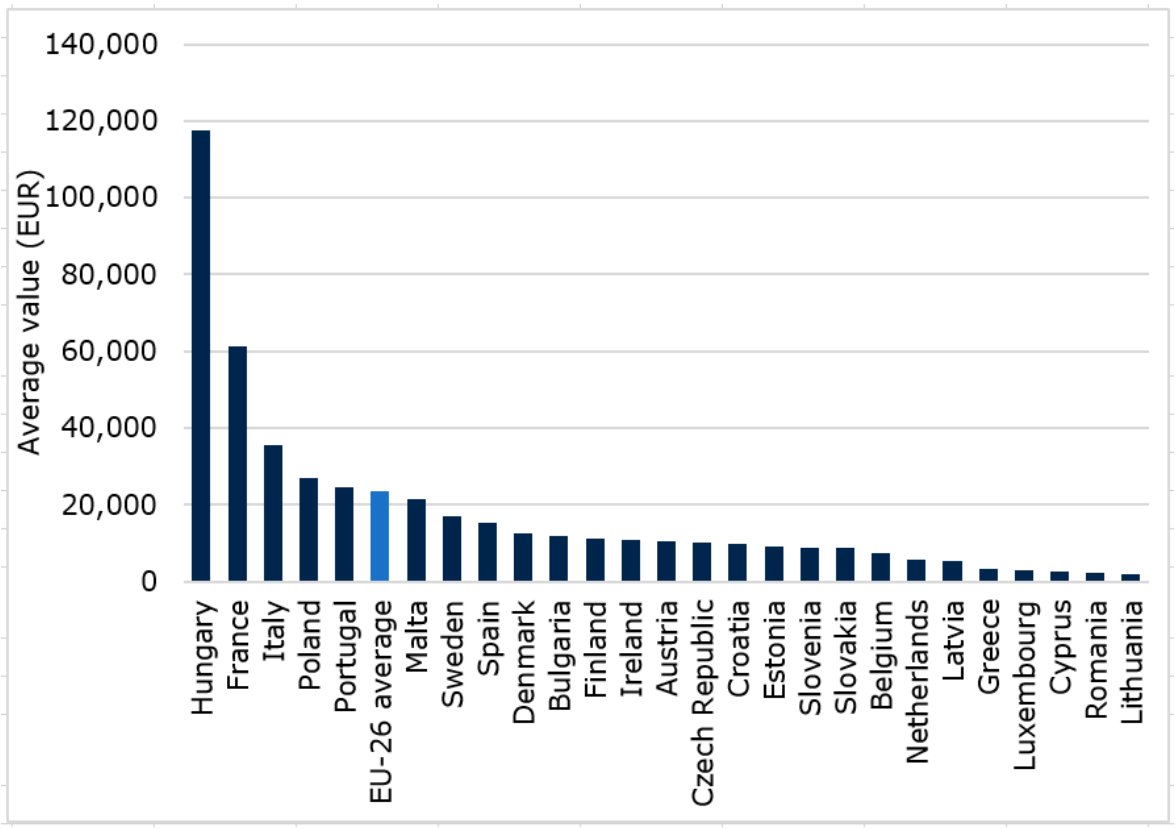
Source: European Commission data, tax administration data, PwC analysis

Overall, five Member States had an average value per claim above the EU-26 average of approximately EUR 23,400 in 2016. Figure 26 shows that Hungary appeared to have queried larger claims, with an average value per queried claim of approximately EUR 118,000. Given that Hungary also has the highest average value per claim (approximately EUR 15,100), this appears to be in line with expectations.

However, given that domestic rules with regards to the eligibility of expenses for refund are currently not harmonised across the EU Member States, differences in the average size of a refund claim received across Member States are to be expected.

On the other hand, Lithuania (EUR 2,000) was the Member State that queried claims with the lowest value on average in 2016. The Lithuanian tax administration appears to use a volume-based approach to query claims, with 40% -60% of claims of a value of less than EUR 1,000 and 20% -40% of claims with a value between EUR 1,000 and EUR 5,000 having been queried in 2016. Claims with a value of more than EUR 5,000 are rarely queried. Considering claims received in Lithuania tend to be of a lower value, with an average value per claim received of EUR 2,500, these trends explain a lower average value per queried claim.

Figure 26: Average value of queried claim per EU-26 Member State in 2016



Source: European Commission data, tax administration data, PwC analysis

Distribution of VAT refund claims queried by value

In order to gain more insight into the sizes of claims that are most commonly queried by tax administrations, a breakdown of queried claims per value was requested from tax administrations. This information was collected from 11 Member States for 2016.

Table 7 shows the percentage ranges of how many claims were queried by the EU-11 Member States within six specified value categories. Overall, the majority of EU-11 tax administrations appear to balance their queries between value categories fairly evenly, with, on average, approximately 20% of claims in each category being queried.

Contrary to that, Slovakia queries a relatively high share of claims across all value categories, and appears to focus on querying higher-value claims more frequently compared to tax administrations in other Member States, with 80%-100% of claims with a value over EUR 10,000 being queried. Considering Slovakia has a query rate of approximately 26% and an average value per queried claim of EUR 8,600, this suggests that the tax administration receives a large proportion of low-value claims.

In addition, Slovakia, Portugal and Denmark also appear to focus their efforts on querying high-value claims, with 60%-80% and 40%-60% of claims above EUR 30,000 being queried. Claims received by these three tax administrations with a lower value are queried less frequently, with a maximum of 20%, on average, attracting additional information requests. These Member States have a query rate below the EU-26 average of 1.7% and 0.32% respectively. This, again, suggests that high-value claims are a rarer occurrence in these countries.

Table 8: Breakdown of claims queried within different value categories across the EU-11 Member States in 2016

Member State	Claim value ≤ EUR 1,000	Claim value <EUR 1,000 but ≤ EUR 5,000	Claim value > EUR 5,000 but ≤ EUR 10,000	Claim value > EUR 10,000 but ≤ EUR 20,000	Claim value > EUR 20,000 but ≤ EUR 30,000	Claim value > EUR 30,000
Bulgaria	20-40%	0-20%	0-20%	0-20%	0-20%	0-20%
Croatia	0-20%	40-60%	0-20%	0-20%	0-20%	0-20%
Denmark	0-20%	20-40%	0-20%	0-20%	0-20%	40-60%
Finland	40-60%	20-40%	0-20%	0-20%	0-20%	0-20%
France	20-40%	20-40%	0-20%	0-20%	0-20%	0-20%
Hungary	40-60%	20-40%	0-20%	0-20%	0-20%	0-20%
Ireland	40-60%	20-40%	0-20%	0-20%	0-20%	0-20%
Lithuania	40-60%	20-40%	0-20%	0-20%	0-20%	0-20%
Portugal	0-20%	0-20%	0-20%	0-20%	0-20%	60-80%
Slovakia	20-40%	60-80%	60-80%	80-100%	80-100%	80-100%
Slovenia	0-20%	0-20%	20-40%	20-40%	20-40%	20-40%

Source: Tax administration data, PwC analysis

Key:

	0-20%		60-80%
	20-40%		80-100%
	40-60%		

Additional information requested for VAT refund claims queried

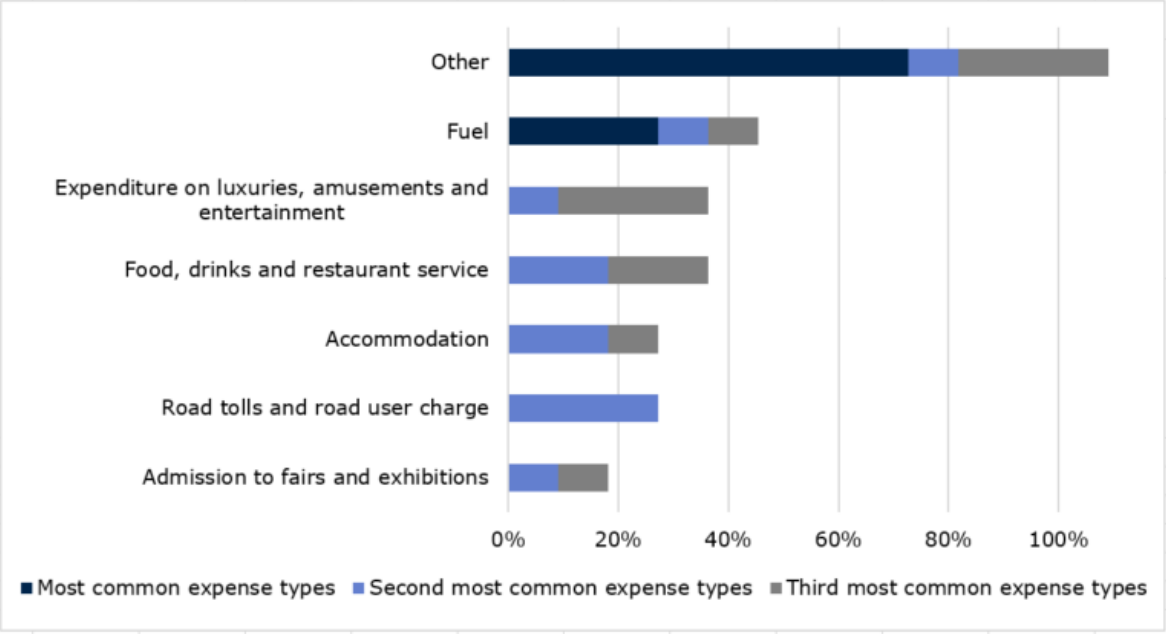
21 Member States provided data with regards to whether additional information requests are more common for specific expense types and, if so, which expense types

these are.[23] Out of the EU-21, 11 Member States noted that additional information requests are more common for certain expense types. As illustrated in

Figure 27, additional information in the EU-11 is most commonly requested for two specific expense types, namely "other" expenses (72%) and "fuel" (27%). Besides these two categories, the EU-11 also noted that they commonly request additional information for expenses incurred for "road tolls and road user charges" (27%), "food, drinks and restaurant services" (18%), as well as "expenditure on luxuries, amusements and entertainment" and "admission to fairs and exhibitions" (9%).

[23] In order to assess for which expenses additional information is most commonly requested, the expense codes to describe the nature of goods and services acquired as outlined in Directive 2008/09/EC were used. Please see appendix 2 for more details.

Figure 27: Most common expense types for which additional information was requested across the EU-11 in 2016



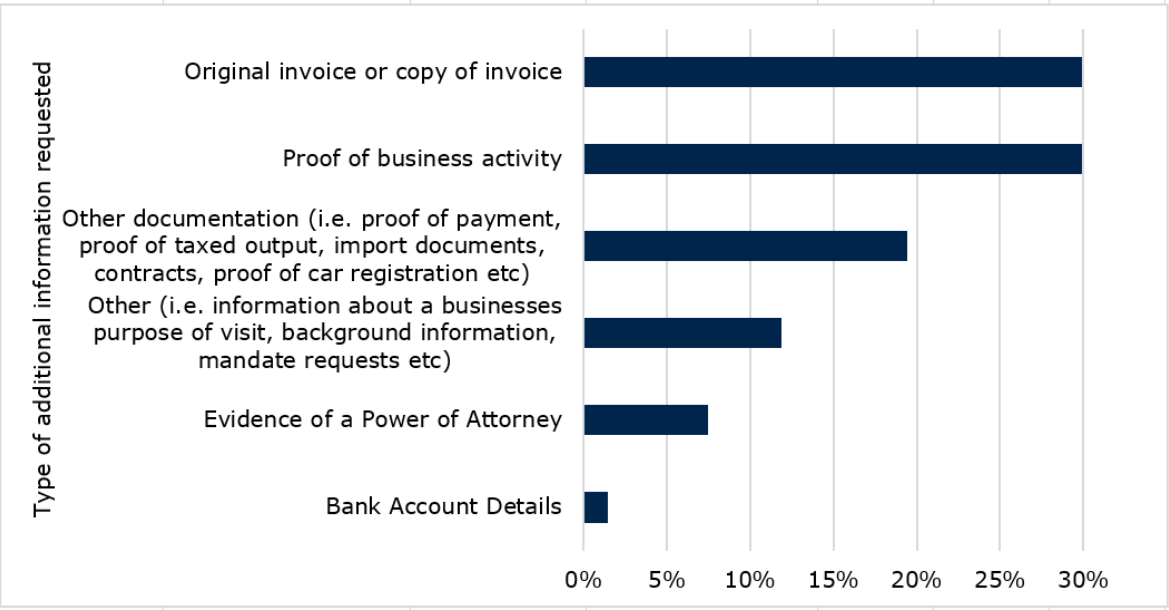
Source: Tax administration data, PwC analysis

Moreover, information with regards to the most common types of additional information requested was collected from taxpayer from 22 Member States. 75% of the EU-22 stated that claims are most commonly submitted for fuel expenses, explaining the higher frequency of queries for claims for this expense type. However, no Member State listed claims for "other" expenses as the most common expense type and only 13% of Member States listed this as the second most common expense for which claims are submitted.

Given refund requests for "other" expense types are generally claims for expenses that are more difficult to categorise, a higher volume of additional information requests seems to be natural. This is also reflected in the type of additional documentation requested. As illustrated in

Figure 28 below, tax administrations in the EU-22 noted that the most common types of additional information requested are original invoices or copies of invoices, as well as proof of business activity (in 30% of cases). Moreover, other documentation such as proof of payment, import documents, contracts or proof of car registrations (19%) are also frequently requested.

Figure 28: Common types of additional information requested across the EU-21 tax administrations in 2016



Source: Tax administration data, PwC analysis

Engagement with tax administrations:
Problems with additional information requests

In interview, tax administrations expressed views on common problems with documentary evidence submitted by the claimant in response to a request for additional information. Common issues include insufficient evidence that the expense was incurred for business purposes and low-resolution invoices. Indeed, one tax administration mentioned that a number of claimants are, as a matter of course, uploading with their claims a statement explaining the nature of their business in order to help the tax administration to establish that the underlying expenditure was incurred wholly and exclusively for business purposes. An absence of risk analysis software could also a cause of additional information requests. For example, the Greek tax administration does not use an electronic system to determine the relative risk of a claim, and, as such, the administration requests additional information on a more frequent basis.

Results from the business survey further substantiate findings from data collected from tax administrations on the most common pieces of information to be requested. According to the business survey respondent that process VAT refund claims in-house, originals and copies of invoices are the most common type of information requested by tax administrations. This is followed by evidence of business purpose for the underlying expenditure and non-invoice related information.

Qualitative data gathered from the Phase 2 agents' questionnaire also supports the findings from the tax administration data.

Data from all four VAT refund agents who responded to the Phase 2 survey indicates that the three most common pieces of additional information that are requested by the tax administrations are invoices (original or copies), proof that expenses were incurred and other supporting documentation to demonstrate the eligibility of expenses.

One agent, in a response which covered all Member States, suggests that there is a general tendency for most Member States, and in particular the United Kingdom, to make "excessive requests for details relating to claim validation and submission, detailed and impractical requests on incurred expenses. Requests are often not proportional to the detail being verified and are excessively onerous when considering substance over form".

Across all the agents who responded to the survey, the three most common expense types for which additional information is requested are "accommodation", "other" ,"food, drinks and restaurant services" and "fuel".

Common issues faced by businesses

Of the 217 businesses surveyed, 71% of respondents that process claims in-house recorded that tax administrations ask for additional information for 50%- 90% of the claims submitted. This resonates with the VAT refund agents survey finding that all Member States have a tendency to require disproportionate amounts of information for the purposes of claim validation. This perception is in contrast to information received from tax administrations across the EU-26, which demonstrated a query rate of only 9% in 2016.

Qualitative data gathered from the Phase 2 agents' questionnaire highlights some important examples of deficiencies in the process of complying with additional information requests from tax administrations.

Almost all the VAT refund agents who responded highlighted that communicating with Member States and obtaining status updates and feedback on outstanding applications has become an increasingly difficult process to manage.

One VAT refund agent, in a response which covered all Member States, experiences recurring and ongoing issues with requests for additional information with all Member States in some instances. In particular, an area of concern seems to be the communication between the agent and the tax administration in respect of requests for additional information. For example, in France and the UK there have been cases where requests for additional information have gone to the agent, the taxpayer or both. This suggests that there are inconsistencies in communication channels that make it harder for the agent/taxpayer to properly monitor such requests.

How taxpayers are notified that the additional information has been received

VAT refund agents provided data on how taxpayers are notified of additional information request. Data from all agents who responded to the Phase 2 survey suggests that, generally, tax administrations do not issue a notification when they have received additional information. The agents will not hear back from the tax administration until the claim has been either accepted, rejected or reduced. The data suggests that there is a high degree of inconsistency both in the way additional information is submitted to the tax administration and in the way agents are notified that such information has been received by the tax administrations.

The agents report that some Member States require additional information to be sent by post, while others accept also electronic email submissions. A few Member States, such as the United Kingdom, do acknowledge the receipt of such information by email, while others send no notification of receipt.

Two of the four agents, one in a response covering all Member State and one in a Germany specific response, highlighted Germany as having particularly significant issues with additional information. This is further substantiated by the fact that the European Commission has commenced infringement proceedings against Germany in respect of its non-compliance with Article 20.[24]

They reported that the German tax administration is no longer making requests for additional information, but is instead rejecting applications, even in cases where there are missing scans of invoices or low resolution scans – information which it is likely the taxpayer could provide if requested.

Given the approach followed by the German tax administration, in practice, the only way for the agents or taxpayers to pursue a claim after it has been rejected is to file an appeal. This, in turn, delays the refund process and makes it harder for taxpayers to comply with the rules in what could have been a much simpler process if the tax administration had issued additional information requests as foreseen by the paragraph 1 of Article 20 of Directive 2008/9/EC.

It is worth noting that the German tax administration has not provided any information with respect to VAT refunds. As a result an assessment cannot be made on the impact of the approach followed by the German tax administration as highlighted by the agents' data.

Summary

Overall, the query rate across the EU-26 stayed fairly consistent over the period 2014-2016, increasing from 8.9% to 9% over the three-year period. In contrast, businesses perceived that additional information request were very common.

Looking into query rates across the Member States in more detail revealed that Member States of Refund in Eastern and Southern Europe, particularly Greece, Malta and Romania, had a significantly higher query rate compared to the rest of the EU-26.

[24] See the press release dated 24 January 2019: IP/19/472

Compared to this, the total value of claims queried across the EU-26 has developed quite differently, with a significant increase of 58.8% from EUR 888.5 million to 1.4 billion between 2014 and 2016. This growth was also reflected in the average value per claim queried, which increased by approximately 50.2% from EUR 15,600 in 2014 to EUR 23,400 in 2016. It needs to be noted that some Member States, for example Hungary, had an exceptionally high average value per queried which may have skewed the EU-26 average.

However, looking at the average value per queried claim, 21 of the 26 Member States had an average value above the EU-20 average value of a claim received by tax administrations (EUR 4,700). This suggests that tax administrations tend to adopt an approach of querying higher value claims.

A large proportion of the Member States have stated that additional information requests are more common for certain expense types, with "other" expenses (72%) and fuel expenses (27%) being the expense types for which additional information is requested most frequently. This is further substantiated by VAT refund agents. According to tax administrations, businesses and VAT refund agents the most common type of additional information requested from taxpayers were invoices (either the original or a copy of the original), as well as proof of business activity.

Finally, according to the VAT refunds agents surveyed, tax administrations do not issue a notification when additional information is received.

5.1.6 Approval rates and VAT refund claim rejections

Key findings: Over the period 2013-2016, approval rates increased by 1.8 percentage points to 94% in 2016 at the EU-26 level. Moreover, with the exception of Malta, Greece and Croatia, approval rates have been fairly consistent at the country level. Given that approval rates have increased, but processing rates have decreased, this may suggest that businesses achieved improvements in submitting claims or tax administrations are taking, on average, longer to approve claims.

Overall, no conclusive evidence could be found to suggest that the decision to approve or reject a claim is linked to additional information requests. Therefore, decisions appear to be made on a case-by-case basis. The size of the claim appears to be one factor that is taken into consideration. However, with an average value per approved claim of EUR 7,000 and an average value per rejected claim of EU 7,700, these were very similar in 2016.[25] Moreover, the development of average values has been different over the period 2013-2016 with the average value of an approved claim having remained more stable over time.

[25] For the purpose of this study, claims rejected are defined as any claim that is refused by the tax administration in question during a given calendar year. It is important to note that instances of claims being rejected and re-submitted may have occurred in the same period, which could lead to double counting of claims. However, due to data limitations the exact number and value of such instances cannot be established.

Common justifications for rejections received from tax administrations confirm the finding that decisions being made on a case-by-case basis. The most common reasons for a claim being rejected are either that the expense claimed for is non-refundable as per domestic legislation implementing Directive 2008/9/EC, VAT having been charged incorrectly or businesses having submitted invalid or insufficient documentation. Businesses surveyed identified that they often lack appropriate documentary evidence as required by tax administrations.

Businesses recorded that the rejection of claims may result in deferred investment, cash flow problems and deferred recruitment of staff.

This section of the report explores how many claims are approved and rejected by Member States of Refund. In order to do so, this section will look into approval rates across the EU and differences between specific Member States of Refund. The role that the value of a claim plays in a tax administrations' decision making will also be taken into consideration.

However, to gain a full understanding of the factors that lead to a decision for a VAT refund claims, the population of claims rejected must be included in the analysis to complement the findings for claims approved. In order to do so, a review of the most common justifications for claim rejections will be conducted to establish the average duration of processing a claim that is then rejected and analyse the impacts of a rejected claim on businesses. Using this information, an explanation will be provided as to why some Member States have exceptionally high rejection rates compared to their peers.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-25: Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-19: Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Slovakia, Slovenia, Spain and Sweden.

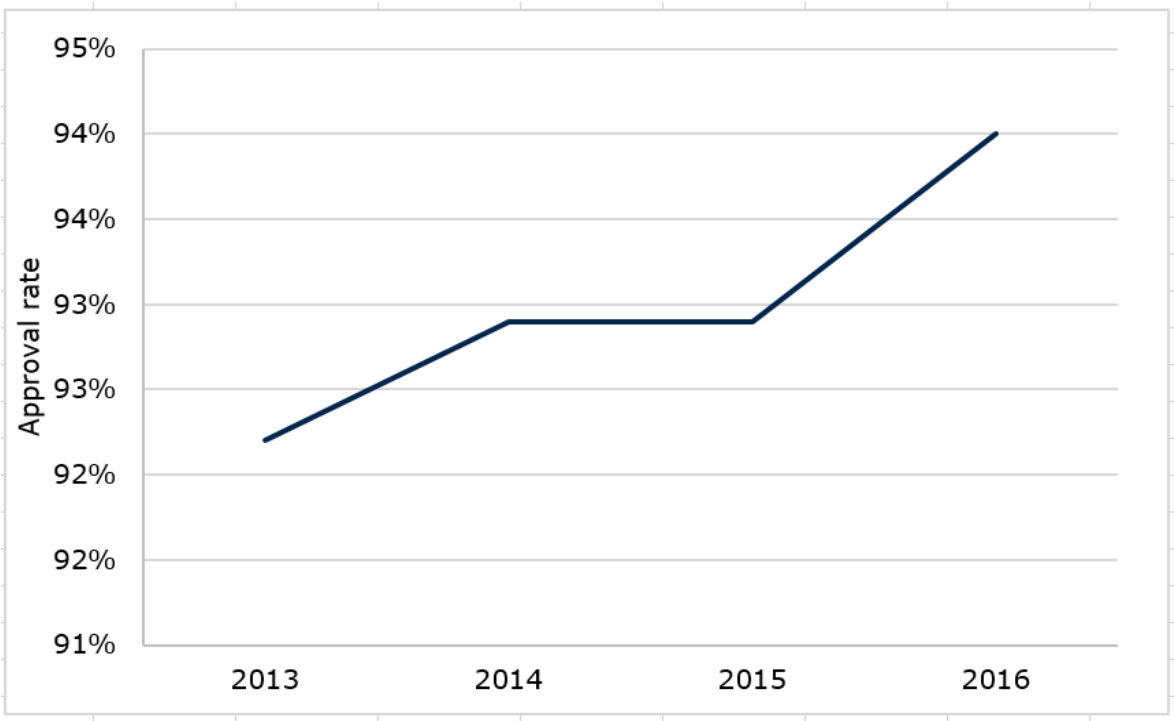
Number of VAT refund claims approved

Tax administrations across the EU-26 approved 629,000 of the 669,000 claims processed in 2016. This equated to an approval rate of approximately 94% in that

year. There has been a consistent increase in the number of claims approved between the periods 2013-2016. The lowest number of claims approved was in 2013 (556,000). Over the period, the number of claims approved grew by approximately 13%.

Looking at the same four-year period, an upwards trend was also experienced in the approval rate of claims, as illustrated in Figure 29.. However, the growth of the approval rate in the EU-26 was more erratic than the increase in absolute numbers.

Figure 29: Development of approval rate across EU-26 Member States over the 2013-2016 period



Source: European Commission data, tax administration data, PwC analysis

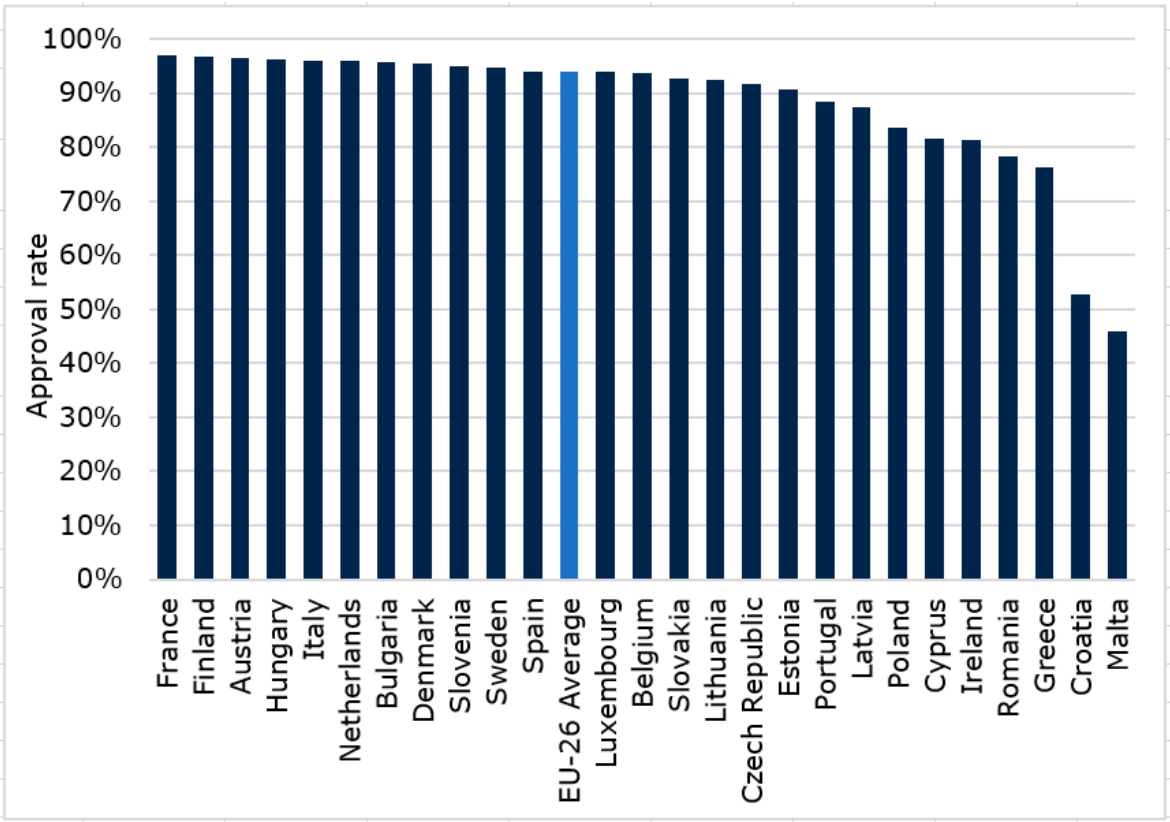
As depicted in

Figure 30 , 11 Member States had an approval rate above the EU-26 average of 94% in 2016. Tax administrations in France, Finland and Austria approved the most claims processed, approving 97.1%, 96.8% and 96.4% of claims respectively. Considering France and Austria also contributed the highest share of claims processed in this period, a higher share of approved claims is expected.

Compared to this, Malta (45.9%), Croatia (52.8%) and Greece (76.2%) had the lowest approval rates in the same period. A lower approval rate may be the result of more claim queries or additional information requests. This is evidenced by the fact that all three Member States had query rates well above the EU-26 average of 9%, querying 45.9%, 29.6% and 65.9% of claims respectively.

However, more detailed evidence received from tax administrations across the EU-21 Member States confirms that no consistent trend appears to exist between approvals/rejections and additional information requests. For example, in Greece and Romania, Member States with low approval rates, further enquiries would be made by tax administrations before making a decision in cases where taxpayers do not submit requested additional information within the deadline set out in Article 20 of Directive 2008/9/EC. However, in France and Finland, Member States with a high approval rate, tax administrations automatically reject a claim if additional information requested from a taxpayer is not submitted in a timely manner.

Figure 30: Approval rate per EU-26 Member State in 2016



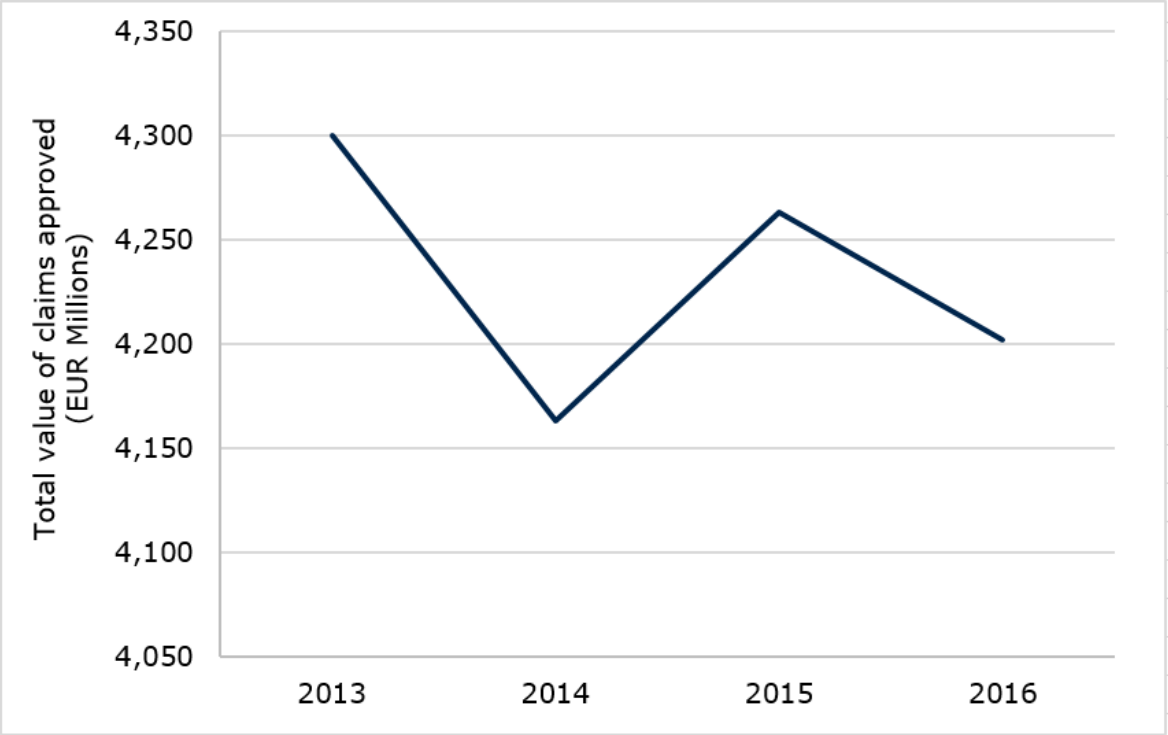
Source: European Commission data, tax administration data, PwC analysis

Value of VAT refund claims approved

In 2016, tax administrations in the EU-26 approved claims amounting to over EUR 4,200 million, which equates to 93.6% of the total value of all claims processed in the year. The value of claims approved decreased by approximately 2.3% over the period 2013-2016. As illustrated in

Figure 31, the total value of claims approved fluctuated significantly over the four-year period, with a maximum of EUR 4,300 million in 2013 and a low of EUR 4,200 million in 2014.

Figure 31: Total value of claims approved across EU-26 Member States over the 2013-2016 period



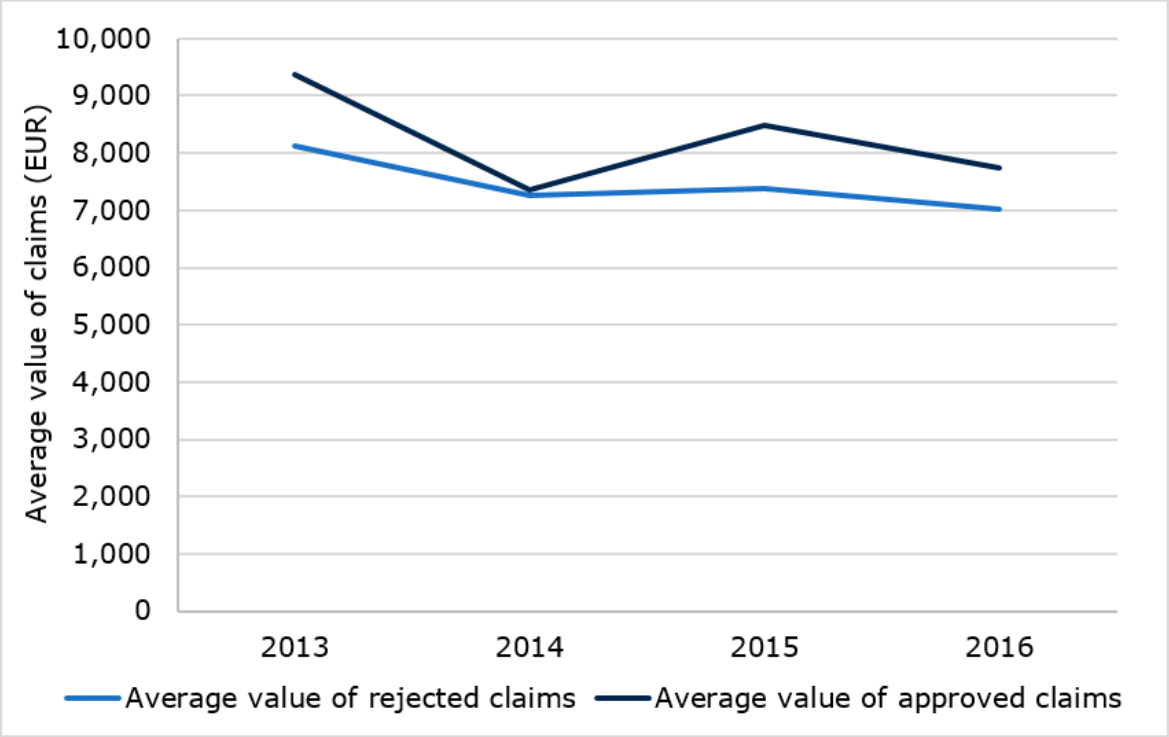
Source: European Commission data, tax administration data, PwC analysis

Out of the 26 Member States referenced above, data to calculate the average value per claim approved and claim rejected was collected from 25 (excluding Austria and Germany). Looking at the average value of an approved claim in the EU-25, a downward trend was experienced over the period 2013-2016. As shown in figure 26, in 2016, the average value of an approved claim in the EU-25 was just over EUR 7,000. This was 15.6% lower than in 2013, where tax administrations approved claims with an average value of EUR 8,100. The small increase in average value of 1.7% from 2014 -2015 presents an interesting finding considering that the total value of claims approved has increased more substantially (by 3%) in 2015 compared to the prior period.

Compared to this, the average value of a rejected claim across the EU-25 for 2016 was higher, amounting to approximately EUR 7,700 in that year. Looking at 2013-2016, as illustrated in

Figure 32, the average value per claim rejected fluctuated more significantly year-on-year than the average value of a claim approved. Overall, the average value of a rejected claim decreased by 21.2 percentage % points over the four-year period.

Figure 32: Development of the average value per claim approved compared to the development of the average value per claim rejected across EU-25 Member States over the period 2013-2016



Source: European Commission data, tax administration data, PwC analysis

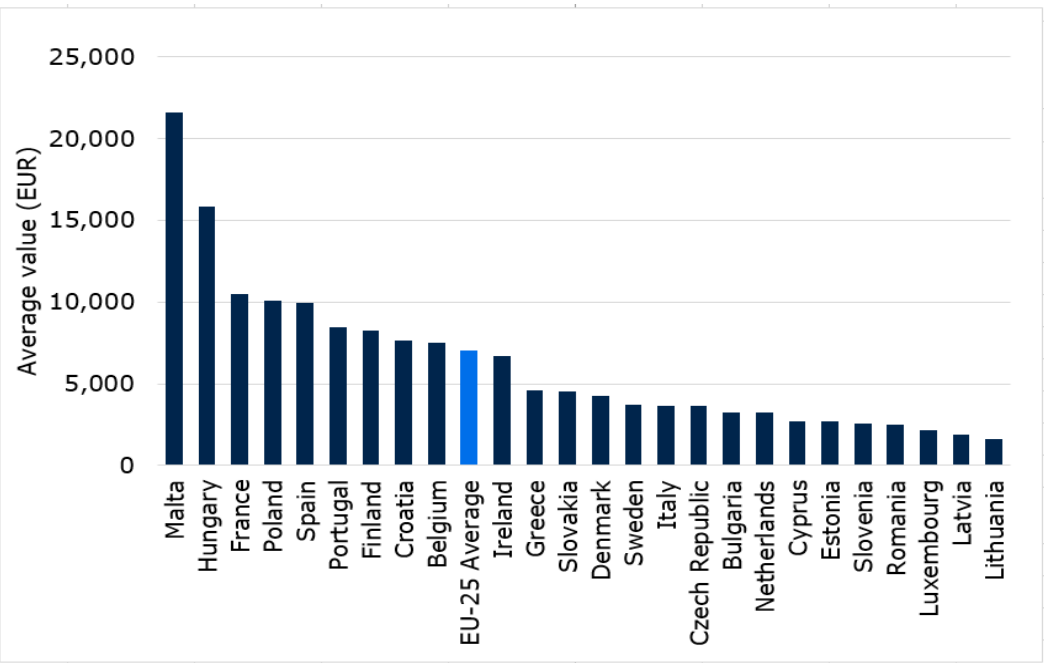
Figure 33 shows that 10 Member States approved claims with an average value higher than the EU-26 average of EUR 6,700 in 2016. Malta, Hungary, France and Poland approved claims with the highest average value, EUR 21,600, EUR 15,900, EUR 10,500 and EUR 10,100 respectively. No data regarding the average value of a claim received was available for Malta. However, for Hungary, France and Poland, a clear trend of claims above EU-averages can be identified as the average value of a claim received in 2016 was also significantly above the EU-24 average, at EUR 15,200, EUR 8,300 and EUR 11,400 respectively.

Compared to this, as illustrated in Figure 34, seven Member States had an average value of a rejected claim above the EU-25 average in 2016. Italy was the Member State that rejected claims with the highest average value at nearly EUR 26,000, followed by Poland and Spain with average values of a rejected claim of EUR 17,100 and EUR 13,200 respectively. Considering the average value of a claim received by these three tax administrations in 2016 was EUR 4,600, EUR 11,400 and EUR 5,100 respectively, this suggests that high-value claims are more likely to be rejected.

Romania, Latvia and Luxembourg had the lowest average values per claim rejected in 2016, with EUR 1,000, EUR 1,200 and EUR 1,300 respectively. Especially for Romania this may be driven by a large volume of low value claims being rejected. This finding coincides with further information received from the Romanian tax administration, namely that one of the main reasons for claims to be rejected is that they do not meet

minimum value thresholds established in domestic legislation implementing Article 17 of Directive 2008/9/EC.[26]

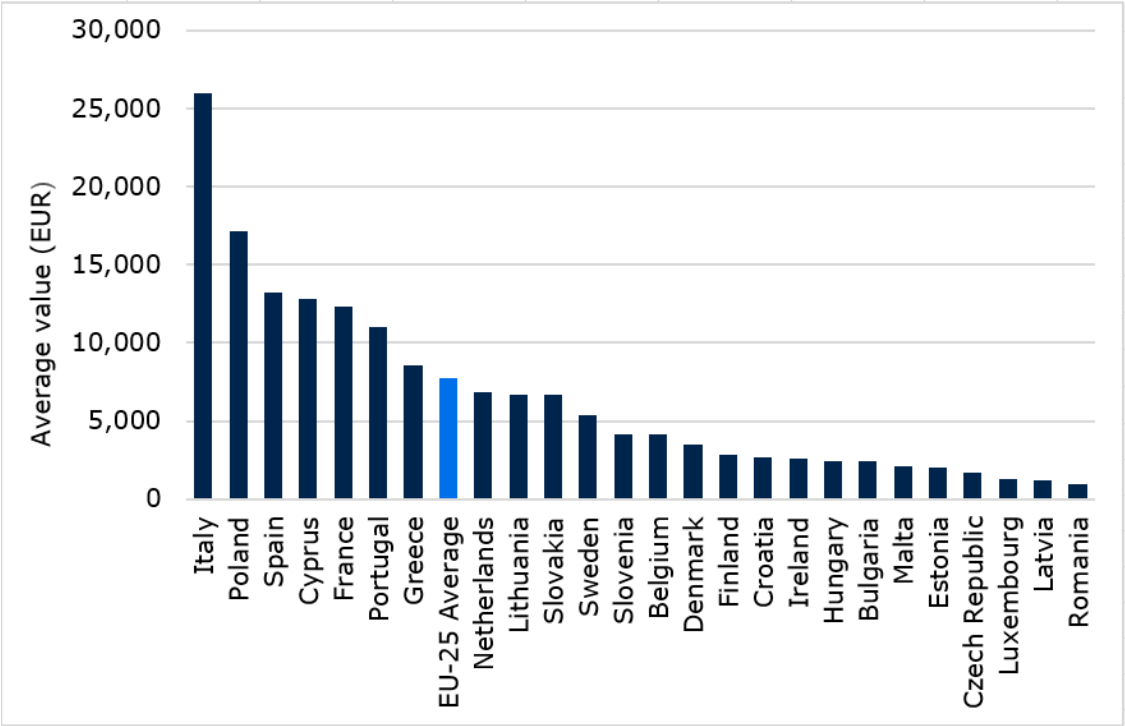
Figure 33: Average value per approved claim across the EU-26 Member State in 2016



Source: European Commission data, tax administration data, PwC analysis

[26] Article 17 of Directive 2008/9/EC states that "if the refund application relates to a refund period of less than one calendar year but not less than three months, the amount of VAT for which a refund is applied for may not be less than EUR 400 or the equivalent in national currency. If the refund application relates to a refund period of a calendar year or the remainder of a calendar year, the amount of VAT may not be less than EUR 50 or the equivalent in national currency."

Figure 34: Average value per rejected claim across the EU-25 in 2016



Source: European Commission data, tax administration data, PwC analysis

Common justifications for rejections

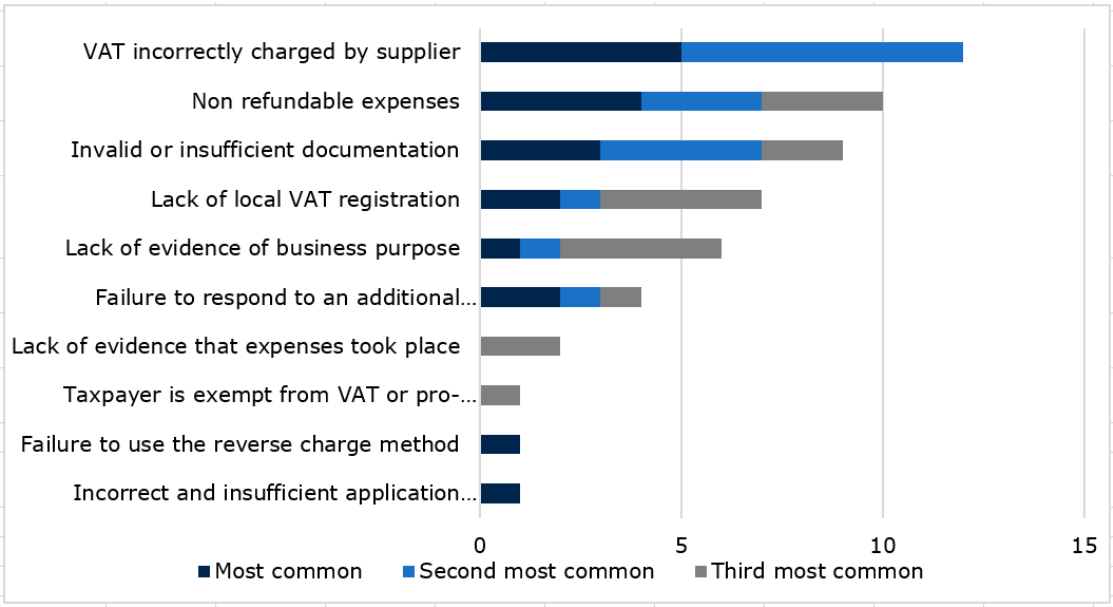
19 Member States provided more detailed information regarding the issues they commonly encounter that lead to claims being rejected. As illustrated in Figure 36, tax administrations in these 19 Member States commonly reject claims due to the expenses being non-refundable based on domestic legislation or provisions outlined in Directive 2008/9/EC or because suppliers have incorrectly charged VAT. As highlighted in section 5.1.2, eligibility rules for expense categories vary by Member State of Refund. In particular, Member States of Refund tend to differ in the way they treat expenses relating to "food, drink and restaurant services", "Expenditure on amusement, luxuries and entertainment" and "accommodation".

Failure of the applicant to respond to additional information requests also featured in the common reasons for claim rejections provided by tax administrations. This is evidenced by the fact that 55% of tax administrations would reject a claim automatically if a taxpayer failed to submitted additional information requested by the tax administration within the relevant deadlines outlined in Article 20 of Directive 2008/9/EC.

Moreover, nine tax administrations cited additional documentation submitted to verify a claim being insufficient or invalid as one of the three most common reasons for a VAT refund claim to be rejected. However, this is surprising considering that only one of 19 Member States, namely Italy, stated that a VAT refund claim would be automatically rejected if insufficient information was provided as a response to a request for additional information. A large proportion of 19Member States stated that further enquiries would be made to receive the correct additional documentation, whereas only two Member States based their decision on contextual factors.

Taxpayers failing to correctly use the reverse charge method, being exempt from VAT or not correctly applying a pro-rata, as well as not being able to provide evidence of the legitimacy of an expense are among the least common issues encountered by tax administrations.

Figure 35: Common reasons used by tax administrations to reject claims across EU-19 Member States in 2016



Source: Tax administration data, PwC analysis

Engagement with tax administrations:
Claims rejected because a local VAT registration is required

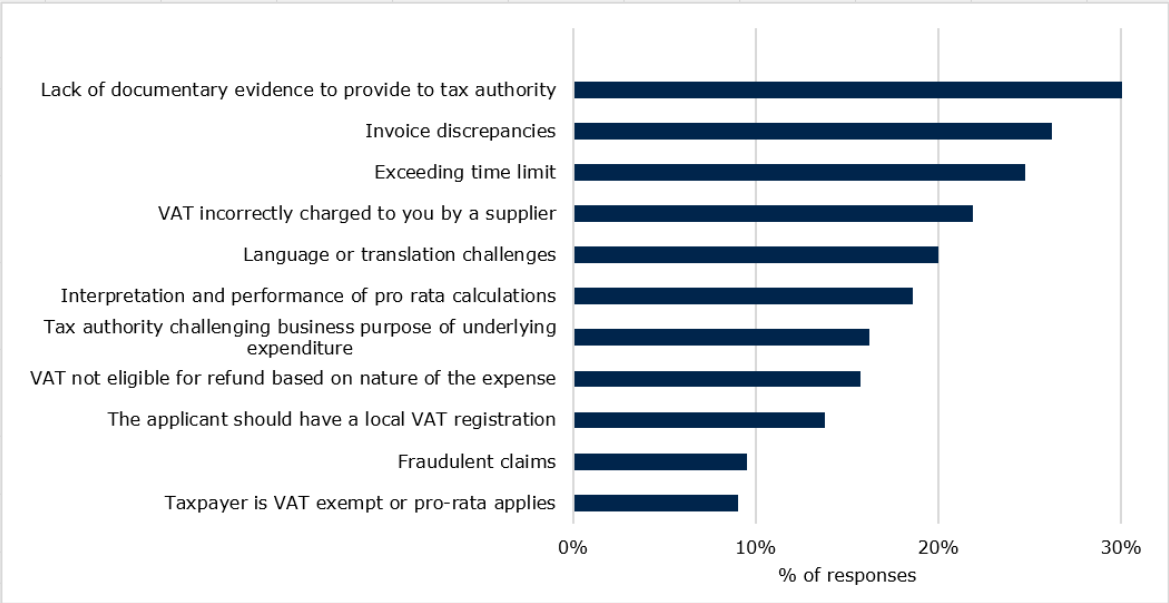
In interview, a number of tax administrations mentioned that VAT refund claims are commonly rejected because the claimant should be registered for VAT in the Member State of Refund. Where this occurs, the claimant is generally directed toward tax administration guidance on how to register for local VAT. In addition, the case may be referred to the competent department dealing with VAT registrations for foreign traders for further action.

Figure 36 shows common grounds for rejection according to the businesses surveyed. Business perceptions as to why tax administrations reject claims align with that of the VAT refund agents and the reasons given by tax administrations. As seen in figure 38, the most common reasons are invoice discrepancies, lack of documentary evidence to provide to tax administrations, exceeding time limits and VAT incorrectly charged by the supplier.

In particular, it is interesting to note that while businesses surveyed recorded a lack of documentary evidence to provide to tax administrations as the most common reason for claims being rejected, tax administrations stated invalid and insufficient documentation as the third most common reason for claims being rejected.

This indicates that tax administration requirements with regards to additional information may be burdensome for businesses who may often lack appropriate documentary evidence. Failure to produce the right documentation then leads to claims being rejected on the grounds of invalid and insufficient documentation. This can be problematic, particularly in light of businesses having noted that requests for additional information by tax administrations are very frequent.

Figure 36: Common justifications given by tax administrations for rejecting VAT refund claims according to businesses



Source: PwC analysis

In addition, the results of the Phase 2 agents' questionnaire are also broadly consistent with the observations from the tax administration data, as they suggest that across the EU-28 the three most common reasons for refunds being rejected in whole or in part are:

1. VAT incorrectly charged by supplier;
2. Lack of evidence of business purpose; and,
3. VAT not eligible for refund based on nature of the expense.

The issue of VAT being initially charged incorrectly and then claimed through a refund is evident across all the agents' responses. Some examples include, purchases which are subject to the reverse-charge mechanism, exempt purchases, and purchases with variable VAT rates. Such an approach might indicate a lack of understanding of domestic rules and suggests that there is more to be done in educating or upskilling businesses with respect to the general application of VAT rules. Also, a lack of evidence that the expenses have been incurred exclusively for business purposes` is among the main reasons for claims being rejected. This again may suggest a deficiency in understanding domestic rules.

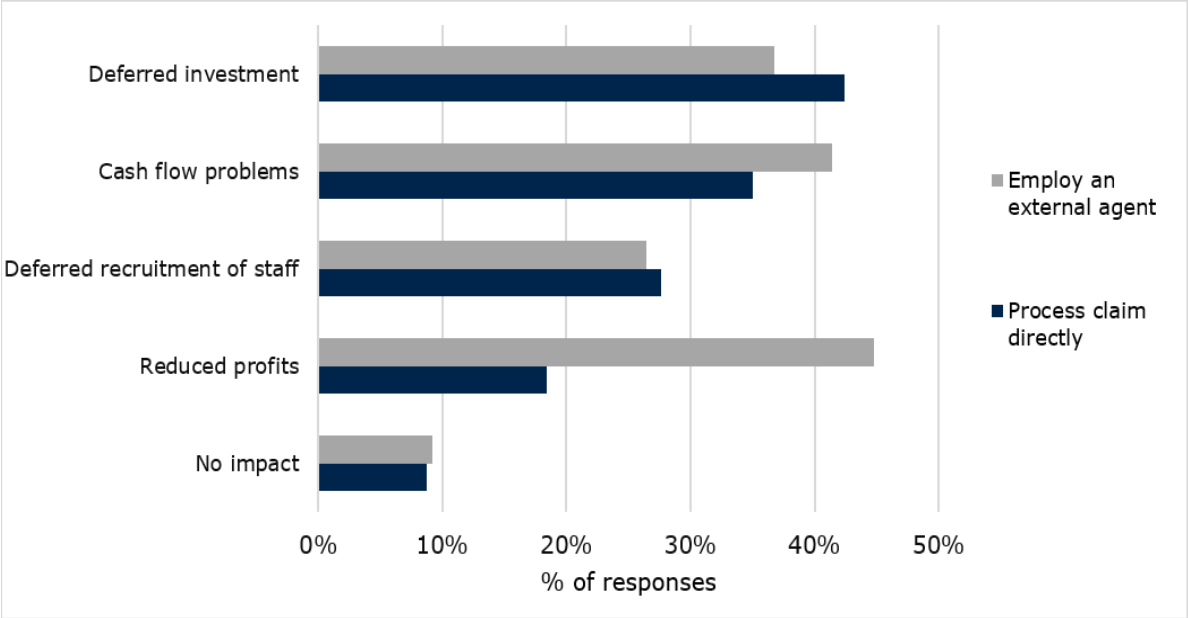
How can a rejected VAT refund claim affect a business?

Figure 37 shows the impact that rejected claims have on businesses. Only 8% of business surveyed that process claims in-house and 9% of businesses surveyed that employ external agents said that rejection of claims had no impact on their businesses. Thus, most of the businesses surveyed are affected by claim rejections.

Of the 217 business surveyed that process claims in-house, 42% recorded that rejection of a claim could lead to the deferral of investment. Cash flow problems and deferred recruitment of staff were recorded as the second and third most common impacts of claims being rejected. This highlights the fact that businesses do rely on the refund of VAT for their day-to-day operations.

18% of the businesses surveyed that process claims in-house recorded that the rejection of claims reduced their profits. In contrast, of the 87 businesses surveyed that employ external agents, 44% of respondents recorded reduced profit as the impact of a claim being rejected. The reason for businesses employing external agents being affected more severely by reduced profits than those that process claims in-house may be that businesses typically use agents to process high value claims. Thus, rejection of high value claims is likely to have a bigger impact on business profits.

Figure 37: Impact on businesses of VAT refund claims being rejected



Source: PwC analysis

Summary

The absolute number of claims approved across the EU-26 has increased consistently over the period 2013-2016, from 556,000 in 2013 to 629,000 in 2016. This was also reflected in growth of the approval rate from 92.2% to 94% over this period. Eleven Member States had an approval rate above the EU-25 average and 17 Member States

had an approval rate of above 90% in 2016. Member States in Southern Europe have, again, been amongst the worst performing, with Malta and Croatia having the lowest approval rates.

Contrary to the increase in the number of claims approved and approval rates, the value of claims approved has decreased by 2.3% over the four-year period to EUR 4.2 billion.

This was also reflected in a decrease in the average value per rejected claim across the EU-25 Member States from EUR 8,100 to EUR 7,000. Interestingly, the difference between the average value per approved claim and rejected claim appears to be small, with a rejected claim amounting to, on average, EUR 7,700. Moreover, a similar trend for the total and average value of approved claims was experienced in that the average value per claim rejected decreased over the period 2013-2016.

Tax administrations provided detail with regards to the most common justifications for a claim to be rejected. A negative decision was based on either the expense being non-refundable based on domestic legislation or provisions outlined in Directive 2008/9/EC or suppliers having incorrectly charged VAT. Finally, the failure to submit additional documentation, or additional documentation being insufficient or invalid commonly led to claims being rejected. Businesses' and VAT refund agents' perceptions as to why claims are rejected aligned with the reasons given by tax administrations.

Finally, businesses recorded that rejection of claims could lead to deferral of investment, cash flow problems and deferred recruitment of staff. In addition, businesses that employ an external agent also experienced reduced profits. The reason for businesses employing external agents being impact more severely by reduced profits than those that process claims in-house could be attributed to businesses typically using agents to process high value claims.

5.1.7 Prevalence of delays, drivers and impacts on businesses

Key findings: In 2016, just 1% of claims were paid outside deadline. The biggest decrease in the delay rate occurred in 2014, with the rate of claims paid outside deadline having since plateaued. Considering the number of claims received increased in 2016 while processing efficiency of tax administrations has decreased, a decrease in delay rate is a positive development. One driver for the decrease in the delay rate may be the implementation of specific procedures to prevent delays, with 56% of tax administrations having implemented such processes.

Over the period 2013-2016, the average value of claims paid outside deadline has increased from EUR 11,000 to EUR 30,000. A similar trend was seen for queried claims where the average value per claim across the EU increased over the period 2014-2016. This suggests that lower value claims are being dealt with more efficiently and higher value claims are more likely to be queried and subsequently

delayed.

Of the 17 Member States, only five recorded a high rate of claims paid outside deadline. In particular, Cyprus and Bulgaria had a rate of claims paid outside deadline of 28% and 14% respectively. The remaining 12 Member States paid less than 4% of the claims processed outside deadline. Interestingly Member States with high rates of claims paid outside deadline, such as Cyprus and Greece, also have a high query rate. In addition, Bulgaria also responded that it has no specific procedures in place to prevent delays.

Both tax administrations and VAT refunds agents identified the same common expense types that are likely to be delayed. The most common expense types to be delayed, namely "other", "fuel", and "accommodation" were also the most common expense types for which additional information was requested. This once again suggests that there is a correlation between claims being queried and delayed.

Issues regarding invoices and expense types was identified as a common reason for delays by tax administrations, businesses and VAT refund agents. In addition, businesses and VAT refunds agents also noted high value claims are likely to be delayed. This further substantiates the finding that tax administrations are likely to take longer to process higher value claims.

This section of the report will attempt to understand the prevalence of delays in the processing of VAT refund claims, common reasons for delays and how perceptions of delays differ between taxpayers and tax administrations.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

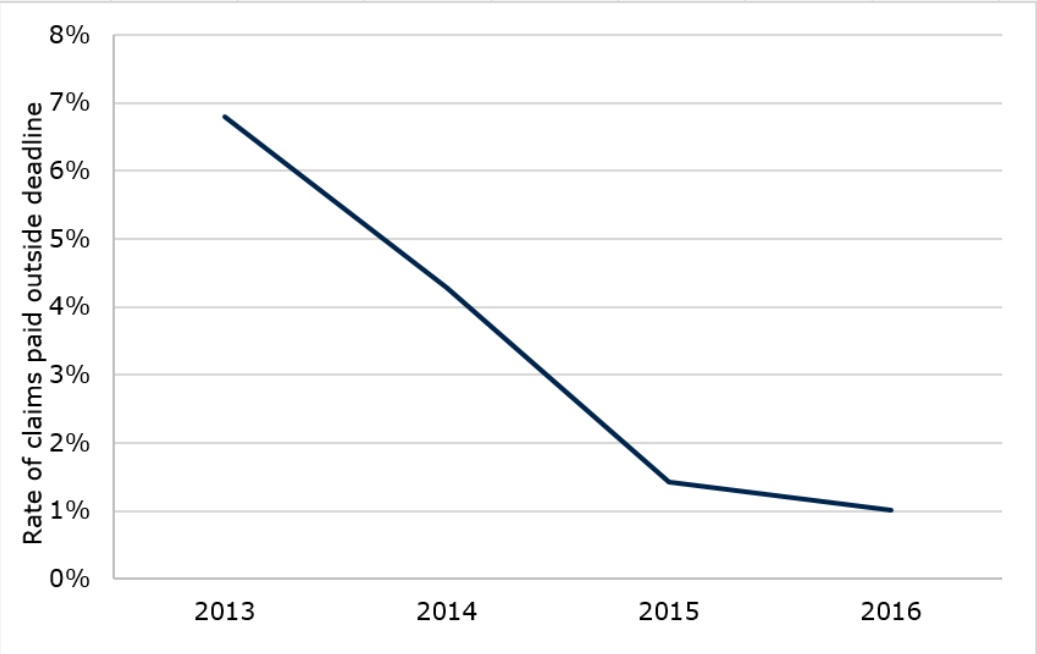
- EU-18: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Luxembourg, Romania, Slovakia, Spain and Sweden.
- EU-17: Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Finland, France, Greece, Hungary, Ireland, Italy, Luxembourg, Portugal, Romania, Spain and Sweden.
- EU-14: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, Greece, Hungary, Italy, Latvia, Lithuania, Slovakia, Slovenia and Sweden.

Number of claims paid outside deadlines

Data from 17 Member States shows that between 2013 and 2016 delays in the VAT refund process fell by 85% across the EU. By 2016, just 1% of claims processed by EU tax administrations were paid outside statutory deadlines, down from nearly 7% in

2013. The most significant improvements were made in 2014 and 2015, possibly due to the already low rate of delays going into the year.

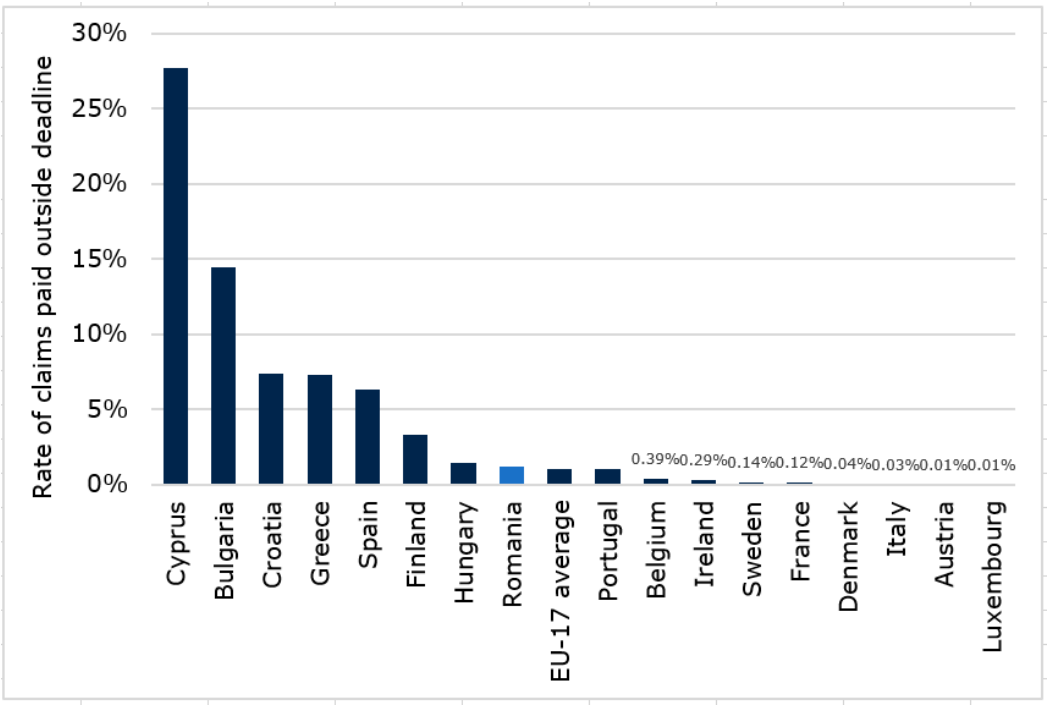
Figure 38: Rate of claims paid outside deadlines across the EU-17 over the 2013-2016 period



Source: Tax administration data, PwC analysis

When the data on delays was broken down on a country-by-country basis for the year 2016, it was also revealed that the average figure had been skewed by a small number of poorly performing countries, in particular Cyprus and Bulgaria which recorded delay rates of 27.7% and 14.4% respectively.

Figure 39: Rate of claims paid outside deadline per EU-17 Member States in 2016

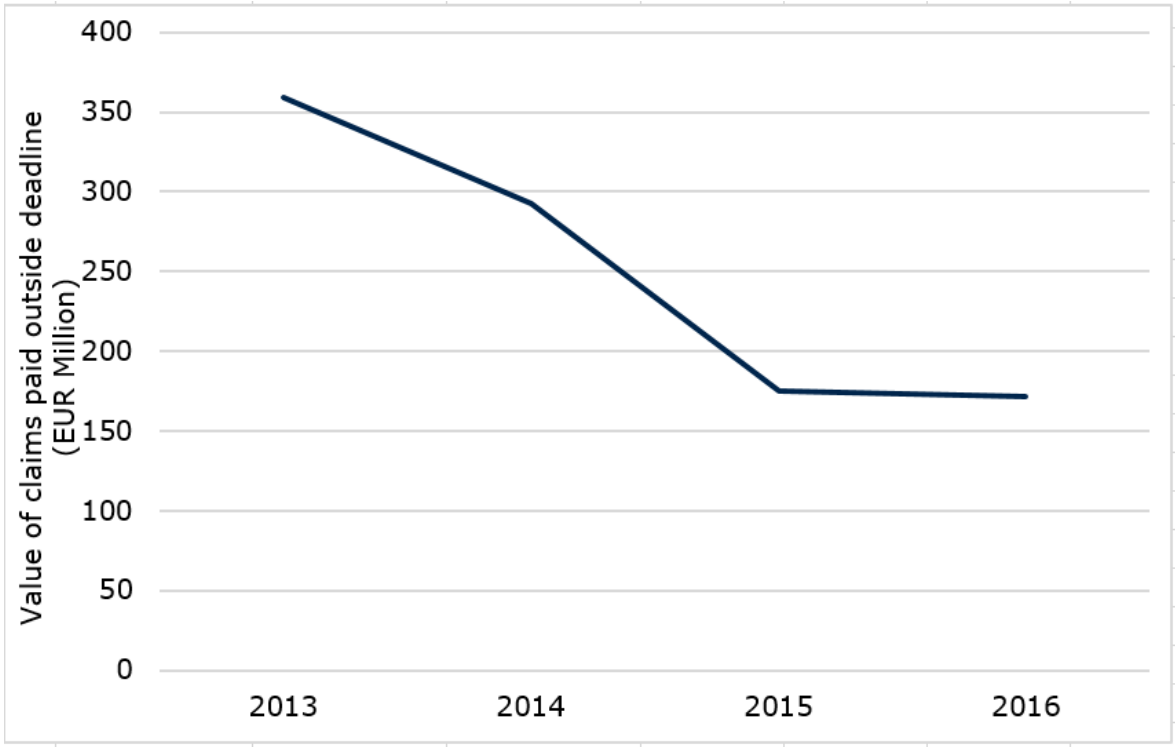


Source: European Commission data, tax administration, PwC analysis

Value of claims paid outside deadlines

As the number of delayed claims fell year-on-year, so too did the total value falling from EUR 359.2 million in 2013 to EUR 171.9 million in 2016, a decrease of over 50%. Similarly to the rate of claims paid outside deadlines, the biggest improvements in the value of claims paid outside deadlines were seen in 2014 and 2015, with little change on the previous year in 2016.

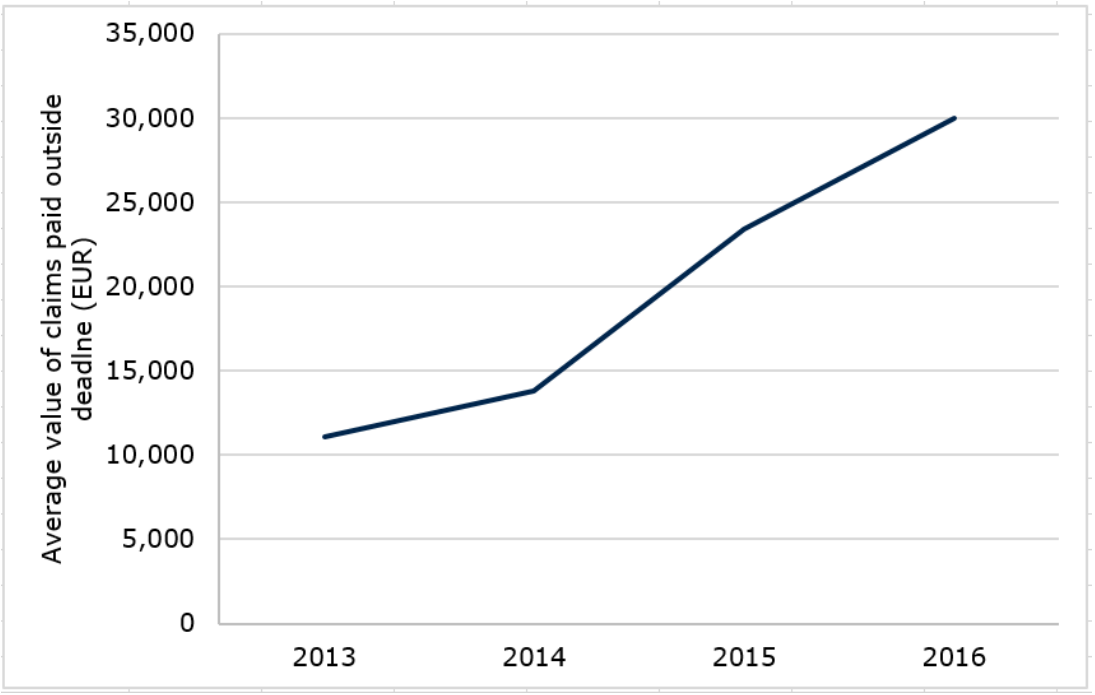
Figure 40: Value of claims paid outside deadline across the EU-17 over 2013-2016



Source: European Commission data, tax administration data, PwC analysis

However, between 2013 and 2016 the average value of a delayed claim rose from EUR 11,000, to EUR 30,000, an increase in value of over 270%. This suggests that the improvements in the number of claims paid outside deadlines since 2013 were achieved through reducing delays in lower-value claims. Though a breakdown of changes in the frequency of delays by claim size is unavailable, the available data suggests significantly less progress has been made on reducing delays among high-value claims and, therefore, that processing high-value claims within statutory deadlines still remains a challenge across the EU.

Figure 41: Average value per claim paid outside deadline across the EU-17 over 2013-2016

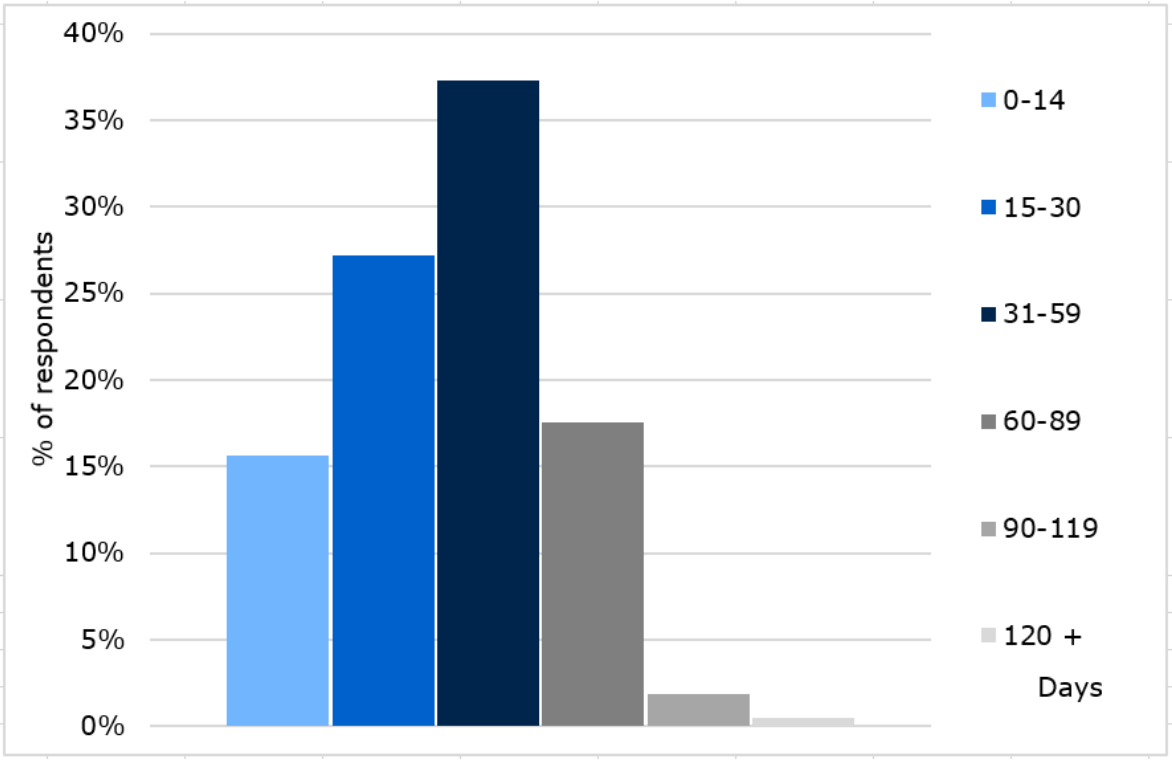


Source: European Commission data, tax administration data, PwC analysis

How long are delays?

Figure 42 shows the average length of delays in days for VAT refund claims. Of the 217 businesses surveyed that process claims in-house, most stated that the length of delay ranges from 15 - 90 days. 37% of the respondents stated that claims are delayed by 31 - 60 days. Businesses can make complaints about delayed claims via the SOLVIT network. As seen in the discussion on the impact on businesses of claims being delayed, these timescales can be problematic given how delayed claims are found to typically be a high value.

Figure 42: Average length of a delay in days for VAT refund claims



Source: PwC analysis

Procedures in place to prevent delays

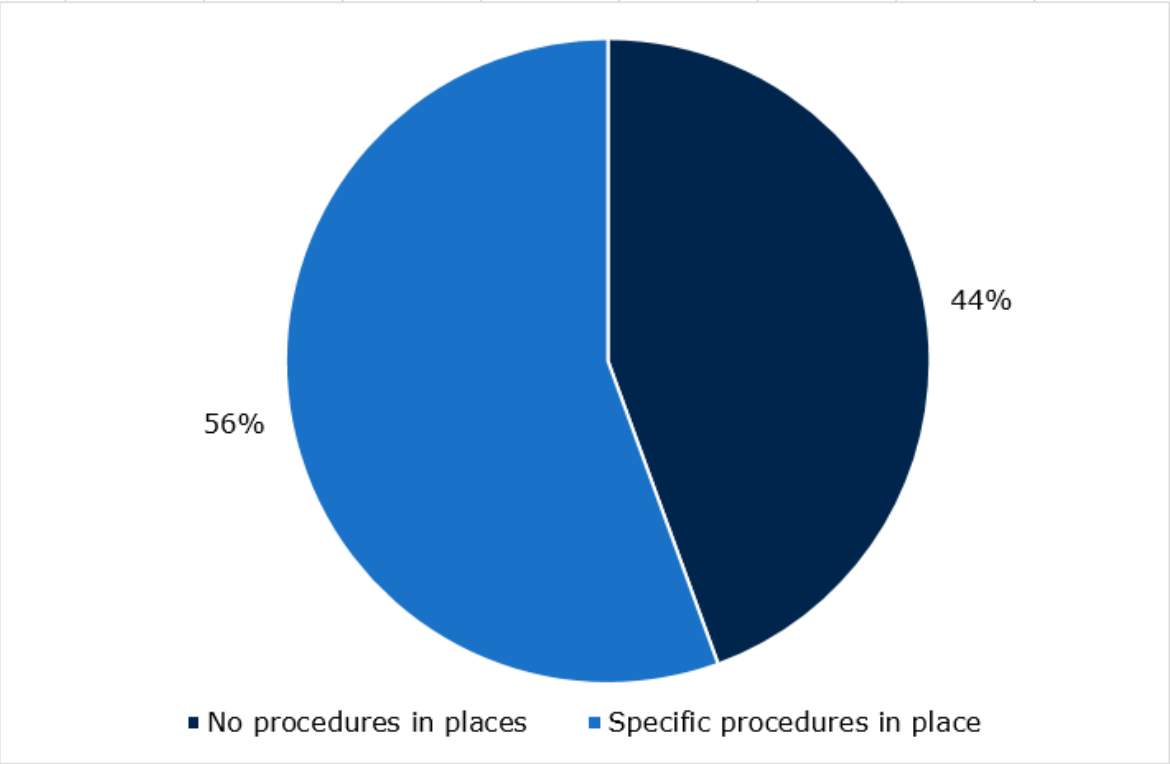
Out of the 18 tax administrations that responded as to whether there are specific procedures in place to prevent delays in the VAT refund process, Nine of them described how they aim to decrease the number of delays. These Member States were the Czech Republic, Denmark, Finland, Hungary, Italy, Luxembourg, Slovakia, Spain, Sweden. Most of these tax administrations have embedded these procedures in their IT systems. This has varied from automatic alarms that notify when a deadline is approaching to arranging the applications according to the date received. Seven Member States, namely Austria, Bulgaria, Croatia, Estonia, France, Greece, Latvia and Romania reported having no such procedure in place. Interestingly, a number of Member States, such as Bulgaria and Croatia, reported no specific procedures in place to prevent delays also recorded the highest proportion of claims paid outside deadline in 2016.

In the Czech Republic, the competent department has adopted a systematic supervisory and coordination system, which monitors the activity of senior staff in order to manage the workload,. Like many of the Member States, the systems used by the Danish tax administration has alarms which notifies them of any upcoming deadlines. Similarly, in Hungary the internal IT processing system is integrated with a timetable that automatically warns the tax officer of deadlines. Likewise, the Italian tax administration have a system that, when a particular date is keyed in, shows all applications that are due on that day. Luxembourg and Spain have adopted equivalent procedures. In Luxembourg, the deadlines are automatically calculated and are displayed to the tax office. In Spain, automatic notifications warn the tax

administration if a deadline is approaching. The Slovakian tax administration also has alarms embedded in their systems that indicate when there is less than 14 days for claims to be processed.

In Sweden, the IT system used by the tax administration lists the oldest applications first. Furthermore, Sweden has implemented an ongoing internal audit process to prevent delays. In Finland, if possible and necessary, more resources are allocated to handle the application numbers.

Figure 43: Proportion of Member States that have specific procedure in place to prevent delays in the refund process across the EU-18 in 2016



Source: Tax administration data, PwC analysis

Engagement with tax administrations:
Manual verification of additional information received from taxpayers

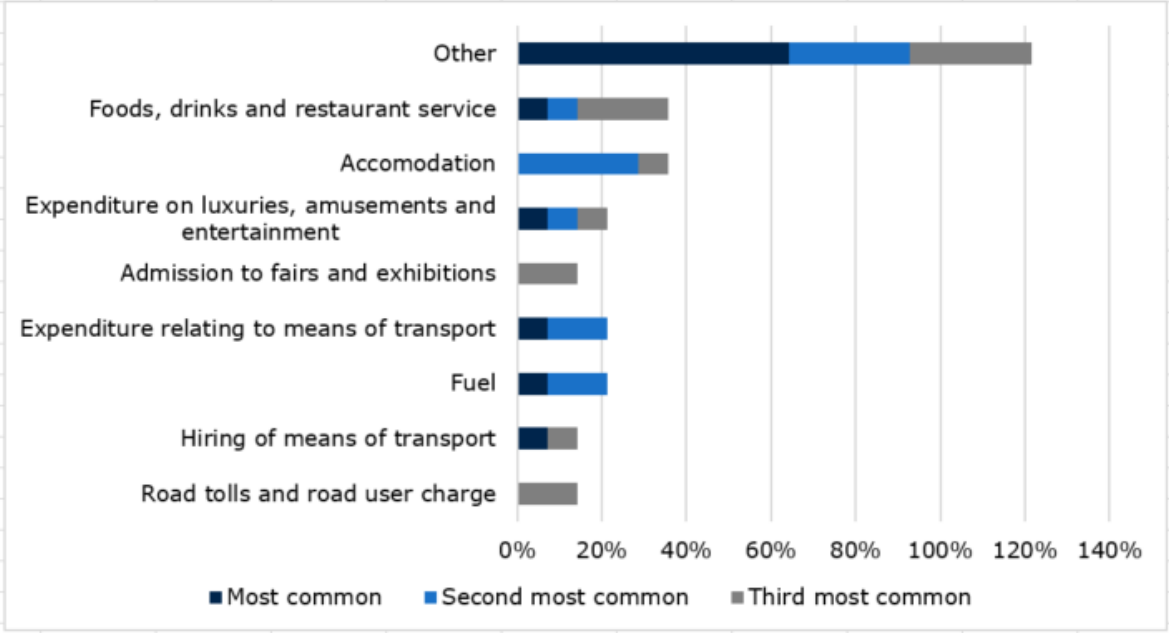
In the interviews, one tax administration noted that they do not have an electronic system in place to verify the authenticity of additional information, especially invoices, submitted by taxpayers for VAT refund claims. In order for the tax administration to be able to carry out relevant verification procedures manually, the tax officer has to be in direct contact with either the taxpayer or the invoice issuer, which is typically very time consuming. Additionally, it is common practice to give taxpayers more time to respond to additional information requests than the one month prescribed by Article 20 in Directive 2008/9/EC. For example, if taxpayers have not responded to a request within one month of issuing it, the respective tax administration generally sends a reminder. These two factors appear to have significantly contributed to the Member State's low performance in the processing of VAT refunds compared to other EU Member States, prolonging the processing duration for a VAT refund claim and leading to a higher number of delays and lower approval rates.

Common expense types that are delayed

14 Member States provided responses with regard to the most common expense types that are likely to be delayed. As illustrated below, claims falling in the "other" expense type category are most likely to be delayed (64%). Claims for "Accommodation" (28%), "Other" (28%) and "Fuel" (14%) were listed as the second most common expense types to be delayed and claims for "Food, drinks and Restaurant service" (21%) alongside "other" (28%) were listed as the third most common expense type to be delayed.

As already discussed in section 5.1.5, "other", "fuel" and "accommodation" were listed as common expense types for which additional information is requested. Thus, there appears to be a direct correlation between claims being queried and subsequently delayed. Moreover, it is particularly concerning that "Fuel" and "Accommodation" were amongst the common expense types to be delayed given how they were also listed as the most common expense types to be claimed.

Figure 44: Most common expense type which are likely to be delayed across EU-14 in 2016



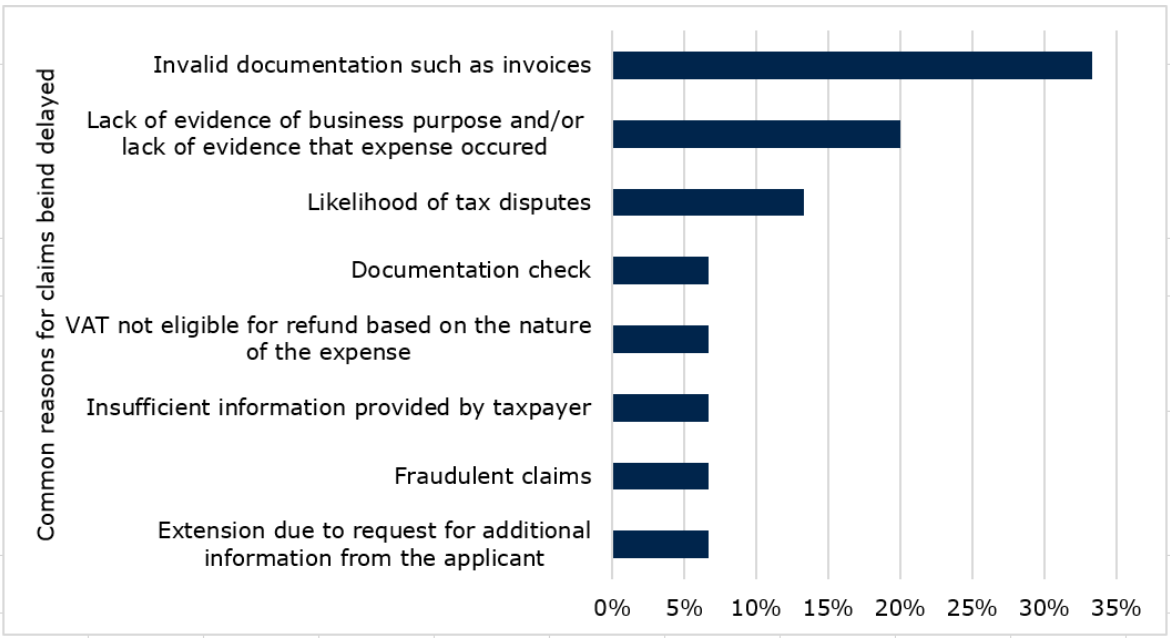
Source: Tax administration data, PwC analysis

Data gathered from the Phase 2 agents' questionnaire also suggests a similar pattern with regards to the most common expense types that are likely to be delayed. Three out of four of the agents who responded highlighted that claims falling in the "Other" expense type category are most likely to be delayed, while "Accommodation" claims are the second most likely to be delayed. The third most likely expense type to be delayed, according to the agent data is "Expenditure on luxuries, amusements and entertainment".

Common reasons for claims being delayed

Fourteen Member States provided reasons for claims being delayed. "Submission of invalid documentation such as invoices" (35%), "Lack of evidence of business purpose/expense type" (14%) and "Likelihood of tax disputes" (13%) were identified as the most common reasons for delay. In addition to the reasons listed below, some Member States also listed "VAT exemption and application of pro-rata", "application eligible for local VAT registration", "Non-Refundable expense" and "Request for mutual assistance under Directive 2010/24/EU" as the second and third most common reasons for claims being delayed. As discussed in the "Queried claims section", "Original/Copy of invoices", "Proof of business activity" and "Other documentation such as evidence of business purpose" were the most common types of additional information requested. Once again there appears to be correlation between claims being queried and subsequently delayed. Furthermore, in Section 5.1.6 the most common reasons for claims being rejected were discussed. "non-refundable expenses", "taxpayer eligible for local VAT registration", "incorrect/insufficient application details" and "application for pro-rata" were listed as common reasons for claims being rejected. Thus, claims delayed are also likely to be rejected for similar reasons.

Figure 45: The most common reasons for VAT refund claims being delayed



Source: Tax administration data, PwC analysis

According to the businesses surveyed, the nature of the underlying expense and large amounts of invoices or items of expenditure are the most common reasons for claims being delayed. This is followed by claims being the first VAT refund claim submitted by the business and claims being of a high value.

Issues around invoices and expense types are also repeatedly listed as a common reasons for delay by tax administrations and VAT refund agents. In addition, the fact that the businesses surveyed noted high value claims as one of the most common

reason for claims being delayed further substantiates the finding that tax administrations are likely to take longer to process higher value claims.

Data gathered from the Phase 2 agents' questionnaire also suggests a similar pattern with regards to the three most common reasons for a refund being delayed. Three out of four of the agents who responded highlighted that "VAT incorrectly charged by supplier" is the most common reason for a refund to be delayed, while "Invalid documentation such as invoices" and "lack of evidence of business purpose" are the second and third most common reasons for a refund being delayed.

Data from agents also strongly suggests that higher value claims are much more likely to be delayed or subject to greater scrutiny than low value claims.

One agent, in a response which covered all Member States, highlighted that, in general, among the most common reasons for a refund being delayed are general requests for additional information of expenses incurred on high value invoices and the business rationale behind them.

In terms of individual Member States, one agent, in a response which covered all Member States, suggested that in Italy and the UK one of the main reasons for a refund being delayed is an overly formalistic approach to requiring supporting evidence.

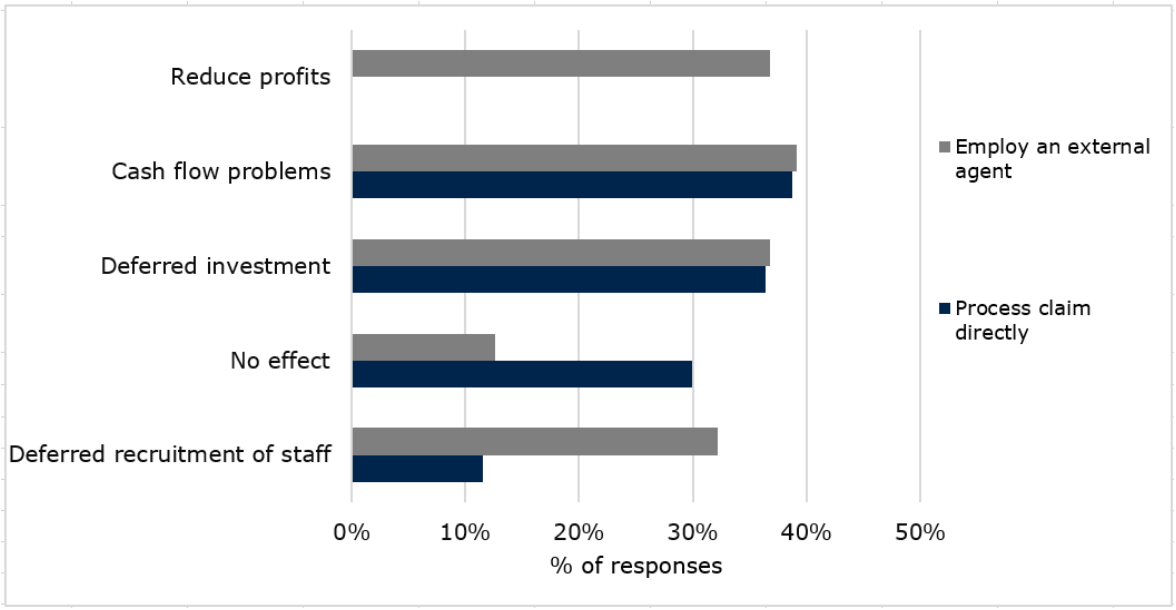
How can a delayed VAT refund claim affect a business?

Figure 46 shows the impact a delayed claim has on the businesses surveyed. There were some consistencies in the impact of delayed claims and rejected claims. The businesses surveyed that process claims in-house stated cash flow problems and deferred investment as the two biggest impacts of a delayed VAT refunds claim. Given the fact that a claim being of high-value is a common reason for delays, it is not particularly surprising that it impacts businesses' day-to-day operations.

However, 30% of the businesses surveyed that process claims in-house stated that they were not affected by delayed claims. This may be attributed to the fact that the proportion of businesses that are not affected by delays either have larger annual turnover or are making smaller value claims and therefore do not rely on timely VAT refund payments to the same extent to run their day-to-day operations.

Businesses surveyed that employ external agents gave similar responses with regards to the impact of delayed and rejected claims. Reduced profits, cash flow problems and deferred investment were listed as the main impacts delayed claims have on businesses. This substantiates the finding that businesses typically employ external agents for processing claims of higher value.

Figure 46: Impact on businesses of VAT refund claims being delayed



Source: PwC analysis

Claiming late payment interest from tax administrations

As set out in Directive 2008/9/EC, tax administrations are required to pay interest on VAT refund claims paid outside deadlines stipulated in the Directive.

Of the 217 businesses surveyed that process claims in-house, 67% of respondents stated that tax administrations paid interest on claims that were paid outside deadline in 50% -90% of cases. This is particularly important given that delayed claims are typically of a higher value.

In particular, businesses surveyed in Greece and Romania noted that they faced challenges with receiving late payment interest from other EU tax administrations. 50% of businesses surveyed in Greece and 44% of businesses surveyed in Romania stated that they never, very rarely or rarely received interest payments from Member States of Refund on VAT refund claims that were paid outside the time limits prescribed by Directive 2008/9/EC. Interestingly, as outlined in section 5.1.2, businesses surveyed in both countries submitted the largest proportion of VAT refund claims in the last three calendar years to the UK tax administration. This suggests that it may be particularly difficult for businesses to recover late payment interest for VAT refund claims from the United Kingdom..

Summary

Seventeen Member States provided data on claims paid outside deadline from 2013-2016. Over the period, the rate of claims paid outside deadline has fallen significantly across the EU. While the rate of claims paid outside deadline fell significantly between 2013-2014 (almost by 37%) it has since started to plateau. The rate of claims paid outside deadline was 1% in 2016.

The five Member States with the highest rate of claims paid outside deadline namely, Cyprus, Bulgaria, Croatia, Greece and Spain skewed the EU average. The remaining 11 Member States paid less than 4% of the claims processed outside deadline.

Similar to the number of claims, the value of claims paid outside deadline also fell over the period 2013-2016. The value of claims paid outside deadline was EUR 171.9 million in 2016, a decrease of over 50% since 2013.

In contrast, the average value of claims paid outside deadline increased in the period 2013-2016 by over 270%. This suggests that smaller value claims are being processed more efficiently and higher value claims are more likely to be delayed.

Of 18 tax administrations, only 10 responded that they have specific procedures in place to prevent delays. These procedures typically help staff prioritise claims that have an upcoming deadline. Interestingly, Member States that recorded high proportion of claims paid outside deadline such as Bulgaria and Croatia reported that they do not have any specific procedures in place to prevent delays.

Fourteen Member States provided responses with regards to the most common expense types that are likely to be delayed. "Other", "fuel" and "accommodation" were the most common types of expenses to be delayed. In the queried claims, Member States also recorded these as the most common expense types for which additional information is requested. Thus, there appears to be a direct correlation between claims being queried and delayed. Data gathered from the Phase 2 agents' questionnaire also suggests a similar pattern with regards to the most common expense types that are likely to be delayed.

Fourteen Member States also provided reasons for claims being delayed. Reasons such as "invalid documentation such as invoices", "lack of evidence that expense occurred", "and taxpayer eligible for local VAT registration" and "application for pro-rata" have been listed as common reasons for delays. Issues around invoices and expense types are also repeatedly listed as a common reason for delay by businesses and VAT refund agents surveyed. Businesses surveyed also identified high value claims as one of the common reasons for claims being delayed. This further substantiates the finding that tax administrations take longer to process high value claims.

Finally, some consistencies were identified in the impact on business of delayed and rejected claims. Businesses surveyed recorded cash flow problems and deferred investment as likely impacts of delayed claims. However, 30% of businesses surveyed that process claims in-house stated that they are not affected by delayed claims. This may be attributed to these businesses either having larger annual turnover or making smaller value claims and therefore not being affected by delays.

5.1.8 Effectiveness of VAT refund agents

Key finding: Considering the average value of a claim submitted by VAT refund agents is EUR 2,400, businesses appear to generally use VAT refund agents for claims that are of low value but high volume, for example claims for fuel expenses or road

tolls. VAT refund agents have also been found to frequently submit larger and more complicated claims, which are less standardised and therefore usually fall under the expense type "other".

The query rate for claims submitted by VAT refund agents is 10.8% percentage points, higher than the query rate experienced for the total VAT refund claim population (9%). However, this is not surprising considering expenses falling under the "other" category are more diverse and unique and, therefore, are more likely to be queried by tax administrations.

The rejection rate for claims submitted by VAT refund agents is 3.1 percentage points substantially lower than the rejection rate experienced for the total VAT refund claim population, implying that agents are more efficient at preparing and submitting claims. Moreover, this suggests that agents, as expected, are more familiar with rules regarding refundable expenses in place in different Member States of Refund.

Finally, VAT refund agents appear to face a significantly higher rate of delays with nearly 23.5% of all claims submitted being paid outside deadlines stipulated in Directive 2008/9/EC. Considering agents submit a substantial amount of claims for the "other" expense category, this may be expected considering the nature of such expense requiring an increased level of queries, which may indicate a higher possibility of delays.

In order to identify any differences in perceptions of the efficiency of the VAT refund process between VAT refund agents and tax administrations, six VAT refund agents operating across the EU-28 Member States were surveyed. However, only three of these agents have provided consistent detailed data. Therefore, the analysis focuses on the effectiveness of VAT refund agents on the data provided by these three agents.

The results discussed below need to be considered in the context of our sample of VAT refund agents. Agents surveyed prepared claims across most expense types as outlined in Directive 2008/9/EC. However, one agent focussed on fuel expense claims, which may distort some of findings slightly. This will be referred to and addressed in relevant sections of the discussion around the effectiveness of agents.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-26: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

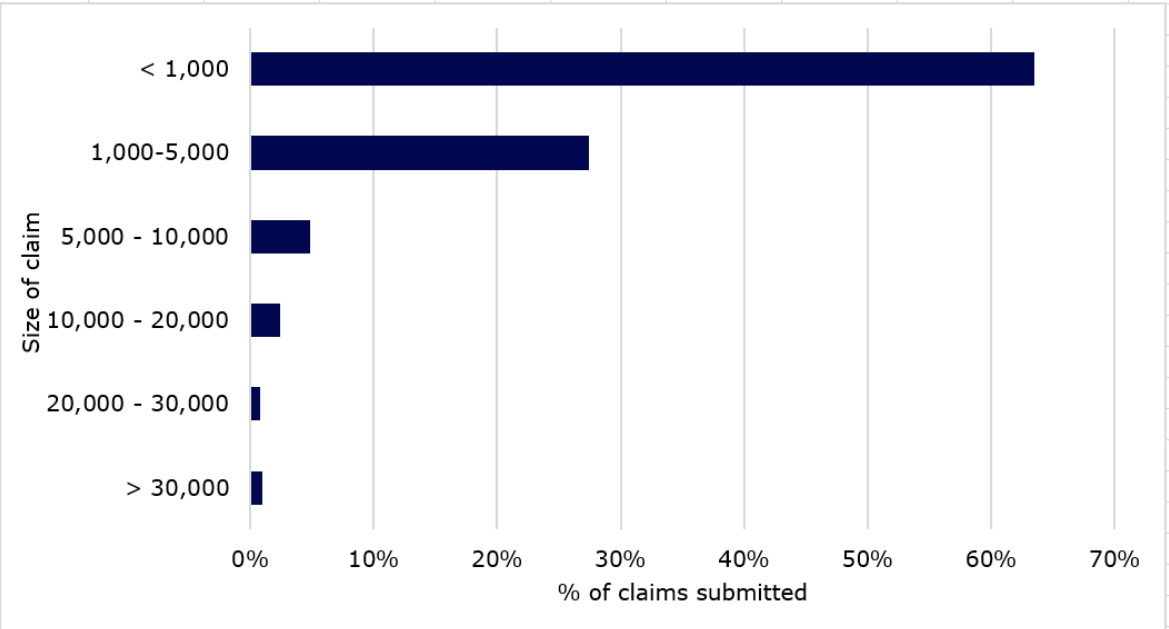
- EU-25: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-17: Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Finland, France, Greece, Hungary, Ireland, Italy, Luxembourg, Portugal, Romania, Spain and Sweden.

Claims prepared and submitted by VAT refund agents

In 2016, the three VAT refund agents for which data was provided submitted over 30,000 claims amounting to a value of over EUR 71.7 million. This amounted to approximately 4.5% of all claims processed by tax administrations in the EU-26 Member States in that year. Overall, claims prepared by these agencies appear to be more consistent, with an average value of a submitted claim of EUR 2,400 and an average value per claim approved of approximately EUR 2,500.

To gain more insights in claims processed by these three agents, the distribution of claims submitted by them in 2016 across different claim values for the EU-28 was analysed. More detailed data shows that 63.5% of claims submitted by the three agents had a value of less than EUR 1,000 and 27.4% of claims submitted amounted to a value between EUR 1,000 and EUR 5,000 (Figure 47). This also correlates with the average value for a claim submitted by an agent in 2016, which amounted to EUR 2,400. Considering the average value of a claim received by tax administrations in the EU-20 was approximately EUR 4,700, this suggests that claims submitted by agents are typically high number and low value claims.

Figure 47: Claims submitted by three VAT refund agents in 2016 by value of claims



Source: VAT refund agent data, PwC analysis

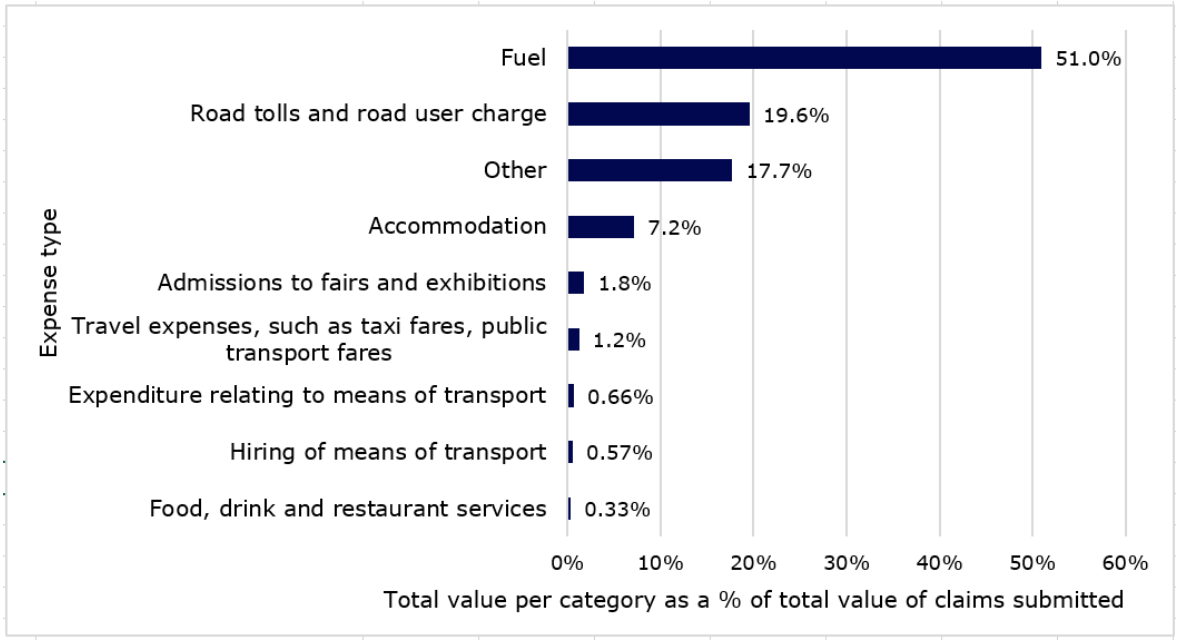
Having considered how claims submitted by VAT refund agents were distributed across claim size categories, the analysis also looked at which expense categories, as

outlined in Directive 2008/9/EC, attracted the most claim submissions in terms value. Two of the three agents surveyed also provided a breakdown of claims submitted in 2016 per expense type. It has to be noted that some agents operate across all expense categories, whereas others focus on preparing refund claims for specific expense types only. Therefore, any results need to be considered in the context of our sample of VAT refund agents.

As outlined in Figure 48, a large proportion of claims submitted by these two agents was in respect of two expense types. In 2016, claims amounting to EUR 35.2 million were submitted in respect of refunds for fuel expenses. This equates 51% of the total value of claims submitted by the agents. Moreover, claims with a total value of approximately EUR 13.5 million were submitted in the category "road tolls and road user charge". This made up 19.6% of the total value of claims submitted by this agent. However, these results need to be considered in the context of the sample of VAT refund agents, which included agents that may specialise in submitting claims in respect of certain expense types. Therefore, it is expected that a larger proportion of claims submitted by these agents were for fuel expense refunds.

The lowest number of claims submitted by these agents was for claims in the categories "food, drink and restaurant services" and "hiring of means of transport", with 0.33% and 0.57% of claims submitted respectively.

Figure 48: Claims submitted by two VAT refund agents in 2016 by expense type



Source: VAT refund agent data, PwC analysis

Approvals and rejections of claims prepared by VAT refund agents

At 3.1%, the rejection rate for claims prepared by agents is approximately 50% less than the rejection rate of 6% reported by tax administrations. This indicates that agents are able to use their specialist knowledge in preparing claims specifically to the requirements of a Member State of Refund's requirements, and shows that agents are also likely to know which expenses are likely to be rejected and therefore should not be submitted.

Interestingly, the average values for a rejected and approved claim submitted by the three VAT refund agents follow a pattern similar to that reported by tax administrations. A claim that was submitted by these agents and subsequently approved had an average value of EUR 2,500 and a claim that was rejected had an average value of EUR 3,500. Compared to this, tax administrations in EU-25 Member States reported an average value of an approved claim of EUR 6,700 and the average value for a rejected claim in EU-25 Member States for which data was provided amounted to EUR 7,700.

Additional information requests for claims prepared by VAT refund agents

In 2016, nearly 3,300 claims of the 30,000 claims that were prepared and submitted by agents surveyed in the study attracted additional information requests. This led to a query rate of 10.8% which was higher than the EU-26 query rate of 9% in the same year. This is surprising considering many agents have in-depth knowledge of the specifics of preparing a refund claim, as well as the documentation and information that needs to be submitted with a claim.

However, similar to the wider EU population, the average value of a queried claim is, at EUR 5,400, higher than that of a submitted claim. This substantiates the finding that tax administrations tend to query higher value claims more frequently, and suggests that tax administrations use a risk-based approach to verifying claims.

As explained in detail above, data gathered from the Phase 2 agents' questionnaire seems to suggest that there are significant issues in dealing with requests from tax administrations for additional information. Very few Member States send notifications that such information has been received, adding to the compliance burden for agents and taxpayers.

Germany, is highlighted as a potential outlier where requests for additional information are no longer pursued by the tax administrations, instead claims are rejected outright and the only way to respond is to file an appeal.[27]

Duration and delays in processing VAT refund claims prepared by VAT refund agents

Data received from the three VAT refund agents suggests that VAT refund agents experience a significantly higher rate of claims being paid outside the deadlines stipulated by Directive 2008/9/EC compared to the EU-17 Member States that provided data about delayed claims. Approximately 7,100 claims submitted by agents, totalling around EUR 17.7 million, were processed and paid late, equating to a rate of 23.5%. This compares to a delay rate of only 1% as reported by EU-17 tax administrations. Despite this, the average value of a claim paid outside deadlines was, with EUR 2,500, much lower compared to the average value reported by EU-17 tax administrations of EUR 29,900.

Combining this with the analysis of additional information requests above, it appears that, overall, agents experience a higher rate of queries and delays than the whole

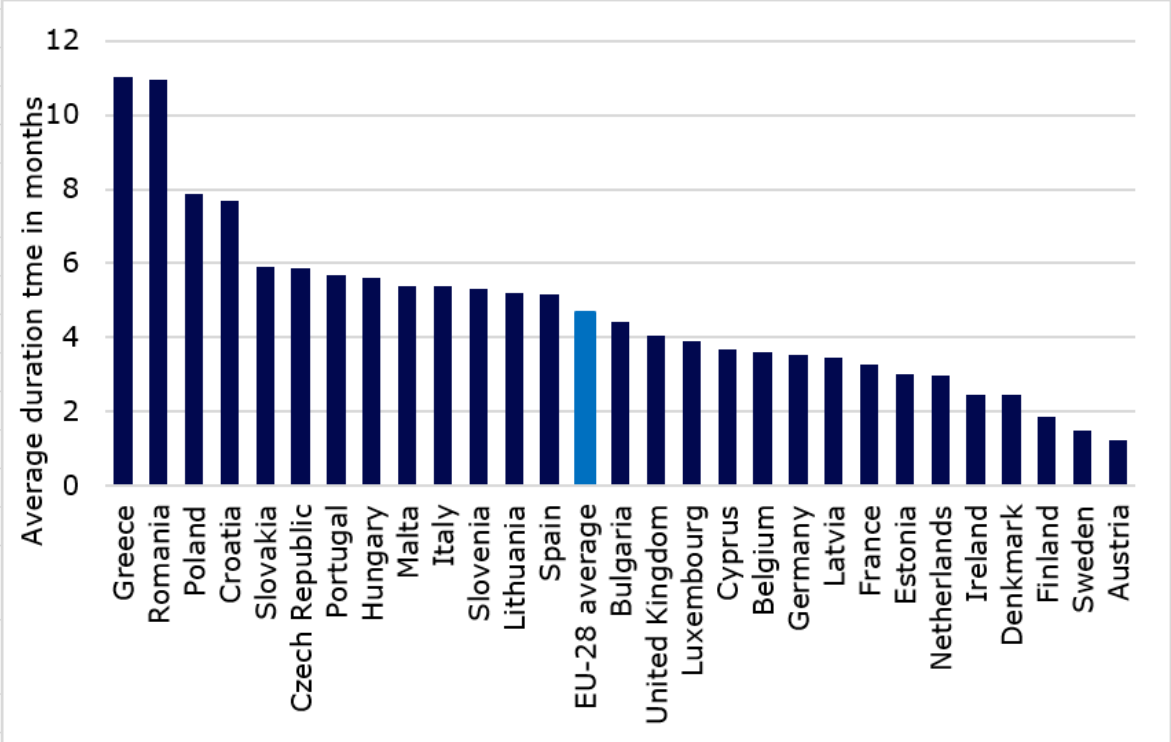
[27] It is noted that the European Commission has commenced infringement proceedings against Germany in respect of its non-compliance with Article 20 (see the press release dated 24 January 2019: IP/19/472)

taxpayer population. This is not surprising as, agents frequently prepare and submit claims for the expense category "other" due to the more specialised nature of expenses falling into this category. Evidence received from tax administrations suggests that claims submitted for this expense type are more likely to be delayed. Thus, a higher delay rate is expected.

Data received from VAT refund agents gave the length of time taken by EU-28 tax administrations to process a VAT refund claim. In 2016, the average duration across all categories and sizes of claim was 4.7 months. As illustrated in Figure 49, two agents experienced a processing duration above the EU-28 average in 13 of the 28 Member States. The duration for processing a claim ranged from a maximum of 11 months in Greece to just over one month in Austria.

Analysis further confirmed that 16 Member States in this data set had an average duration of a claim of more than four months, suggesting that these countries have had increased instances of queried claims. Additionally, Greece and Romania had an average duration above the overall maximum duration for processing a VAT refund claim of eight months as prescribed by Directive 2008/9/EC.

Figure 49: Average duration of processing a claim in EU-28 Member States in 2016

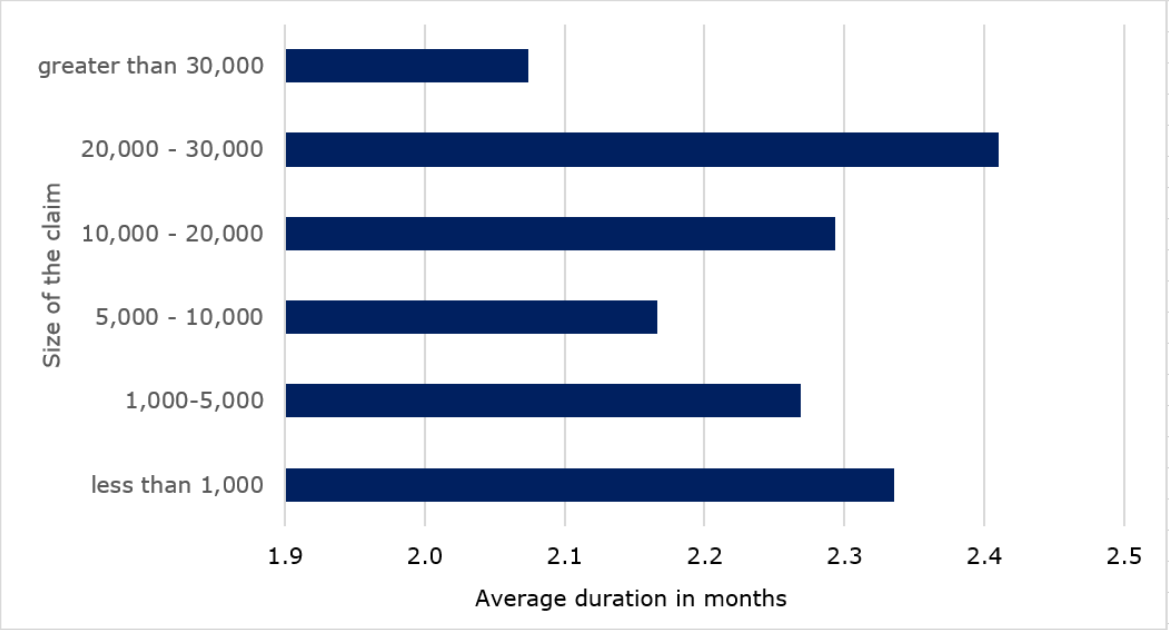


Source: VAT refund agent data, PwC analysis

Finally, information received from two of the three VAT refund agents regarding the average duration of claims across different categories of claim sizes in 2016. The average time it took tax administrations in the EU-27 to process a claim prepared by agents was just over 3 months. Looking at the duration of claims broken down by size, as illustrated in Figure 50, the shortest average duration to process a claim was approximately 2.1 months and occurred for claims amounting to more than EUR

30,000. The longest period to process claims is approximately 2.4 months, which is for claims with a value between EUR 20,000 and EUR 30,000.

Figure 50: Average duration of claims in months across different sizes of claims in 2016



Source: VAT refund agent data, PwC analysis

Figure 50further substantiates the findings of the agents' Phase 2 questionnaire that higher value claims are most likely to be delayed as they are subject to greater scrutiny compared to lower value claims. Furthermore, one agent, in a response which covered all Member States, highlighted that one of the most common reasons for a refund being delayed is that additional information on expenses incurred on high value invoices and the business rationale behind them is generally requested.

Summary

In order to aid the comparison of claims prepared by VAT refund with claims for the total taxpayer population, Table 8 summarises the key metrics analysed.

As illustrated in Table 9, VAT refund agents, in general, handle claims of lower value with an average value of a claim submitted amounting to EUR 2,400. Therefore, the average value of claims approved, rejected, queried and paid outside deadlines are also lower than the average values for such claims reported by the EU tax administrations.

VAT refund agents appear to have a fewer claims rejected, with a rejection rate in 2016 of 3.1%. This is in line with expectations considering VAT refund agents have specialist knowledge and are more likely to aware of domestic rules and legislation governing VAT refunds in the respective Member States.

Taking this expectation into consideration, it is surprising that VAT refund agents have experienced, with 10.8%, a higher query rate than that of the wider refund claim population. However, this result has to be considered in the context of the types of claims agents usually submit. 18% of claims submitted are for expenses falling under

the "other" expense category. This category usually includes expenses that are more unique and less easy to standardise.

Table 9: Comparison of key metrics for claims across the EU population and VAT refund agent population

Key Metric	All claims in 2016	Claims made through the VAT refund agents surveyed in 2016
Query rate	9%	10.8%
Rejection rate	6%	3.1%
Delay rate	1%	23.5%
Average value per claim received/submitted	EUR 4,900	EUR 2,400
Average value per claim approved	EUR 7,000	EUR 2,500
Average value per claim rejected	EUR 7,700	EUR 3,500
Average value per claim queried	EUR 23,400	EUR 5,100
Average value per claim paid outside deadlines stipulated by Directive 2008/9/EC	EUR 30,000	EUR 2,500

Source: European Commission data, tax administration data, VAT refund agent data, PwC analysis

5.1.9 Frequency and causes of appeals, disputes and litigation

Key findings: In 2016, taxpayers disputed 372 VAT refund claims. This equated to a dispute rate of 0.23% of all claims received. At 81.2%, the majority of disputes occurred at the administrative level.

Interestingly, the size of the claim did not appear to be a decisive factor for taxpayers to appeal a decision at the judicial level considering the average value of a claim at this level was, at EUR 433,000, smaller than the average value of a claim disputed at the administrative level (EUR 609,000). This is surprising seeing that appeals at the judicial level are generally more costly and, therefore, the expectation is that taxpayers would tend to appeal higher value claims at this level.

Looking at dispute settlement, a significant difference can be identified between decisions made at the administrative level and the judicial level. At 61.5%, a large proportion of claims disputed at the administrative level were ruled in favor of the taxpayer. Decisions on claims disputed at the judicial level, on the other hand, were

mostly made in favor of tax administrations (83.3%).

The businesses surveyed recorded that dispute procedures typically take between 31-60 days. Only two out of eight businesses in Greece recorded that dispute procedures take longer than 90 days.

Business responses with regard to costs to businesses of disputing a decision was varied. This can potentially be because costs for businesses may vary depending on the Member State in which they are established or the Member State of Refund where the disputes takes place.

This section of the report discusses the frequency and common causes for disputes over VAT refund claims. Disputes at both the administrative and judicial levels will be assessed. Disputes at the administrative level refer to informal challenges between tax administrations and businesses, where there are disagreements over actions and decisions. Judicial disputes refer to conflicts where the tax administration and the business decide to resort to legal recourse to resolve the issue.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-5: France, Greece, Hungary, Latvia and Lithuania.
- EU-3: Greece, Hungary and Lithuania.

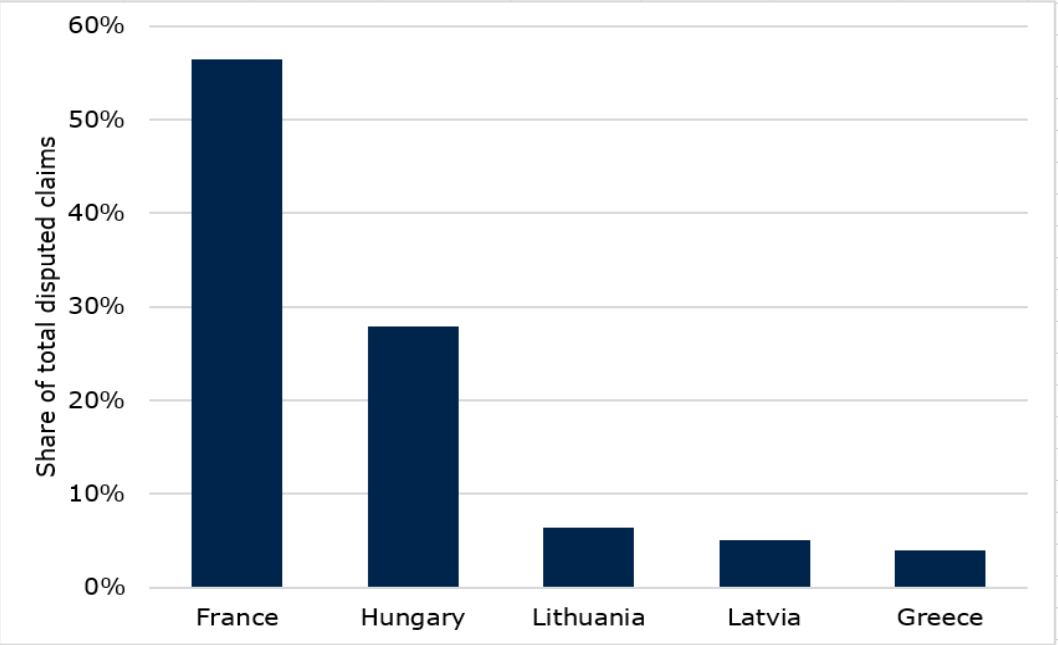
How frequent are appeals, disputes and litigation?

Data on the number and value of appeals, disputes and litigation at the administrative level and judicial level was received from five tax administrations within the EU.

Collectively, these tax administrations dealt with 372 disputed claims amounting to a value of EUR 214.1 million in 2016. This equated to an average dispute rate of 0.23% of all VAT refund claims received by those Member States in 2016, and amounted to an average value per disputed claim of EUR 575,000.

As outlined in Figure 51 , France contributed the largest share of all claims disputed across the EU-5 in 2016, with 56.5%. This was followed by Hungary, contributing 28% of claims to the total number of refund claims disputed.

Figure 51: Share of claims disputed in 2016 across EU-5 Member States

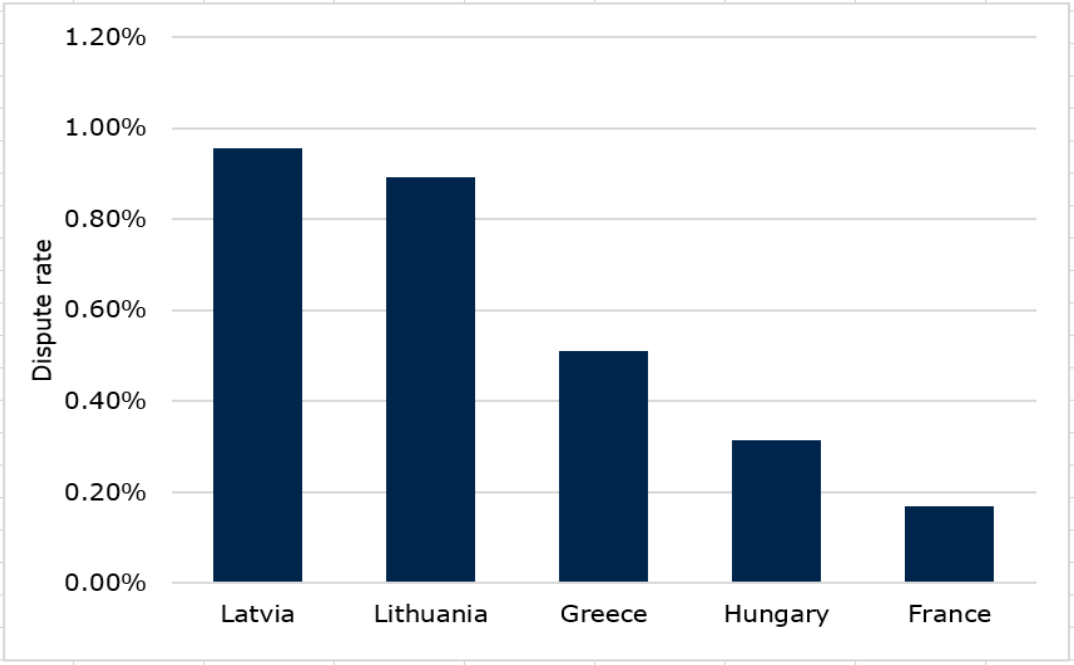


Source: Tax administration data, PwC analysis

As mentioned above, the overall dispute rate across the EU-5 was small, with only 0.23% of all refund claims being disputed. eceived in France were disputed.

Figure 52 shows that taxpayers claiming VAT refunds from Latvia disputed the highest number of claims, with 0.91% in 2016, whereas only 0.12% of claims received in France were disputed.

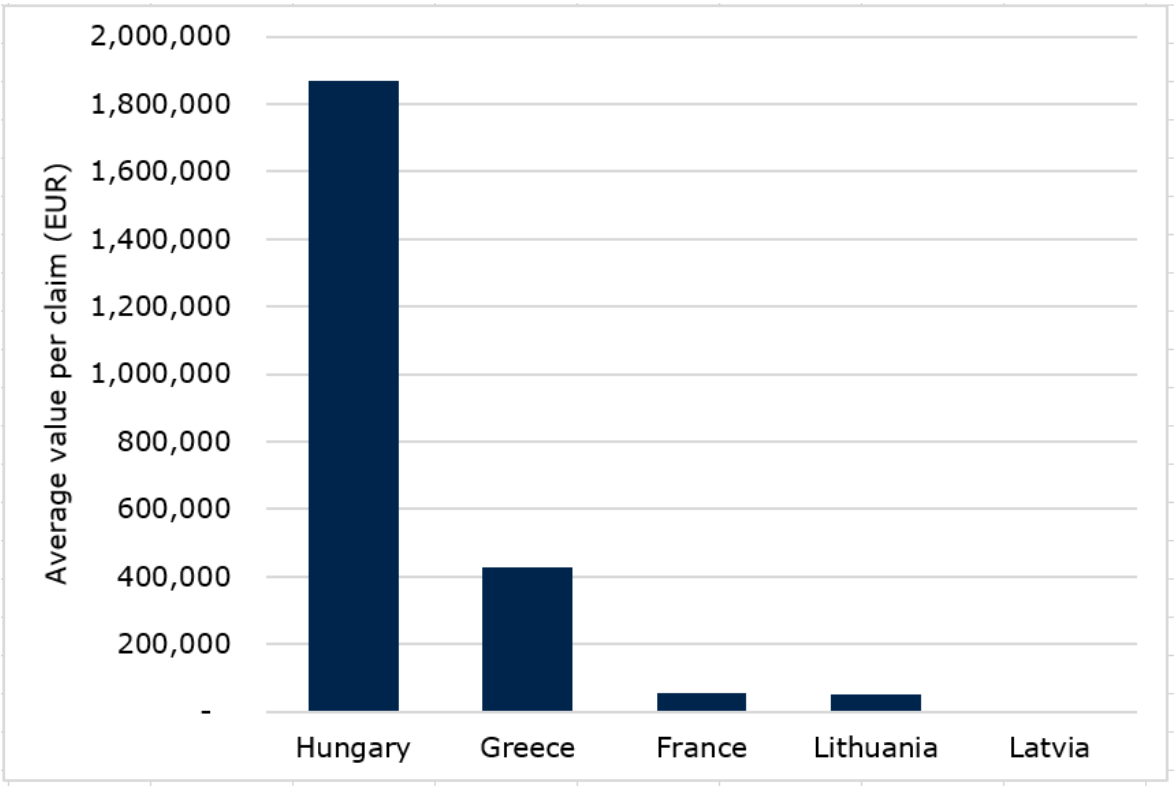
Figure 52: Percentage of claims disputed compared total refund claims received in 2016 across the EU-5 Member States



Source: Tax administration data, PwC analysis

Compared to a small difference in dispute rates, the average value per disputed refund claim varied remarkably across the EU-5 Member States in 2016. As illustrated in Figure 53, Hungary had a high average value per disputed claim, standing at EUR 1.9 million, followed by Greece with EUR 427,000. On the other hand, Latvia had the lowest average value of a disputed VAT refund claim, with EUR 4,000.

Figure 53: Average value per disputed claim in 2016 across EU-5 Member States



Source: Tax administration data, PwC analysis

At which level did the appeals, disputes and litigation occur?

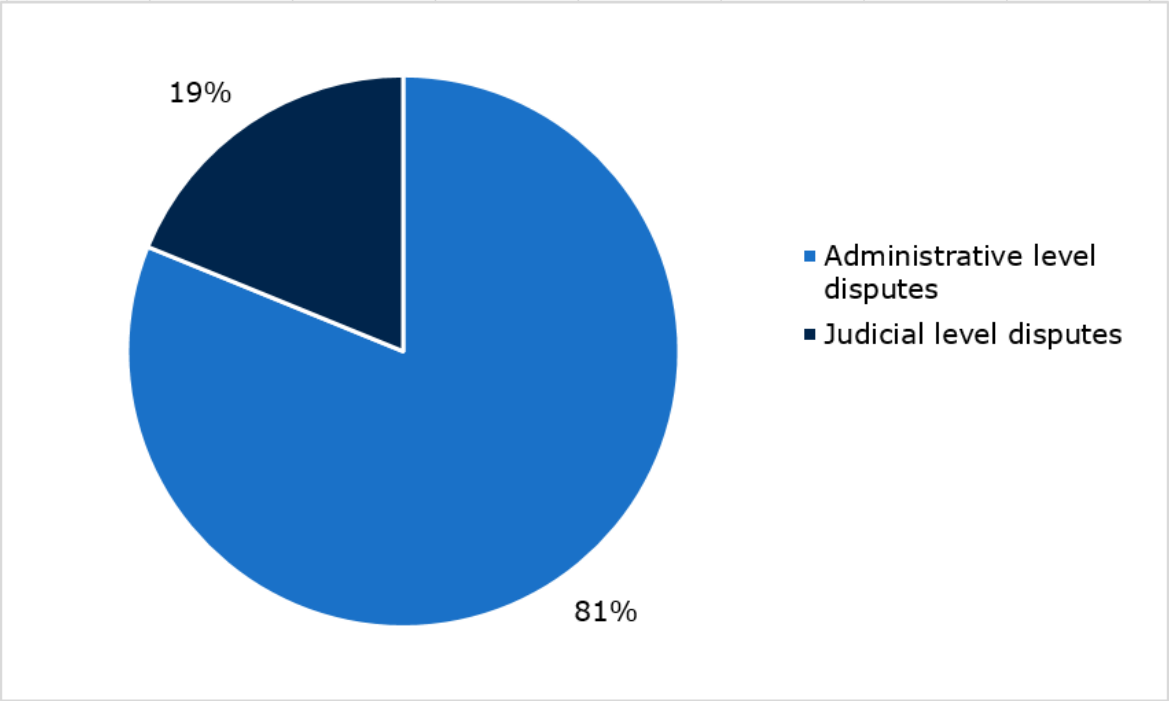
Taxpayers can appeal or dispute tax administration decisions on a VAT refund claim at two levels, either the administrative level or the judicial level.

For the purposes of this study, appeals at an "administrative level" includes appeals and disputes which are handled within the tax administration itself, such as appeals within the tax administrations to a higher level than the tax official that made the original decision on the VAT refund claim. Whereas, appeals at a "judicial level" includes appeals and disputes which were handled by a body outside the tax administrations such as a local or national court.

As shown in Figure 54, 81.2% of the VAT refund claims received by the EU-5 in 2016 were disputed at the administrative level, whereas only 18.8% of claims where referred to a body outside the tax administration (i.e. judicial level). Latvia and Lithuania experienced the most disputes at the administrative level, with 0.91% and 0.71% of refund claims received being disputed by taxpayers. Taxpayers submitting claims to Lithuania also disputed the highest share of refund claims at the judicial

level, with 0.19% of claims received being disputed at that level, followed by Greece where the dispute rate at this level amounted to 0.17%.

Figure 54: Percentage of disputed refund claims at administrative and judicial level across the EU-5 Member States in 2016



Source: Tax administration data, PwC analysis

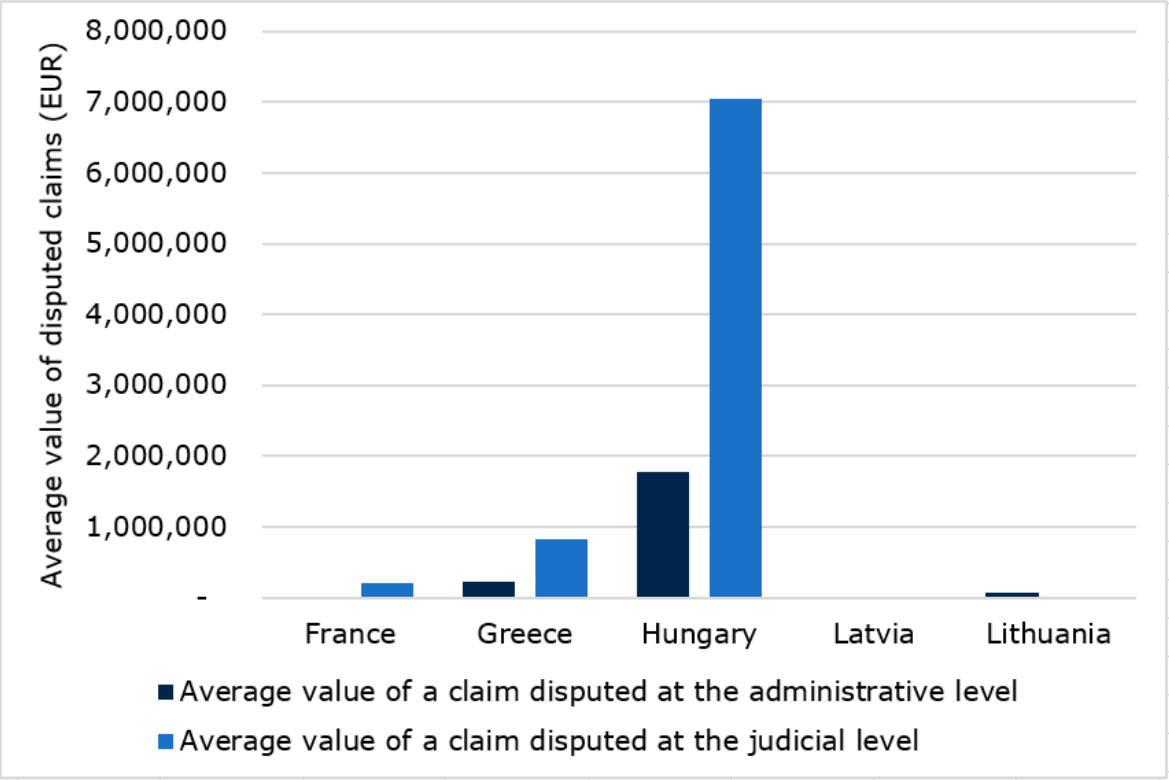
Responses from businesses show a similar pattern. Of the 408 businesses surveyed that have experience in handling refund claims, 143 businesses (35% of respondents) stated that they have experience with claims resulting in disputes. Of these 143 businesses, 81% disputed a decision at the administrative level, whereas only 18% disputed the decision at the judicial level.

Across the EU-5, taxpayers disputed claims with an average value of EUR 609,000 at the administrative level and EUR 433,000 at the judicial level in 2016. This is surprising given the expectation that higher-value claims are more likely to be disputed at the judicial level given the higher costs associated with judicial proceedings. However, looking at the average values of disputed claims at each level, as illustrated in Figure 55, shows that in four Member States of the EU-5, the average value of a claim disputed at the judicial level was higher than claims appealed at the administrative level. Only in Lithuania, taxpayers disputed claims with a higher average value of EUR 60,700 at the administrative level compared to an average value of a disputed claim at the judicial level of EUR 17,900.

In general, the average value per disputed claim varied significantly across the EU-5. In 2016, the average value of a disputed claim at both levels in Hungary was EUR 1.8 million and EUR 7 million, significantly higher than in the rest of the EU-5 Member States. Taxpayers submitting claims to France launched administrative-level dispute proceedings for claims with a surprisingly low average value of EUR 100, followed by Latvia with claims of an average value of EUR 3,500. Interestingly, the average value

of a claim disputed at the judicial level in France was remarkably higher, at EUR 210,000, whereas in Latvia, the average value amounted to only EUR 12,800.

Figure 55: Average value of refund claim disputed at the administrative and judicial level across the EU-5 in 2016



Source: Tax administration data, PwC analysis

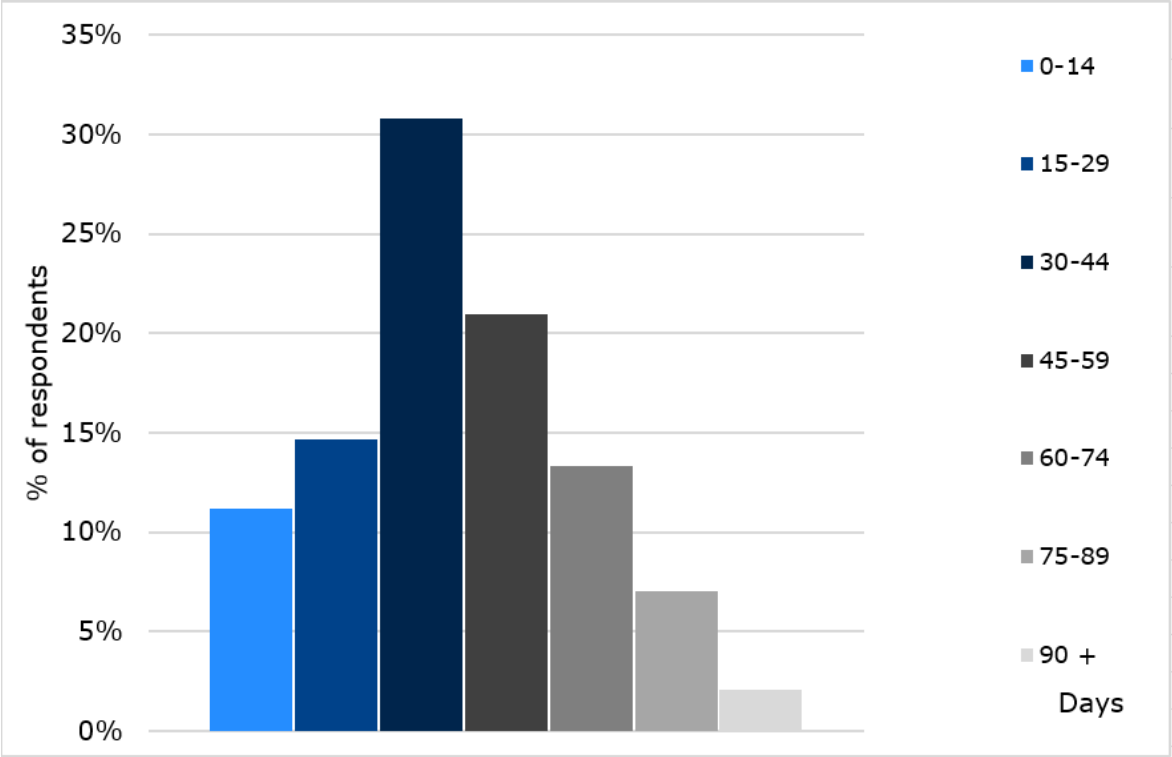
Average duration and cost of an appeal, dispute or litigation

As seen in Figure 56, the businesses surveyed that have experience with disputing a VAT refund claim stated that the procedure typically takes between 15 and 75 days. 31 % of the businesses surveyed noted that the procedure takes 30 - 45 days. Only 9% of respondents stated that disputes took longer than 75 days.

In particular, businesses surveyed in Greece and Spain appeared to have experienced disputes that take longer than the average of 30 - 45 days. 50% of business respondents established in Greece and 35% of respondents established in Sweden noted that they experienced disputes taking 60 days or longer.

As outlined in section 5.1.2, business respondents in Greece submitted a majority of their VAT refund claims to the United Kingdom, whereas businesses established and surveyed in Sweden mostly claimed from Germany. It may, therefore, be possible that the particularly long dispute procedure was caused by legal procedures in either of these Member States of Refund. However, it is also worth noting that the sample size in Greece was small (only eight of the businesses surveyed responded to this question).

Figure 56: Average duration for a dispute procedure for a VAT refund claim according to businesses



Source: PwC analysis

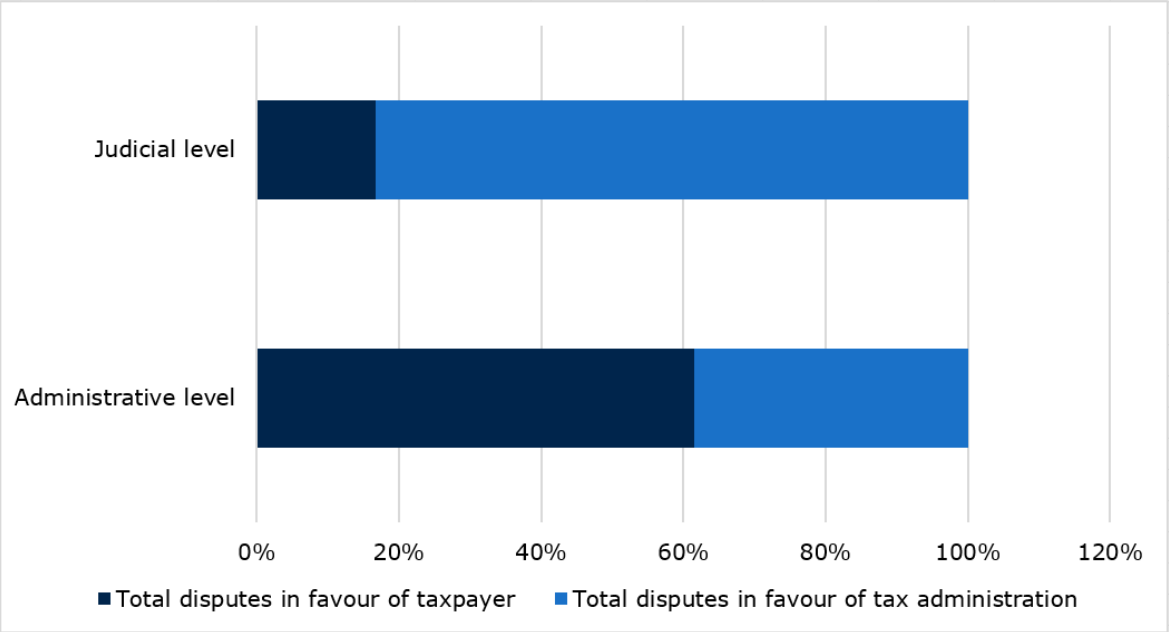
Decisions awarded in favour of the taxpayer versus the tax administration

Data regarding the decisions made on appeals, disputes and litigation in 2016 was received from three tax administrations within the EU.

Of the VAT refund claims for which a decision was made within the EU-3 Member States, 57.7% were decided in favour of the taxpayer and 42.3% in favour of the tax administrations. As outlined in

Figure 57, this trend also holds for decisions made on claims disputed at the administrative level, where 61.5% of decisions were made in favour of the taxpayer and only 38.5% are made in favour of tax administrations. However, rulings at the judicial level show a different picture where, the majority of disputes were ruled in favour of the tax administrations.

Figure 57: Proportion of disputed claims decided at administrative and judicial level decided in favour of taxpayer and tax administration

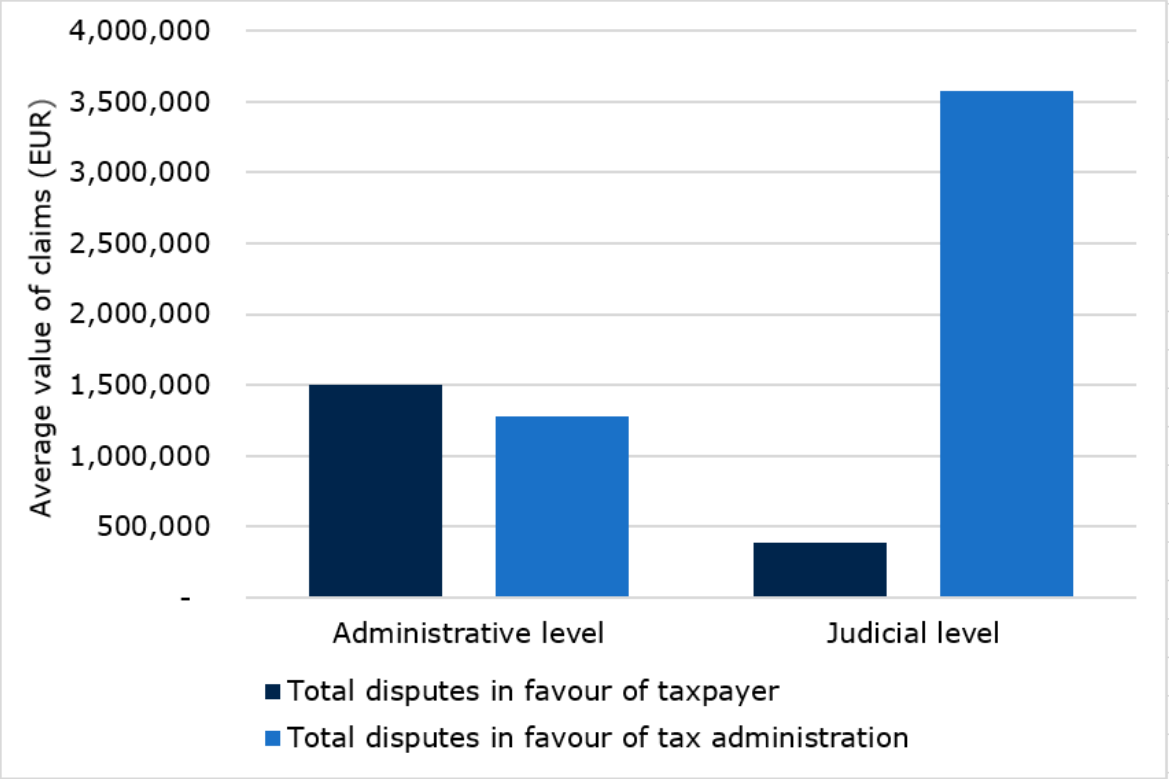


Source: Tax administration data, PwC analysis

Overall, the average value per disputed claim appeared to be fairly consistent regardless of whether a claim was found in favour of the taxpayer or tax administrations. Not taking the level at which the claim was disputed into account, the average value of a disputed claim awarded in favour of the taxpayer amounted to approximately EUR 1.5 million, whereas the average value of a disputed claim awarded in favour of the tax administration was approximately EUR 1.7 million.

Looking at the average values awarded to each party to a disputed claim on the different levels of disputes as illustrated in Figure 59: Average value of disputed claims by level of dispute and decision, disputed claims decided in favour of tax administrations at the administrative level are, on average, EUR 1.3 million lower than disputed claims found in favour of taxpayers (EUR 1.5 million). However, the opposite is true for claims disputed at the judicial level. The average value of a disputed claim decided in favour of the taxpayer is with EUR 385,000 significantly lower than the average value of a disputed claim found in favour of the tax administration, which is EUR 3.6 million.

Figure 59: Average value of disputed claims by level of dispute and decision



Source: Tax administration data, PwC analysis

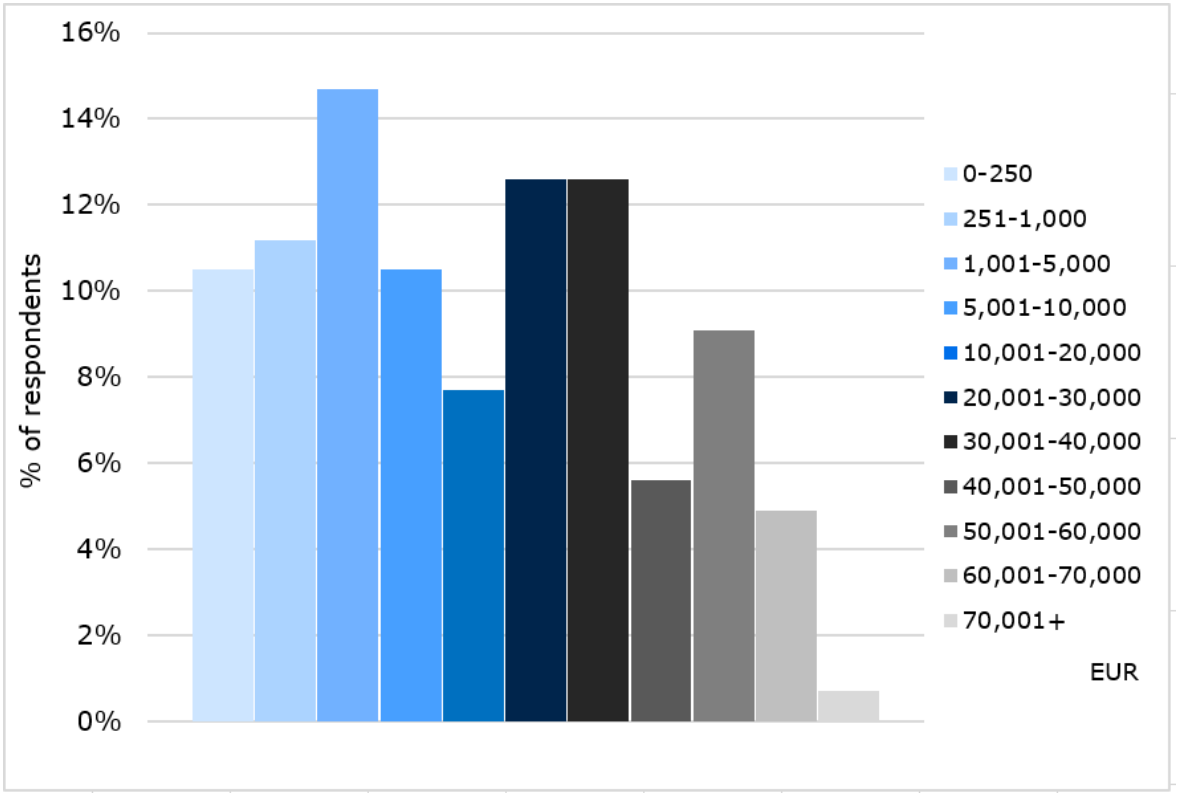
Costs to businesses for disputing a decision

As illustrated in

Figure 58, 15% of the businesses surveyed that had disputed a claim stated that it cost EUR 1,000 to EUR 5,000 to do so, followed by 24% of respondents stating that it costs between EUR 20,000 and EUR 40,000 to dispute a claim. The variation in responses can be attributed to two main factors. Firstly, the costs may vary depending on the Member State in which businesses are established. For example, the majority of the businesses in Romania that had experience disputing a claim (28% of respondents) stated that its cost them less than EUR 250 to do so. On the other hand, 40% of the businesses surveyed in Sweden stated that it cost between EUR 30,000

and EUR 40,000 to dispute a claim. Secondly, the costs to businesses may also vary depending on the Member State of Refund where the dispute takes place.

Figure 58: Cost to businesses to dispute a VAT refund claim



Source: PwC analysis

Summary

Tax administrations in five Member States across the EU provided data that was analysed in this section. Across the EU-5, 372 claim decisions were disputed, amounting to EUR 214.1 million in 2016. This is an average dispute rate of 0.23% of all refund claims received. The highest dispute rate occurred in Latvia with 0.91% of VAT refund claims received in 2016 having been disputed.

The average value per disputed claim varied considerably across the EU-5 in 2016. Hungary had a remarkably high average value, at EUR 1.9 million compared to an average value of a disputed claim in Latvia of EUR 4,000.

Considering the different levels at which VAT refund claims can be disputed, 81.2% of disputes in 2016 occurred at the administrative level and 18.8% at the judicial level. Interestingly, the size of the claim did not appear to be a factor for taxpayers in deciding at which level to appeal a decision. The average value of a claim disputed at the judicial level was EUR 433,000, smaller than the average value of a claim disputed at the administrative level (EUR 609,000).

Looking at dispute settlement, a significant difference can be identified between decisions made at the administrative level and the judicial level. At 61.5%, the majority of claims disputed at the administrative level were ruled in favour of the taxpayer. Decisions on claims disputed at the judicial level, on the other hand, were mostly made in favour of tax administrations (83.3%).

Three of the five Member States also provided data with regards to decisions made on disputed claims. Overall, 57.7% of decisions were in favour of the taxpayer and 42.3% were in favour of the tax administrations. However, a significant difference can be identified when looking at decisions made specifically at the administrative level and the judicial level. At the administrative level, 61.5% of decisions are made in favour of the taxpayer whereas a significant majority of 83.3% of decision at judicial level were ruled in favour of the tax administration.

According to 31% of the businesses surveyed, dispute procedures take 30 - 45 days. Only two of the eight businesses surveyed in Greece had experience with disputed claims taking over 90 days. While it is worth noting that the sample size in Greece was small, the long dispute procedure can potentially be attributed to the legal procedures in the Member States of Refund where Greek businesses are making claims.

Finally, business responses with regards to costs for disputing claims were varied. The variation can either be attributed to the fact that costs for businesses vary depending on the Member state in which businesses are established or the Member State of Refund where the dispute takes place.

5.1.10 Effectiveness of tax administration commmunication and support

Key findings: In general, EU-28 tax administrations communicate with the claimant via email, but are also able to use other media. Where the businesses surveyed are aware of the specific contact points established by Member States, they are rated as either highly effective (36% of respondents) or effective (50% of respondents). Tax administrations also communicate with each other in relation to pro-rata issues and for the purposes of mutual assistance to assist with the recovery of taxes under Directive 2010/24/EU. Communication between tax administrations to verify pro rata calculations is deemed to be neither effective nor ineffective, suggesting some room for improvement. In addition, very few tax administrations recorded that they received requests for mutual assistance under Directive 2010/24/EU. The information on the VAT refund process provided by the European Commission is widely held to be sufficient, but can be updated more frequently and accessed more

easily to increase its effectiveness.

This section will look into the effectiveness tax administration support and communication, both to businesses and to other tax administrations. In addition, it will assess the effectiveness of information provided to taxpayers by the European Commission.

Availability of sufficient levels of support and effective communication is crucial to the smoothness of the VAT refund process for taxpayers and tax administrations alike. Effective support and communication can help to ensure understanding of the procedures, legal requirements and the steps involved in the VAT refund process, which can reduce the likelihood of misunderstandings and disputes.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-19: Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-14: Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Finland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Spain and Sweden.

Communication with taxpayers

Tax administrations in the Member State of Refund are in contact with claimants throughout the VAT refund process. A number of articles in Directive 2008/9/EC set out requirements for communication with claimants at each step of the VAT refund process.

In general, EU-28 tax administrations communicate with claimants via email. However, where additional information is requested or there are issues with the claim, tax administrations may employ other means of communication.

A number of tax administrations indicated that, although email is the main form of communication, the tax officer handling the claim may communicate with the claimant via telephone or post.

Table 7 in section 5.1.3 highlights the languages businesses can use when making a VAT refund claim to EU-28 Member States of Refund. A large proportion of Member States of Refund (60%) consider English to be the primary language for this purpose. Furthermore, of the 11 Member States of Refund that do not consider English to be the primary language, 5 consider it to be the secondary language. Only Czech Republic, Malta, Poland, Romania, Slovenia and Spain do not consider English to be either a primary or secondary language.

Engagement with tax administrations: Communicating with the claimant

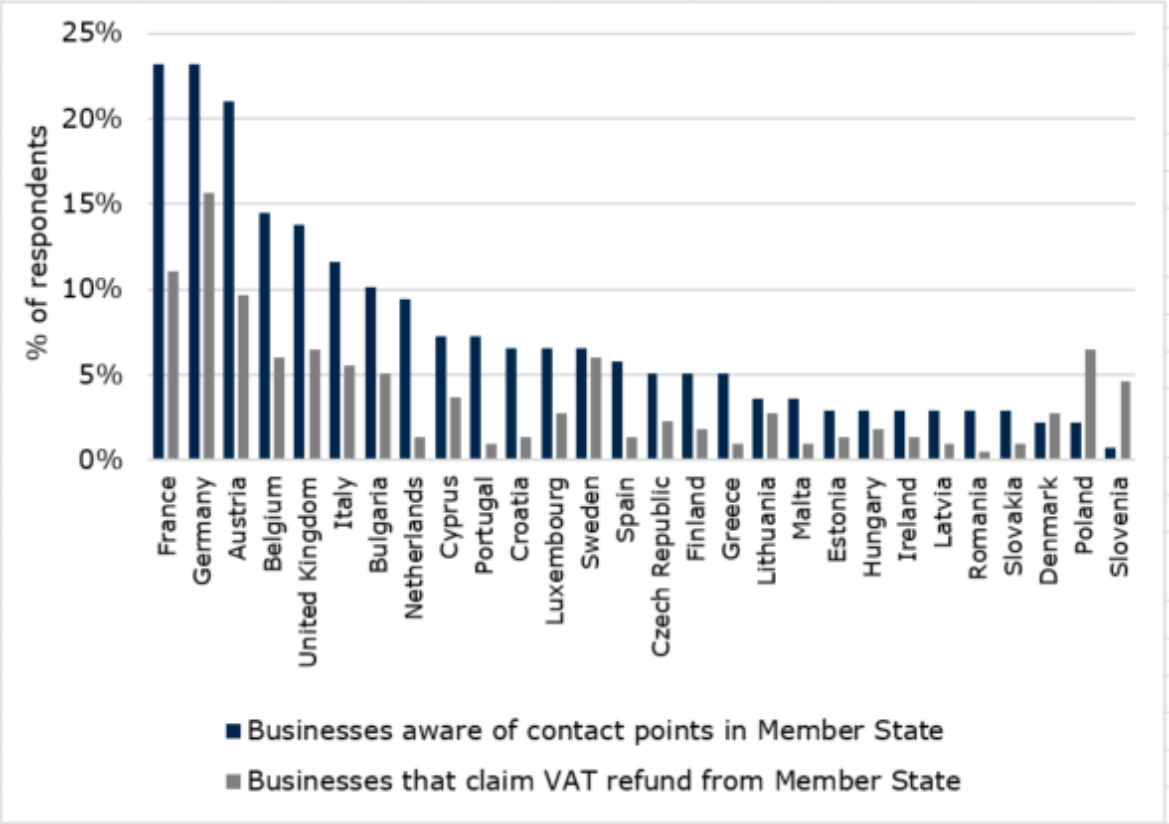
In interview, a number of tax administrations mentioned that there is limited flexibility in how they contact a claimant. They mainly rely on the email address provided by the claimant in the refund application. In the event of issues with email communication, it is incumbent on the claimant to contact the tax administration in question. However, the claimant is permitted to contact the tax administration by any means operated by the tax administration in question. The Greek tax administration described how applications with technical mistakes are automatically rejected, but that the administration does not communicate with the taxpayer regarding this, and instead forwards the rejection to the Member State of Establishment.

Awareness of specific contact points

Each Member State has established a specific contact point within the tax administration to field questions from businesses preparing and submitting VAT refund claims.

Figure 61: Awareness of contact points compared to experience handling VAT refund claims by Member State of Refund illustrates the awareness of businesses of contact points established by tax administrations. Overall, a direct correlation appears to exist between the Member States to which businesses send most of their VAT refund claims to and the Member States where businesses are aware of contact points for information within tax administrations. For example, Austria, Belgium, France and Germany are the four most common Member States of Refund to which businesses submitted VAT refund claims. Most of the businesses surveyed also recorded that they are aware of contact points in these Member States of Refund. The only two outliers that were identified were Slovenia and Poland. For example, while 7% of businesses surveyed stated that they send their claims to Poland, only 2% were aware of contact points established by the Polish tax administration.

Figure 61: Awareness of contact points compared to experience handling VAT refund claims by Member State of Refund



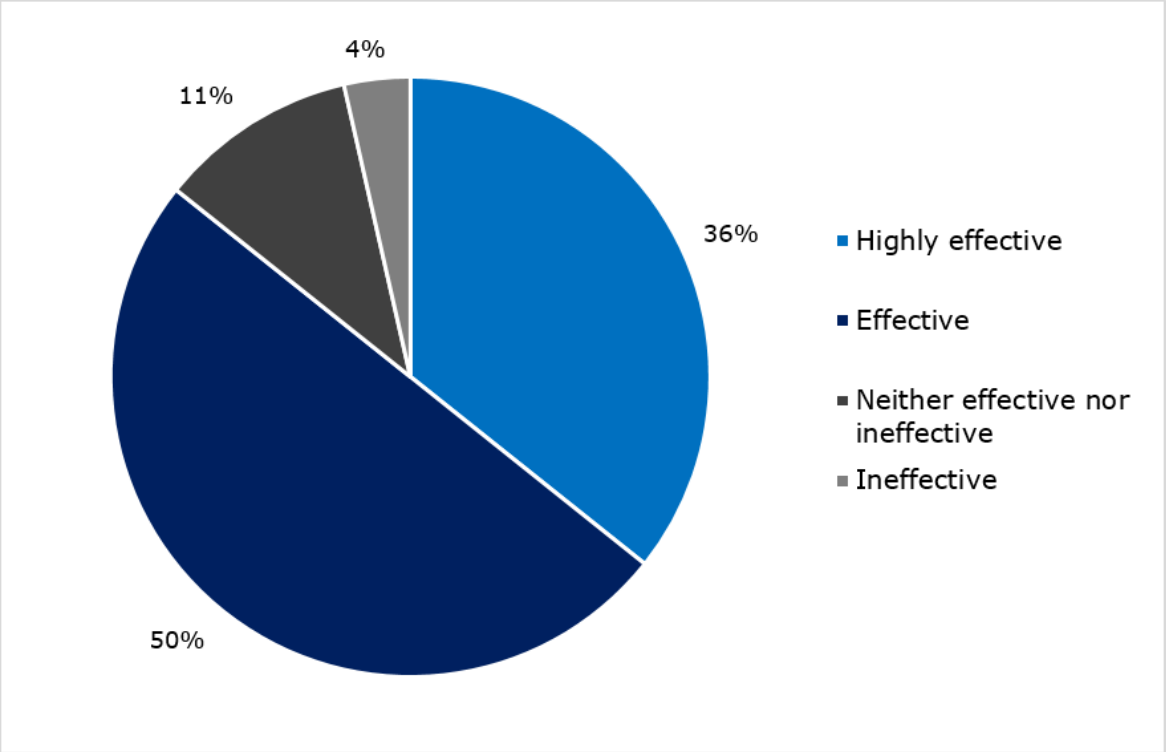
Source: PwC analysis

Effectiveness of specific contact points

Businesses were also asked about the effectiveness of these contact points in addressing queries. Figure 59 illustrates how businesses rated the effectiveness of contact points. 50% of the businesses surveyed rated the contact points to be effective and 36% of respondents deemed them to be highly effective. Only 4% of the businesses surveyed rated contact points as being highly ineffective.

A breakdown of how contact points in each Member State of Refund were rated by respondents to the business survey can be found in**Table 9**. Most businesses surveyed were aware of contact points in place in Austria, Belgium, France and the United Kingdom, and these contact points were considered to be effective in answering queries. Furthermore, most of the businesses surveyed were not aware of contact points in place in Slovenia. Moreover, the few businesses surveyed that were able to comment on the effectiveness of the contact points in Slovenia rated them to be ineffective. Contact points for three Member State of Refund (Latvia, Lithuania and Romania) were considered to be neither effective nor ineffective.

Figure 59: Effectiveness of contact points established by Member State of Refund tax administrations



Source: PwC analysis

Table 10: Effectiveness of contact points in EU-28 Member States of Refund

Highly effective	Effective	Neither effective nor ineffective	Ineffective

Bulgaria Croatia Czech Republic Finland Germany Hungary Ireland Luxembourg Malta Poland	Austria Belgium Cyprus Denmark Estonia France Greece Italy Netherlands Portugal Slovakia Spain Sweden	Lithuania Latvia Romania	Slovenia

Source: *PwC analysis*

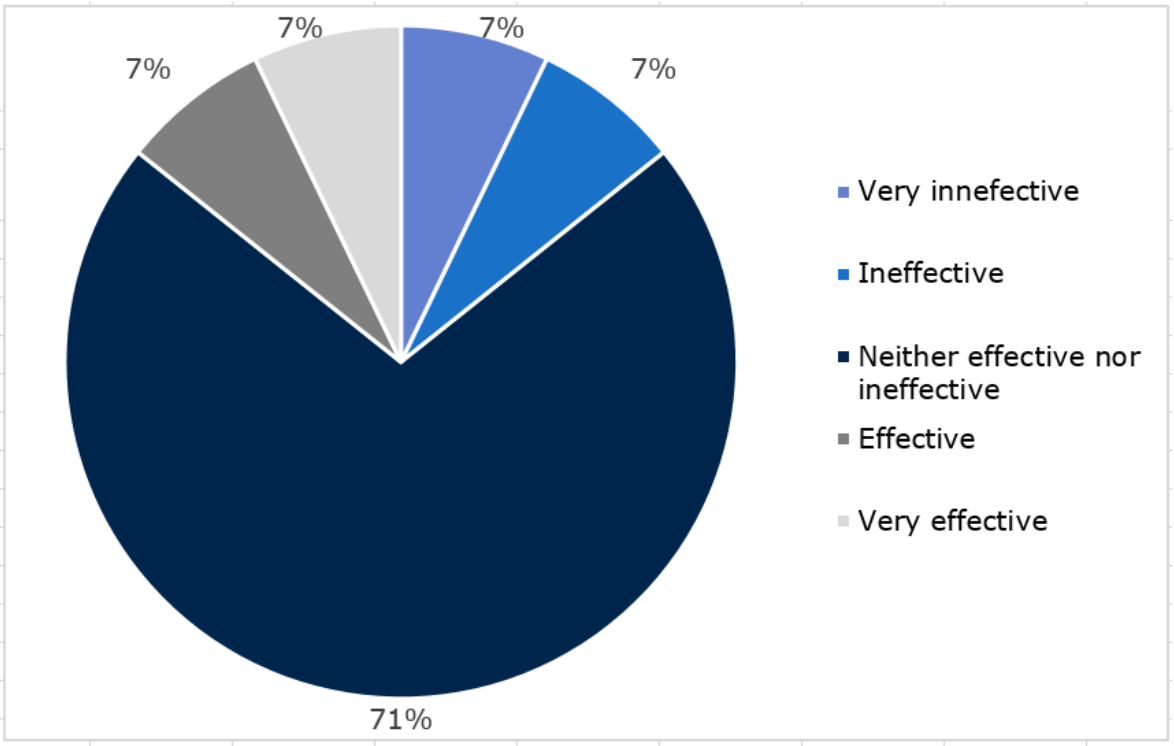
Communication between tax administrations

Tax administrations in the Member State of Refund and Member State of Establishment may communicate and share information for a number of reasons. These may include verification of pro rata calculations, notification of suspected fraudulent claims or to assist with the recovery of taxes under Directive 2010/24/EU.

Exchange of information to support the verification of pro rata calculations is one of the most common justifications for communication between tax administrations in a VAT refunds context. The purpose of this is to check that, in accordance with Article 6 of Directive 2008/9/EC, the claimant has correctly claimed the proportion of refundable VAT entitled to them under the domestic legislation of the Member State of Establishment implementing Article 173 of Directive 2006/112/EC. In practice, the tax administrations of the Member State of Refund requests confirmation that the pro rata calculation has been correctly applied from the tax administrations in the Member State if Establishment.

Of the fourteen, EU-28 tax administrations that commented on the effectiveness of the exchange of information on pro rata calculations, a large proportion were of the opinion that the process was 'neither effective nor ineffective'. This suggests that the current arrangements for the exchange of information on pro rata calculations are adequate, but that there may be some scope for improvement.

Figure 60: Effectiveness in the exchange of information on pro-rata calculations between the EU-14 Member States in 2016



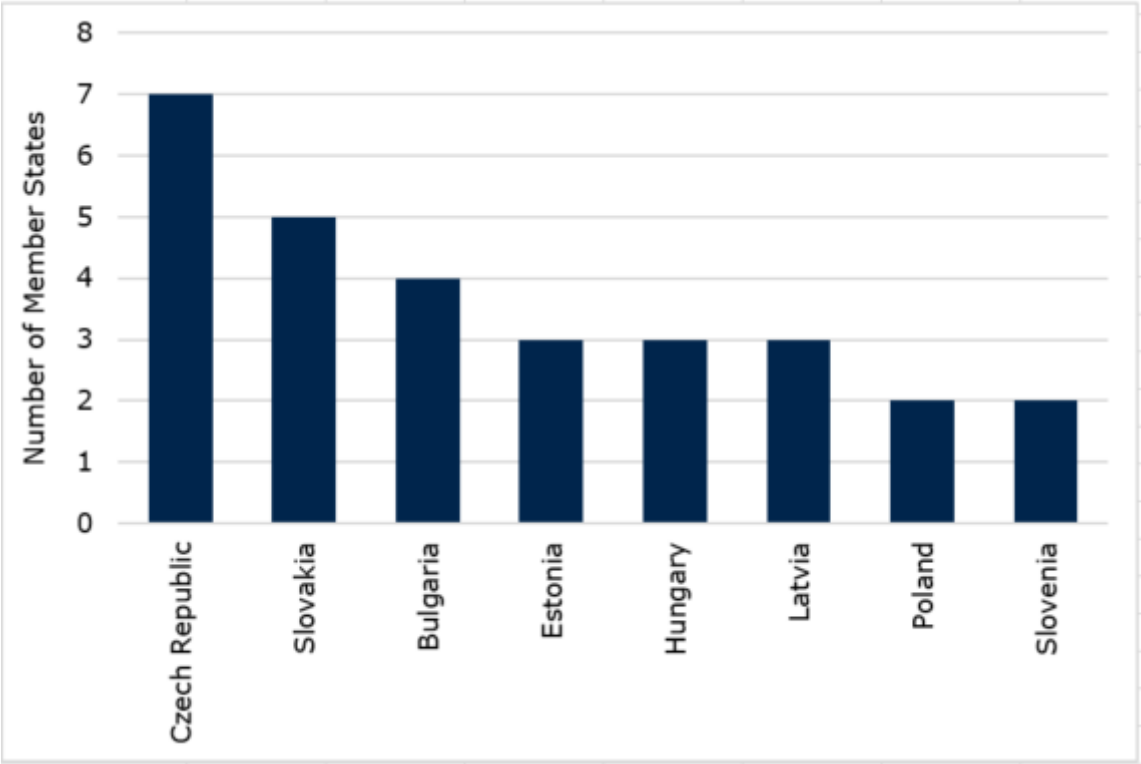
Source: Tax administration data, PwC analysis

Tax administrations will also communicate to support the recovery of taxes and duties under Directive 2010/24/EU. The Directive establishes a framework for mutual assistance for the recovery of levies, taxes, duties and other certain measures. In a VAT refunds context, a Member State of Establishment may communicate with the tax administration in a Member State of Refund to request that payment of a refund claim be offset against the claimant's unpaid tax liabilities.

Despite the existence of this framework for mutual assistance, the tax administrations surveyed as part of this study indicated that it is not widely used. The tax administrations stated that they only occasionally receive requests for assistance under Directive 2010/24/EU.

However, based on the responses from 19 tax administrations it would appear that such requests originate from a small number of Member States of Establishment. Bulgaria, Czech Republic and Slovakia were commonly cited by Member States of Refund as having lodged requests for assistance under Directive 2010/24/EU.

Figure 61: Common Member States of Establishment that requested for assistance under Directive 2010/24/EU in 2016



Source: Tax administration data, PwC analysis

Information provided by the European Commission

To complement the support and information provided to taxpayers by EU-28 tax administrations, the European Commission provides country-by-country guides (Vademecums) to claiming VAT refunds and a list of specific contact points in the competent national administrations on their external website.

When asked to assess the effectiveness of the information provided to taxpayers by the European Commission, a large proportion of tax administrations stated it is sufficient for increasing the accuracy and efficiency of refund claims.

However, when asked for ways to improve effectiveness, a number of tax administrations stated that the information provided by the Commission should be updated more frequently and should be easier for taxpayers to find.

Summary

Businesses were asked if they were aware of contact points in Member States of Refund. Overall, there is a direct correlation between Member States to which businesses send most of their VAT refund claims and the Member States where businesses are aware of contact points for information within tax administrations. Poland and Slovenia were the only two outliers identified. The proportion of businesses aware of contact points in these Member States of Refund is relative low in comparison to the proportion of businesses that make a claim.

Businesses were also asked to comment on the effectiveness of these contact points. 50% of respondents rated the contact points to be effective and only 4% rates contact points for being ineffective. In particular, it is worth noting that, in addition to most of the businesses surveyed not being aware of contact points in place in Slovenia, the

few businesses surveyed that were able to comment on the effectiveness of the contact points in Slovenia rated them to be ineffective.

Articles in Directive 2008/9/EC set out the requirements for communication with claimants at each step of the VAT refund process. While tax administrations generally communicate with claimants via email, there are also instances when the tax officer handling the claim communicates via telephone or post.

Tax administrations in Member State of Refund and Member State of Establishment may communicate and share information for the purposes of verification of pro rata calculations, notification of suspected fraudulent claims or with regards to assistance with recovery of taxes under Directive 2010/24/EU. Of the 13 Member States that commented, a large proportion were of the opinion that exchange of information on pro rata calculations was "neither effective nor ineffective". However, there is room for improvement. With regards to communication to support the recovery of taxes and duties under Directive 2010/24/EU, Member States observed that requests only originate from a small number of Member States of Establishment, namely Bulgaria, Czech Republic and Slovakia.

Finally, to complement the support provided by tax administrations, the European Commission also provides country-by-country guides (Vademecums) to support taxpayers in making VAT refund claims. However, tax administrations believe that these Vademecums should be updated more frequently and should be easily accessible to taxpayers.

Engagement with tax administrations:
Information provided by the tax administration in one language

In interview, it was found that information provided by tax administrations to support taxpayers in preparing and submitting claims is not always available in multiple languages. In the case of the Czech tax administration, information for businesses established outside the Czech Republic claiming a VAT refund is available in Czech with only some limited information available in English.

5.1.11 The impacts of technology on the VAT refund process

Key findings: 60% of the 217 businesses surveyed that process claims in-house noted that they have IT systems in place to support the preparation of VAT refund claims. In comparison, large business respondents indicated they have not purchased IT systems dedicated to the preparation of VAT refund claims. This seems surprising but was attributed to the fact that larger businesses have comprehensive IT solutions that help with the preparation of VAT refund claims among other functions.

Technology is important given to move toward an online system, as mandated by Directive 2008/9/EC, to overcome the shortcomings of the old paper-based systems. Technology is essential in ensuring efficient claim preparation and submission. It is also essential to the way in which tax administrations process claims, such as

automating risk profiling of claims.

However, a significant amount of tax administrations had encountered substantial issues in using the online portal operated by the Member State of Establishment, including outages and issues with uploading documents.

VAT refund agents surveyed also highlighted some issues such as attachment size limits by some Member States of Refund and unclear guidance on the storage of invoices and other supporting documentation.

The purpose of this section of the report is to understand the extent to which technology helps or hinders the VAT refund process for both taxpayers and tax administrations. Developing an understanding of this is crucial given that Directive 2008/9/EC mandates an electronic claim submission process specifically to overcome the shortcomings of the earlier paper-based system.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-20: Austria, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, Spain and Sweden.

Impact of technology on claim preparation

Businesses can use technology to shorten the length of time taken to prepare and submit a VAT refund claim.

Indeed, as highlighted in section 5.1.3, of the 217 businesses surveyed that process claims in-house, 60% of respondents noted that they have IT systems in place to support the preparation of VAT refund claims. In comparison, large business respondents indicated they have not purchased IT systems dedicated to the preparation of VAT refund claims. However, it may be that larger businesses have comprehensive IT solutions that help with the preparation of VAT refund claims among other functions.

Engagement with tax administrations:
Potential impact of eIDAS

In interview, the Swedish tax administration discussed the potential impacts of eIDAS on VAT refund claims. The Electronic Identification, Authentication and Trust Services (eIDAS) regulation created a standard for electronic signatures, qualified digital certificates, electronic seals, timestamps and other proof for authentication mechanisms to enable electronic transactions. It was discussed that standardisation of electronic documentation introduced by eIDAS could lower the costs faced by taxpayers in responding to additional information requests by Member States of

Refund, while simultaneously making it easier for tax administrations to verify claims.

Impact of technology on claim submission

Article 7 of Directive 2008/9/EC states that claimants shall submit an electronic refund application to the Member State of Refund through an online portal operated by the Member State of Establishment. As such, the functionality and operation of the online claim submission portal is of central importance to the smoothness of the VAT refund process for both taxpayers and tax administrations.

From the perspective of the VAT refund agents surveyed as part of this study, the technology available to facilitate the refund process plays an important role in the efficiency of dealing with refund claims.

Some issues that have been highlighted by VAT refund agents are:

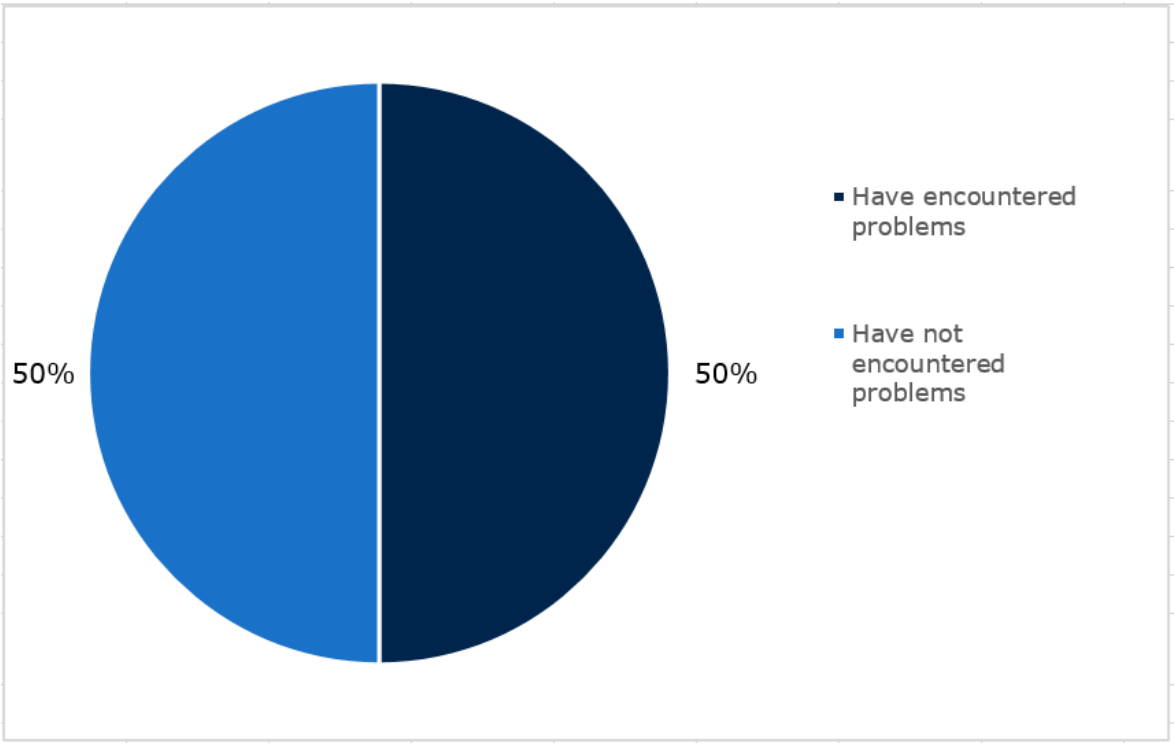
- Issues with transferability of claims between Member State of Establishment (MSOE) and Member State of Refund (MSREF). The Irish Portal (ROS) has been identified as an example where additional effort is required in order to ensure that the application has been received by the MSREF.
- Attachment size limits of 4MB for some Member States and 5MB for others where agents have to separately email the remaining files that are over the limit.
- Unclear guidance on the storage of invoices and other supporting documentation.

However, of the EU-28 tax administrations surveyed, a substantial number stated that they had encountered significant issues in their capacity as Member State of Refund with the online portal operated by other Member States. This indicates room for improvement in the functionality and operational consistency of online portals.

Of the issues encountered with online portals by Member States of Refund, some problems mentioned include:

- Outages (for prolonged periods of time in some instances) of the Member State of Establishment online portal.
- Attachment size limits which can result in artificial division of a claim into multiple applications.
- Problems attaching supporting documentation which can result in more additional information requests.

Figure 62: Proportion of EU-20 Member States of Refund that have experienced significant issues with the online portal of Member States of Establishment in 2016



Source: Tax administration data, PwC analysis

Engagement with tax administrations:
Overcoming claim submission portal outages

A number of tax administrations indicated that they experienced significant issues with the online claim submission portal operated by other Member States of Establishment. In interview, the UK tax administration indicated that, although technological problems occur, there is an established protocol between Member States to deal with them. Where the online submission portal of a Member State of Establishment is inoperable, the claim identification numbers are shared with their competency in the Member State of Refund to ensure that the claims in question are processed on the assumption that they were received on time.

Impact of technology on claim processing

Technology can also be applied by tax administrations to improve the processing of VAT refund claims.

A number of EU-28 tax administrations highlighted that they either operate, or are in the process of implementing, IT systems to automate the risk profiling of VAT refund claims. This potentially contributes to more efficient processing of claims and supports the identification of fraudulent or erroneous claims.

Summary

Businesses use technology to help with the preparation and submission of VAT refund claims. Indeed, 71% of the 217 businesses surveyed that process claims in-house noted that they have IT systems in place to support the preparation of cross-border VAT refund claims. In comparison, large business respondents indicated they have not purchased IT systems dedicated the preparation of VAT refund claims.

Directive 2008/9/EC requires an electronic claim submission process to be implemented in Member States to overcome the issues faced by the earlier paper-based system. The use of technology has allowed for more efficient claim preparation, submission and processing for both taxpayers and tax administrations, including the introduction of IT systems to automate the risk profiling of VAT refund claims.

However, a significant amount of Member States encounter issues in operating the Member State of Establishment portals where problems such as outages and problems when attaching supporting documentation arose whilst using the system.

VAT refund agents surveyed as a part of this study stated that the technology available to facilitate the refund process plays an important role in the efficiency of dealing with refund claims. However, issues around attachment size limits for some Member States and unclear guidance on the storage of invoices and other supporting documentation were identified.

5.2. VAT reimbursements

The purpose of this section of the report is to present analysis of the data collected on VAT reimbursements through the various components of this study, as well as the key findings of that analysis.

As described in section 4, the analytical approach aims to provide answers to a number of overarching questions designed to establish a better understanding of the composition of VAT reimbursement claims, and to reconcile the views and experiences held by businesses with those of EU-28 tax administrations.

A summary of key reimbursement statistics discussed in the context of each research question is shown in the Table 11 below.

Table 11: Summaries the key VAT reimbursement statistics

Summary of key VAT reimbursement statistics	
Overarching question	**Key finding**
What drives the distribution of VAT reimbursement claims across the EU-28?	Analysis carried out on 16 EU Member States shows that two drivers of the value of VAT reimbursement claims are birth of new enterprises and the level of capital investment. Both drivers show a positive relationship with the value of VAT reimbursement claims. The analysis also shows large variations in the value of VAT reimbursements across different regions of the EU.
What is the composition of VAT reimbursement claims across the EU-28?	In 2016, 16 EU Member States received 5.5 million VAT reimbursement claims amounting to a total value of EUR 153.5 billion. The average value of a VAT reimbursement claim in 2016 was EUR 27,700.
How do businesses prepare and submit VAT reimbursement claims?	The business survey found that approximately 60% of businesses take under four hours to prepare and submit a reimbursement claim regardless of whether additional information is requested. . Approximately 42% of respondents to the business survey stated that they incur costs of less than EUR 5,000 to prepare a VAT reimbursement claim irrespective of whether tax administration request additional information. More than two-thirds of businesses (approximately 69% of respondents) surveyed noted that the process of claiming a VAT reimbursement has improved over the last five years.
How efficient are EU-28	The processing rate of VAT reimbursement claims in six

tax administrations at processing claims?	EU Member States was 92% in 2016. These Member States processed approximately 2.6 million claims in 2016 with an average value per claim of EUR 55,000.
How many claims are queried?	No EU Member State provided quantitative data on the number and value of VAT reimbursement claims that were queried. Six EU Member States provided data on the number of claims received that were deemed to be fraudulent. Latvia recorded the highest share of claims that were deemed to be fraudulent, equating to 34% of the total number of claims received by the Latvian tax administration. Moreover, data on the number and value of claims received was only provided by four Member States. The average value of claims that were deemed to be fraudulent was EUR 240,000.
How many claims are approved? What are the most common reasons for a VAT reimbursement claim being rejected?	In eight Member States, a total of 2.5 million claims were approved in 2016, equating to an approval rate of 99.5%. The average value of these claims was EUR 21,600 in 2016. The average value of claims rejected in these 8 Member States was EUR 61,000. According to tax administrations claims were most commonly rejected due to a lack of evidence of business purpose, lack of proof the expense was incurred, and VAT being incorrectly charged by the supplier. Respondents to the business survey also cited a lack of documentary evidence and VAT being incorrectly charged by the supplier as common reasons for claims being rejected. Moreover, businesses listed invoice discrepancies among the most common reasons for claim rejections.
How widespread are delays, what drives them and what impacts do they have on businesses?	In eight EU Member States, approximately 4.6% of reimbursement claims were paid outside statutory deadlines in 2016. The total value of claims paid outside deadlines in these eight EU Member States was EUR 5 billion, giving an average value per claim of EUR 42,800. The business survey found that 40% of respondents had to defer investment as a result of a delayed reimbursement claim within the last three years. Moreover, approximately a third of the businesses surveyed faced cash flow problems as a result of delays.
How frequent are disputes	In four EU Member States, approximately 1,800 claims

and why do they occur?	amounting to EUR 69.5 million were disputed in 2016. Of the VAT reimbursement claims for which a decision was made, 27% were decided in favour of the taxpayer and 73% in favour of tax administrations. Only 1% of respondents to the business survey noted that disputes lasted, on average, more than a year. Almost half of the businesses surveyed (49% of respondents) stated that a dispute took, on average, less than three months. Approximately 52% of the businesses surveyed reported that the average cost of disputing a claim was less than EUR 20,000
How effective is tax administration communication and support?	In the 22 EU Member States that responded, online resources were shown to be both the most used and effective source of support for taxpayers (used by 96% of the respondents). Telephone helplines are the second most popular support source, and 77% of the Member States provide such a helpline to assist taxpayers. Approximately, 73% of the businesses surveyed held a positive view of tax administration support during the reimbursement process. Moreover, 70% of the respondents agreed that the information provided by tax administrations was sufficiently detailed and easily accessible.
Does technology help or hinder the process?	All 22 EU tax administrations which provided a response indicated a heavy reliance on technology-enabled systems to aid taxpayers in claim preparation.

Source: European Commission data, tax administration data, PwC analysis

5.2.1 Key drivers of VAT reimbursement claims across the EU-28

Key finding: The two key drivers of the value of VAT reimbursement claims are birth of new enterprises and the level of capital investment. Both of the drivers show a positive relationship with the value of VAT reimbursement claims. This indicates that as more new enterprises are established there are higher levels of investment, or as investment increases there will be a higher level of VAT reimbursement claims. The analysis also shows large variations in the value of VAT reimbursements across different regions of the EU.

In this section possible macroeconomic drivers of the distribution of VAT reimbursements claims across the EU-28 are explored. In order to do so, the relative importance of a number of indicators that could explain the distribution of claims is

investigated. Understanding the potential drivers of the distribution of VAT reimbursement claims will help to contextualise subsequent analysis.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. For the purposes of this section we have used:

EU-15: Belgium, Bulgaria, Croatia, Denmark, Greece, Hungary, Italy, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Identifying potential drivers of VAT reimbursement claims

As outlined in appendix 2, VAT registered businesses may be entitled to a VAT reimbursement due to a number of reasons. However, common situations where a net VAT credit position may arise include, but are not limited to, the following:

- Where the business makes reduced rated supplies but pays the standard rate of VAT on its inputs;
- Where the business has yet to commence trading, and is thus incurring VAT expenses without any VAT-able revenues to offset these outflows; and,
- Where the business makes a substantial investment in capital equipment, on which VAT is paid, that exceeds the input VAT collected by the business for the VAT return period in question.

The common situations listed above provide a theoretical background for exploring macroeconomic variables that are likely to be drivers of the value of VAT reimbursements. Given the efforts of the European Commission to harmonise VAT rates, and the fact that VAT rates typically do not vary much over time within any given Member State, if at all, it is difficult to use a macroeconomic variable as a proxy for the first situation outlined in the list above. For the other two situations, corresponding macroeconomic variables have been selected:

- Birth of new enterprises: . The measure looks at the number of new enterprises established annually and does not cover dormant enterprise or a new corporate entity created from mergers, break-ups or a restructuring. This metric is used as a proxy for businesses that have yet to commence trading, and could incur VAT expenses without any VAT-able revenues to offset these flows.
- Gross fixed capital formation (GFCF): Measures the value of investment in fixed assets by businesses, less disposal of fixed assets. This acts as a proxy to capture investment in capital equipment, so will work to proxy businesses that make a substantial investment in capital equipment, on which VAT is paid and which exceeds the input VAT collected by the business for the VAT return period in question.

Analysis of potential drivers

Using data on the value of VAT reimbursement claims received by Member States over the period 2012-2016 and macroeconomic data for the same period, a pooled ordinary least squares (OLS) regression was carried out to understand the explanatory power of these macroeconomic variables on VAT reimbursement claims.

As well as the two macroeconomic variables discussed above, the analysis included a number of additional variables as controls. One is gross domestic product (GDP), to control for the differences in the size of economics across the EU, as larger economies would be expected to have higher values of total VAT reimbursement claims. This variable accounts for the varying sizes of Member State economies, to allow the other two measures to more accurately measure the impact they have on VAT reimbursement claims.

Three other variables are used to account for country or regional variations in VAT reimbursement claims. This means that the results obtained for the coefficients of the macroeconomic data are related more closely to variations in VAT reimbursements data, rather than being influenced by country specific variations or differences, or the economic size of a country.

The results show the following relationships:

- A 1% increase in the number of new enterprises established annually is associated with a 0.298% increase in the value of VAT reimbursement claims; and,
- A 1% increase in GFCF is associated with a 0.467% increase in the value of VAT reimbursement claims.

The results are in line with the nature of the relationship that would be expected, given that the theory behind these variables points to a positive relationship between the two macroeconomic variables and the value of VAT reimbursement claims.

Looking at the control variables, the analysis shows that GDP also has a positive impact on the value of VAT reimbursement claims. Additionally, the analysis also shows variations in different regions of the EU. The 15 countries in this sample were divided into four regions for the purpose of the analysis:

1. Greece, Italy, Portugal and Spain;
2. Bulgaria, Croatia, Romania and Slovenia,
3. Hungary, Slovakia, Poland and Lithuania; and
4. Denmark, Belgium and Sweden.

The results showed that relative to group four (Denmark, Belgium and Sweden), there are statistically significant differences between the regions even after accounting for differences in the number of new enterprises established annually and GFCF.

Compared with group four:

- The value of VAT reimbursement claims in group one (Greece, Italy, Portugal and Spain) is 78% lower;

- The value of VAT reimbursement claims in group two (Bulgaria, Croatia, Romania and Slovenia) is 72% lower; and,
- The value of VAT reimbursement claims in group three (Hungary, Slovakia, Poland and Lithuania) is 59 % lower.

This shows that there are inherent differences between the regions of the EU, as specified above, in terms of the value of VAT reimbursement claims.

Summary

The pooled OLS regression results show that the birth of new enterprises and GFCF have a positive impact on VAT reimbursement claims. It should be noted that GFCF is statistically insignificant; however, this is likely to be down to the inclusion of GDP as a control variable, given the close relationship between the two variables. More detail about this can be found in Appendix 1.

5.2.2 Composition of VAT reimbursement claims across the EU-28

Key finding: EU Member States received 5.5 million VAT reimbursement claims amounting to EUR 153.5 billion in 2016. Over the period 2013-2016, the total number of reimbursement claims received increased by 6.4%.

Compared to that, the total value of claims received fluctuated more over the same four year period, increasing by 4.5% to a high of EUR 156.7 billion in 2015 before decreasing to 2016 levels. This trend was also broadly mirrored in the development of the average value of a reimbursement claim received, which peaked at EUR 29,100 in 2015 before decreasing to EUR 27,700 in 2016. This development may suggest a shift towards submitting claims on a more frequent basis.

Overall, Member States in the Baltic region and Eastern Europe tend to receive more claims per registered business. This may suggest that a higher proportion of businesses in these countries are engaged in activities that generate VAT credits, such as exporting.

This section will set out the composition of VAT reimbursement claims across the EU-28 and, to the extent possible, how this has changed over time. Developing an understanding of the composition and distribution of VAT reimbursement claims will highlight cross-country differences and, in doing so, provide a basis for subsequent research.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

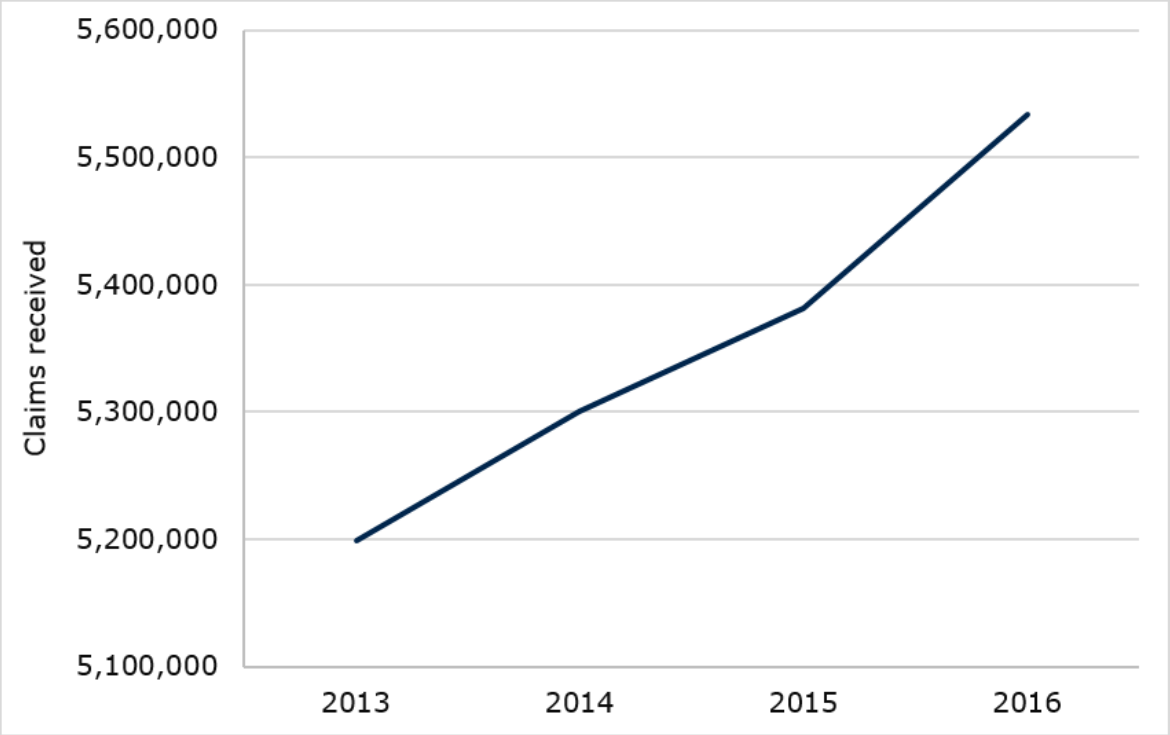
- EU-18: Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

- EU-16: Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Greece, Hungary, Italy, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

Number of claims received

In 2016, Member States received 5.5 million VAT reimbursement claims, which was by far the highest number in the four years for which data was provided, and a significant increase on the previous year. After two years of steady growth in the number of reimbursement claims received (a 1.9% increase in 2014 and a 1.5% increase in 2015) the number of claims received in 2016 increased by over 2.8%.

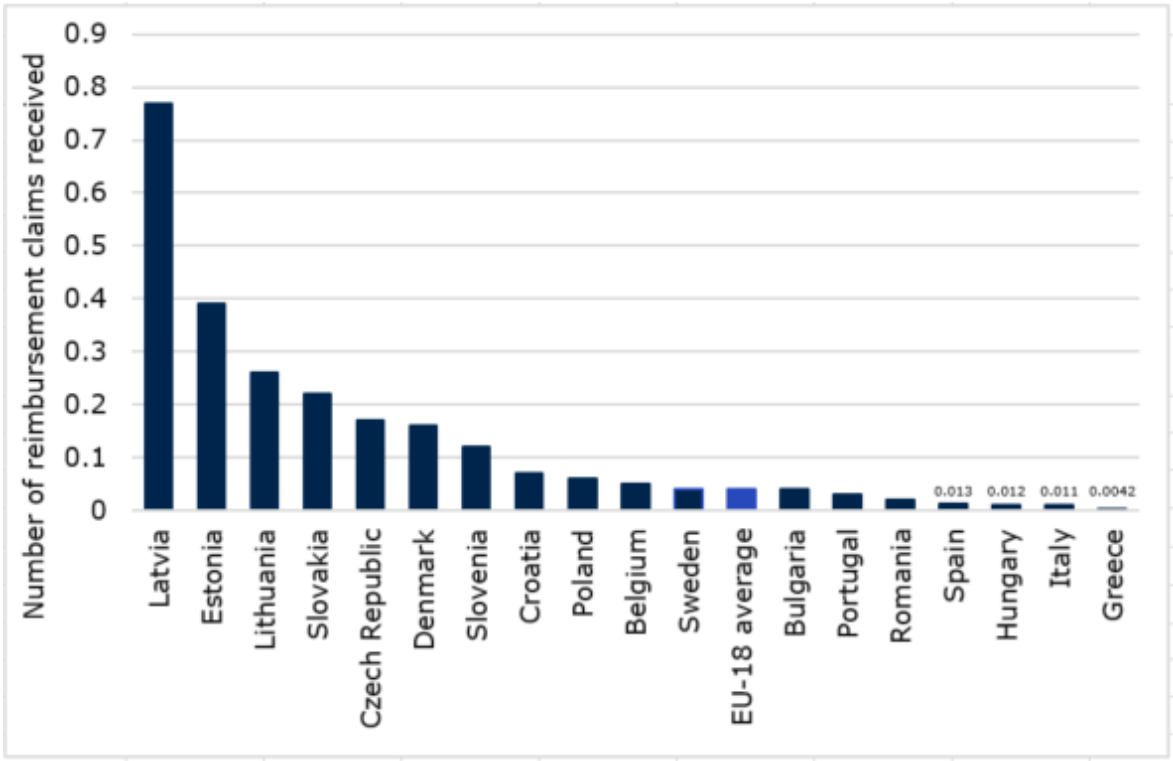
Figure 63: VAT reimbursement claims received by EU-16 Member States over the 2013-2016 period



Source: Tax administration data, PwC analysis

For the year 2016, approximately 0.04 reimbursement claims were submitted per VAT-registered business and tax period across the EU. Most Member States received less than 0.1 claims per registered business. Nevertheless, the Baltic States recorded significantly higher rates, with Lithuania, Estonia and Latvia receiving 0.26, 0.39, and 0.77 claims per registered business respectively. Slovenia, the Czech Republic, Denmark and Slovakia also recorded rates above 0.1. These figures are based on the total population of VAT-registered businesses in each Member States.

Figure 64: Number of VAT reimbursement claims received per VAT registered business registered each VAT reporting period across the EU-18 in 2016

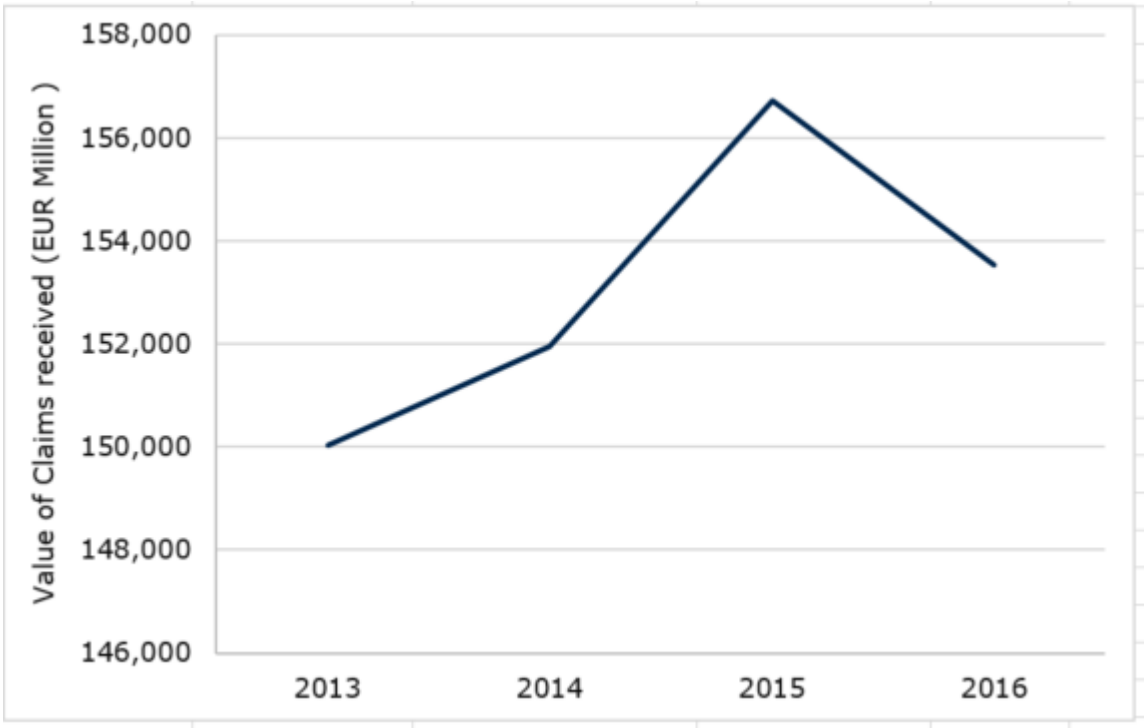


Source: Tax administration data, PwC analysis

Value of claims received

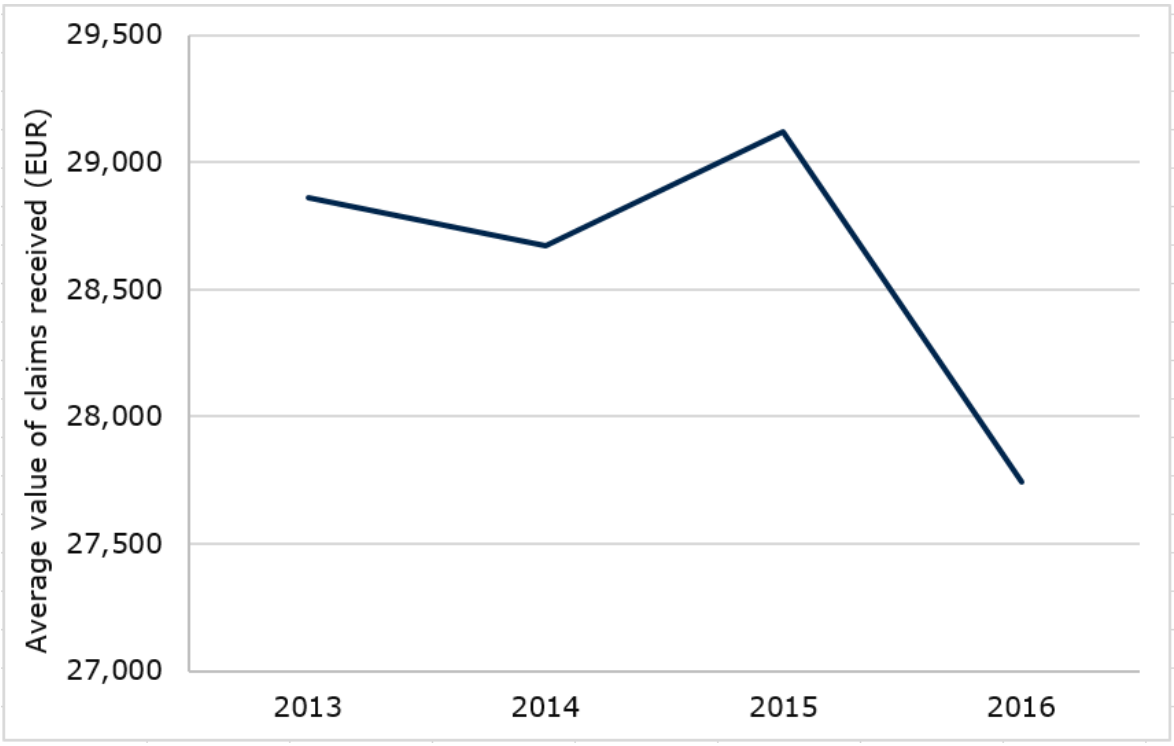
In contrast with this sharp increase in the number of claims received, both the total and average value of claims received fell in 2016. The total value of claims fell from a four-year high of EUR 156.7 billion in 2015 to EUR 153.5 billion in 2016, which was still above the figures for 2013 and 2014. Similarly, the average value per claim decreased from a four-year high of EUR 29,100 in 2015 to a four-year low of EUR 27,700 in 2016. While the decrease in the average value per claim can be explained by an increase in total number of claims received contrasting with a decrease in the total value, the reason why the total number of claims increased but the total value decreased is unclear.

Figure 65: Total value of claims received by EU-16 Member States over the 2013-2016 period



Source: Tax administration data, PwC analysis

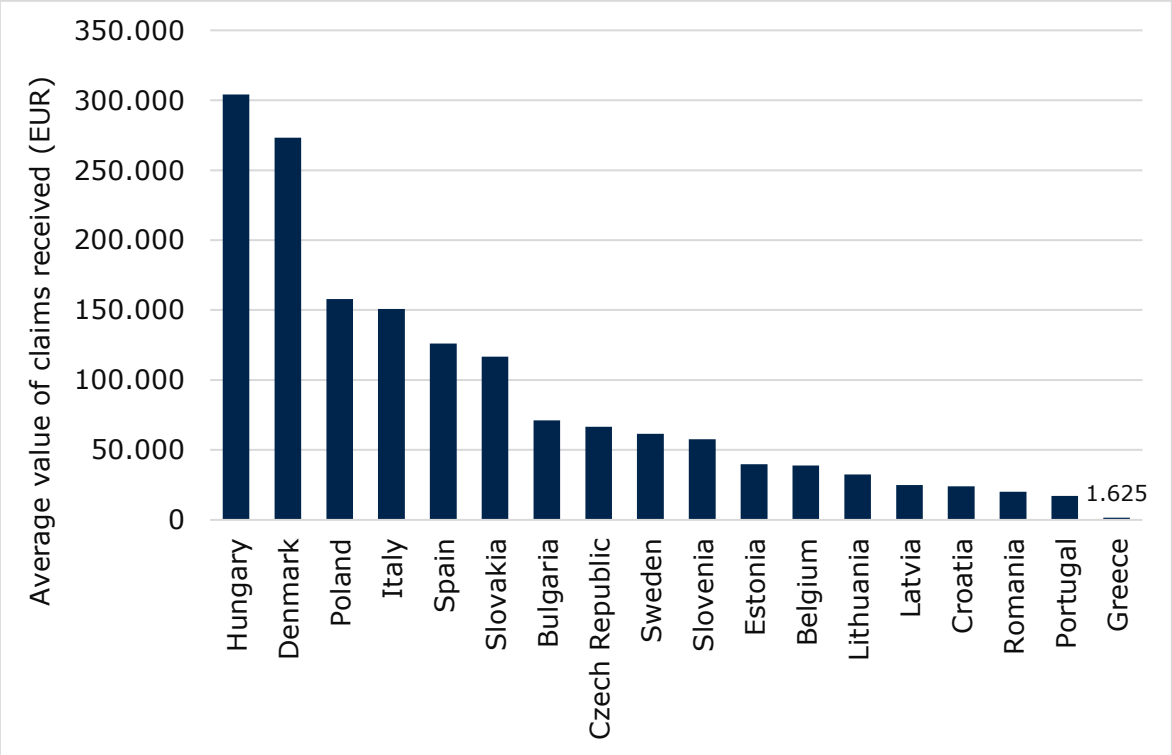
Figure 66: Average value per claim received across EU-16 Member States 2013-2016



Source: Tax administration data, PwC analysis

18 Member States provided information on the value of claims received in 2016. Figure 67 shows the average value of claims received per registered business in each Member state in 2016. This metric is used to account for discrepancies in VAT return filing periods between Member States. The average values ranged from EUR 1,600 in Greece to EUR 304,000 in Hungary.

Figure 67: Average value per claim received by the EU-18 in 2016

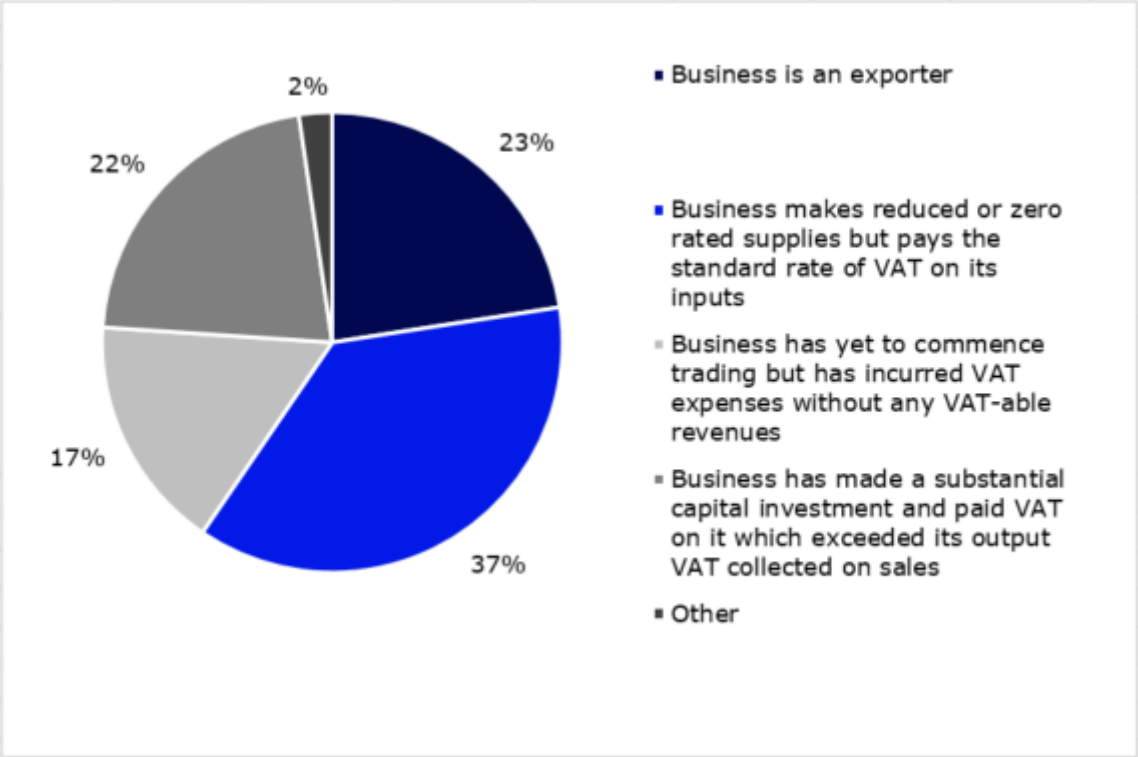


Source: Tax administration data, PwC analysis

Reasons for submitting a VAT reimbursement claim

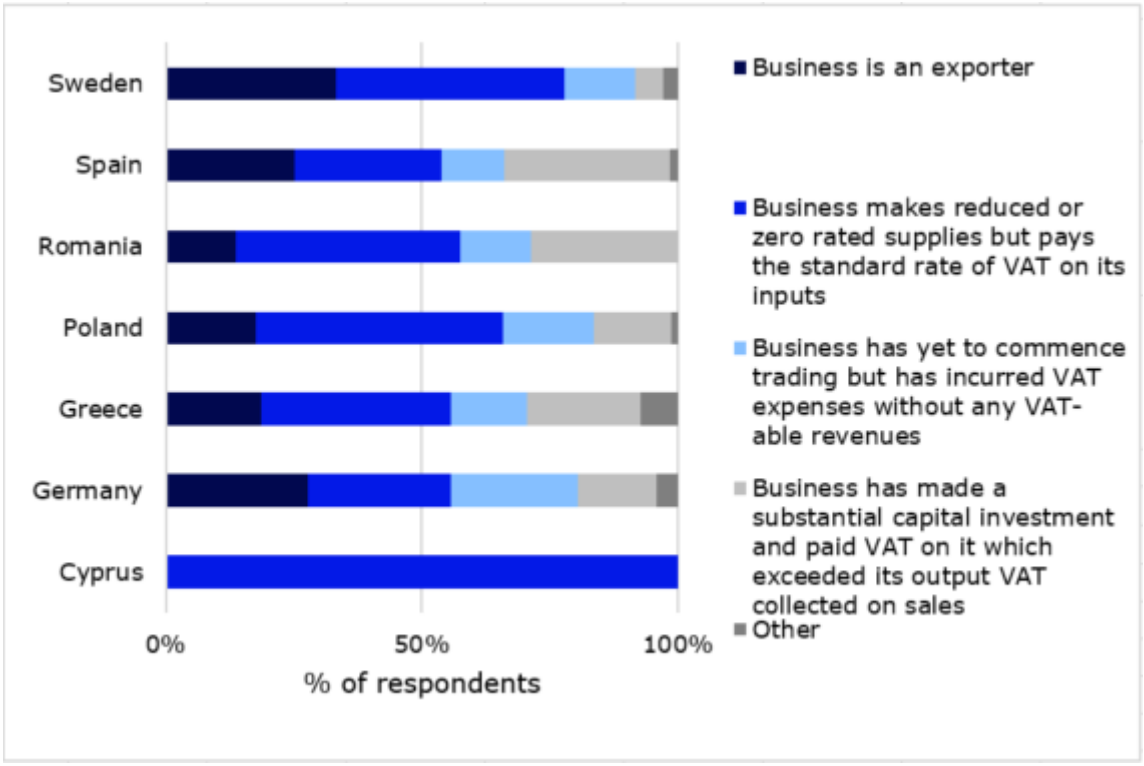
As outlined in
Figure **68**, of the businesses surveyed that were in a reimbursement position 37% = noted that the reason for this was that their business makes reduced or zero-rated supplies but pays the standard rate of VAT on inputs. Just over one fifth (22% of respondents) said it was because they have made substantial capital investment and paid VAT on it which exceeded output VAT collected on sales. A similar number (23% of respondents) noted that the reason for being in a reimbursement position was that they are an exporter. Finally, 17% of respondents stated that their business had yet to commence trading but had incurred VAT on expenses without generating any taxable revenues with which to offset the input VAT.

Figure 68: Reasons for businesses being in a VAT reimbursement position



Source: PwC analysis

Figure 69: Main reasons for businesses being in a VAT reimbursement position by Member State



Source: PwC analysis

Summary

The number of VAT reimbursement claims received by Member States increased year-on-year over the period 20013-2016. By 2016, approximately 0.04 reimbursement claims were being submitted per registered business across the EU, adjusted for filing periods in place in each Member State. This ranged from 0.004 claims per VAT-registered business in Greece to 0.77 in Latvia.

In line with the number of claims, the total value of claims received by Member States also increased between 2013 and 2016, but the average value per claim fell during the same period. Therefore, there appears to be a trend across the EU towards a higher number of lower-value claims being submitted.

5.2.3 VAT reimbursement claims preparation and submission

Key finding: The results of the business survey found that the time taken to prepare and submit a claim increases when additional information is requested, though not significantly. The most commonly selected timeframe to prepare and submit a claim was 2-3 hours where additional information is not requested, and 3-4 hours when additional information is requested.

The survey found that, on average, most businesses incur costs of under EUR 10,000 when preparing and submitting a claim, regardless of whether additional information is requested. The survey also found that most businesses have seen an improvement in the reimbursement process over the last five years. Nevertheless, a quarter of businesses that do not submit a reimbursement claim do so either in part or in full because they perceive the process to be too complicated.

This section analysis how businesses prepare and submit VAT reimbursement claims to tax administrations in their Member State of Establishment, as well as common issues experienced during the process. Understanding the claim preparation and submission process will not only help to identify potential areas to improve efficiency, but also highlight differences in the perceptions held by businesses and tax administrations on the smoothness of process.

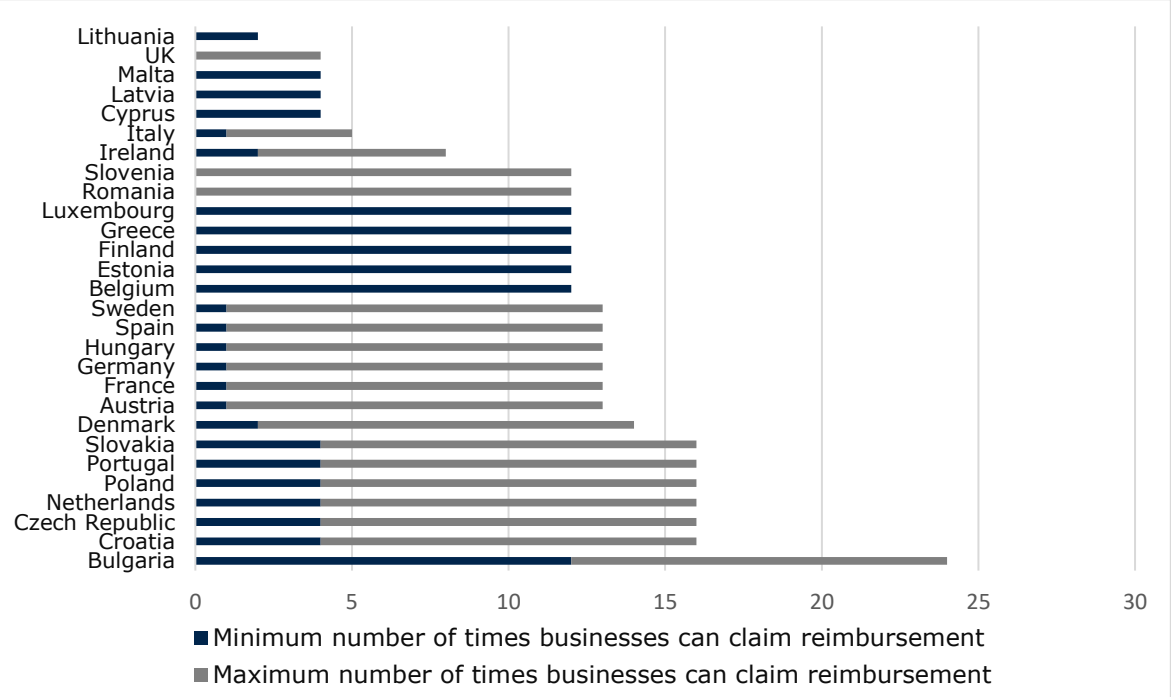
How often can businesses submit a VAT reimbursement claim?

National legislation implementing Article 183 of Directive 2006/112/EC sets out the frequency with which a VAT registered business may submit a claim for a reimbursement.

As

Figure 70 shows, the frequency with which businesses can claim a VAT reimbursement varies and, in some instances, is dependent on the size of the businesses.

Figure 70: Annual filling frequency for making reimbursement claims across the EU-28



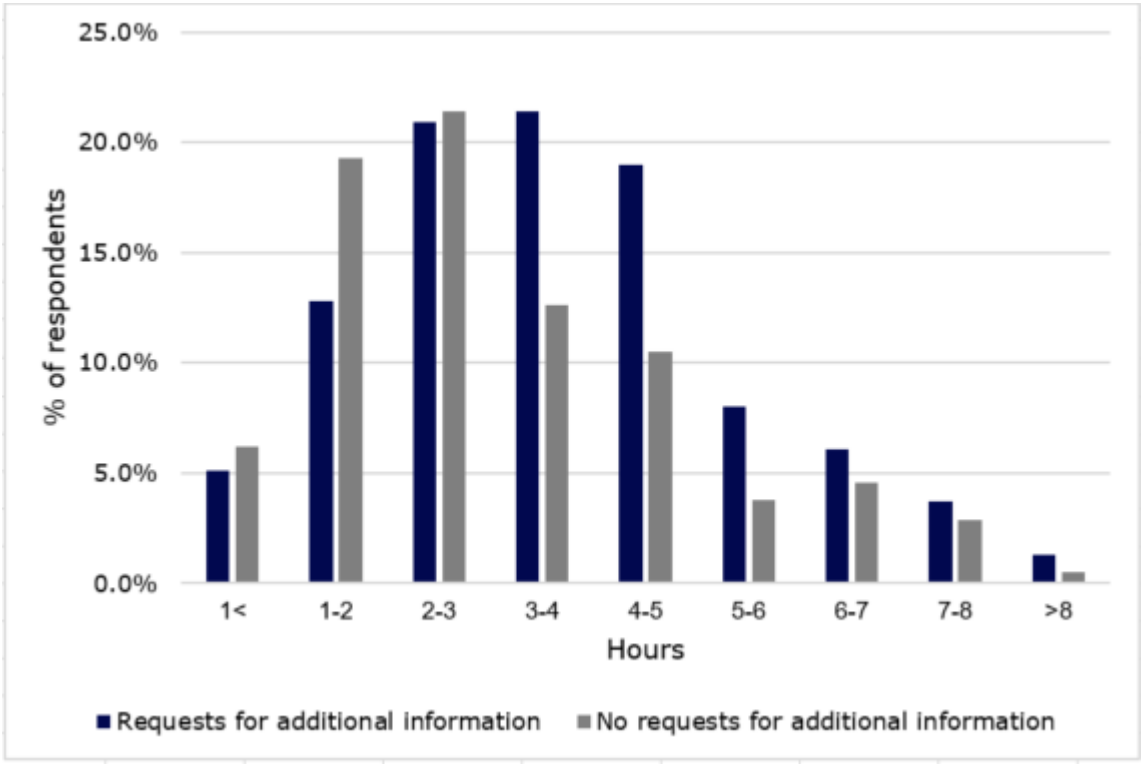
Source: Tax administration data, PwC analysis

Being able to claim a VAT reimbursement on a more regular basis could generate beneficial cash flow impacts for claimants, especially for those that are in a regular reimbursement position (e.g. reduced or zero-rated traders).

How long does it take to prepare and submit a VAT reimbursement claim?

Figure 71 illustrates the time businesses take to prepare and submit a VAT reimbursement claim with and without additional information requests from tax administrations. The results of the business survey show that a majority of the businesses surveyed (60% of respondents) prepare and submit a claim in under four hours regardless of whether additional information is requested. Moreover, approximately 47% of respondents take a maximum of three hours to prepare and submit a VAT reimbursement claim where no additional information is requested. This is in contrast to instances where additional information is submitted, where only 39% of businesses surveyed stated that they can prepare and submit a claim in under three hours.

Figure 71: Time taken to prepare and submit a VAT reimbursement claim with and without requests for additional information



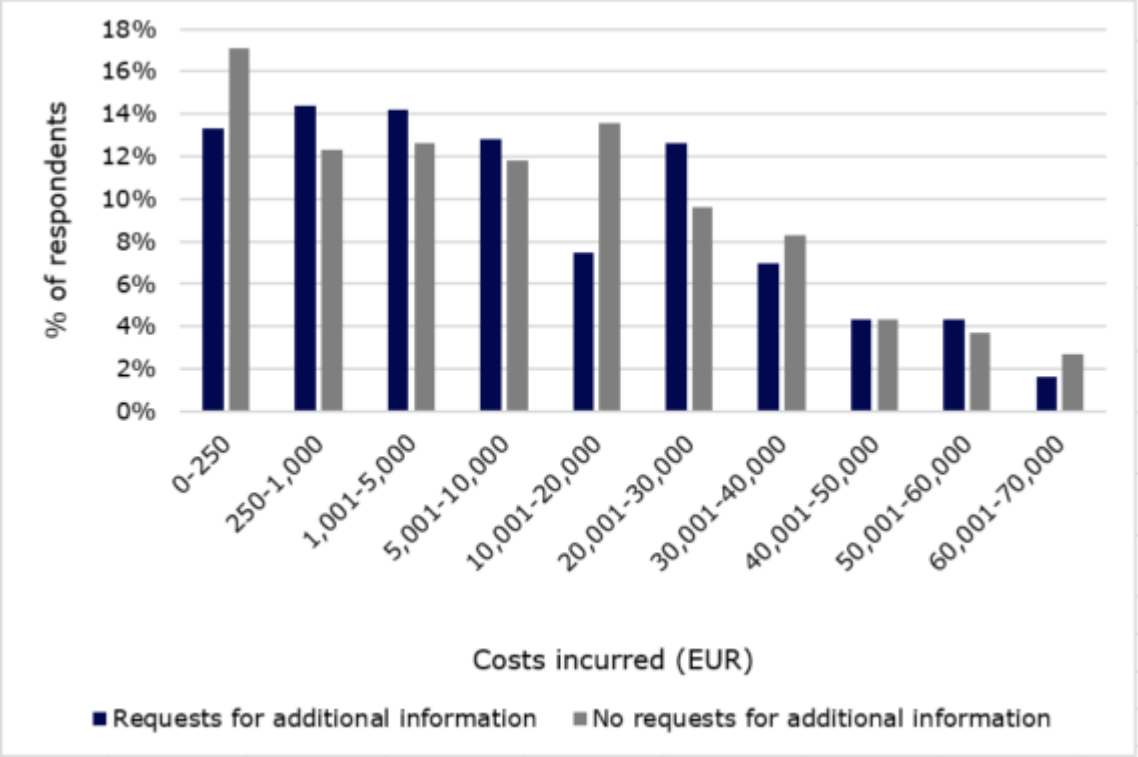
Source: PwC analysis

How much does it cost a business to prepare and submit a VAT reimbursement claim?

As illustrated in

Figure **72** approximately 54% of businesses surveyed stated that they incurred costs of under EUR 10,000 where no additional information was requested by tax administrations. A similar number (55%) of respondents incurred costs of under EUR 10,000 in cases where additional information was requested. As for VAT refunds, this may be due to businesses collecting information and documentation in preparation of the main claim submission. Thus, minimal or no additional costs would be incurred in cases of additional information requests. No businesses surveyed incurred costs of over EUR 70,000, regardless of whether additional information was requested.

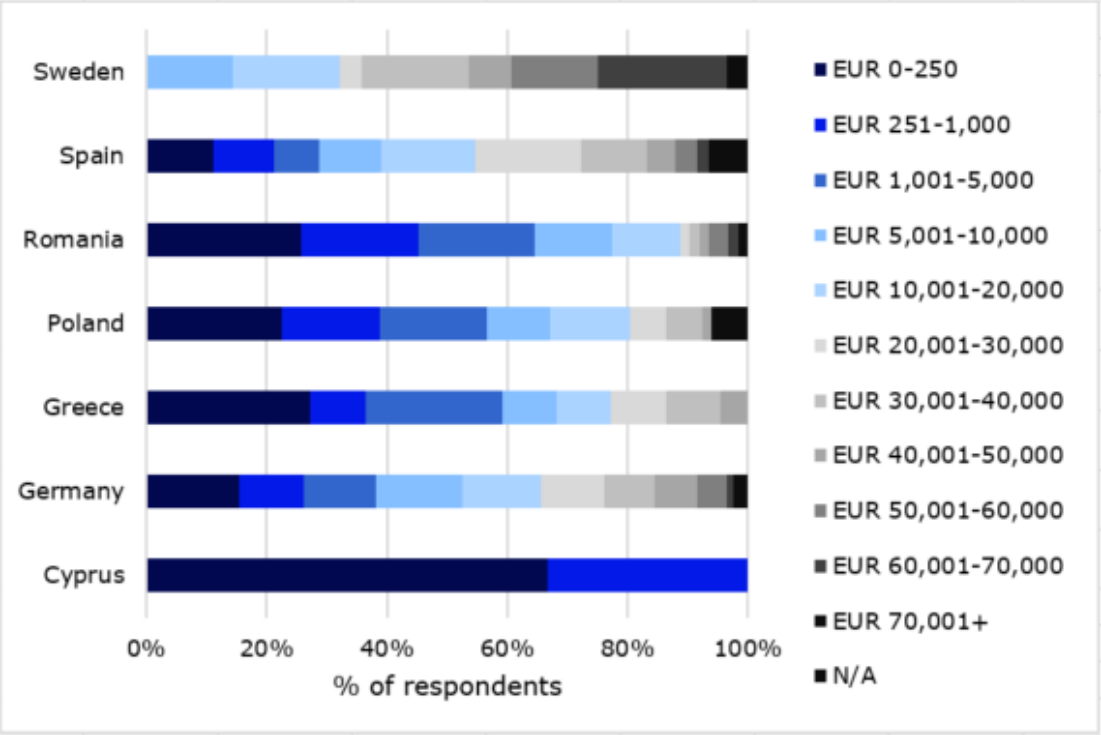
Figure 72: Cost of preparing and submitting a VAT reimbursement claim with and without requests for additional information



Source: PwC analysis

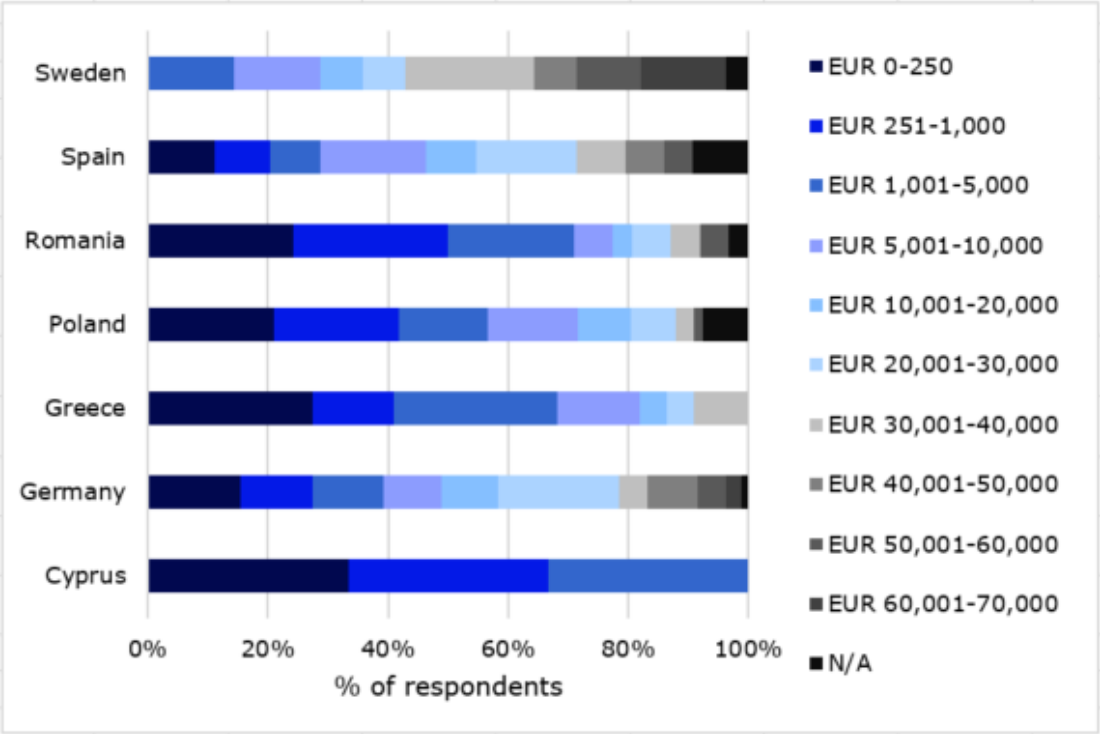
Looking at specific Member States, as illustrated in Figure 73 and Figure 74, costs to prepare and submit a claim appear to be a lot higher for Swedish businesses. Even without additional information requests, 64% of the businesses surveyed estimated that the cost of submitting a claim is more than EUR 20,000. However, this may be partly due to the relatively low minimum annual filing frequency in Sweden compared to other Member States in the country sample.

Figure 73: Cost of preparing and submitting a VAT reimbursement claim where no requests for additional information are received per Member State



Source: PwC analysis

Figure 74: Cost of preparing and submitting a VAT reimbursement claim where requests for additional information are received per Member State



Source: PwC analysis

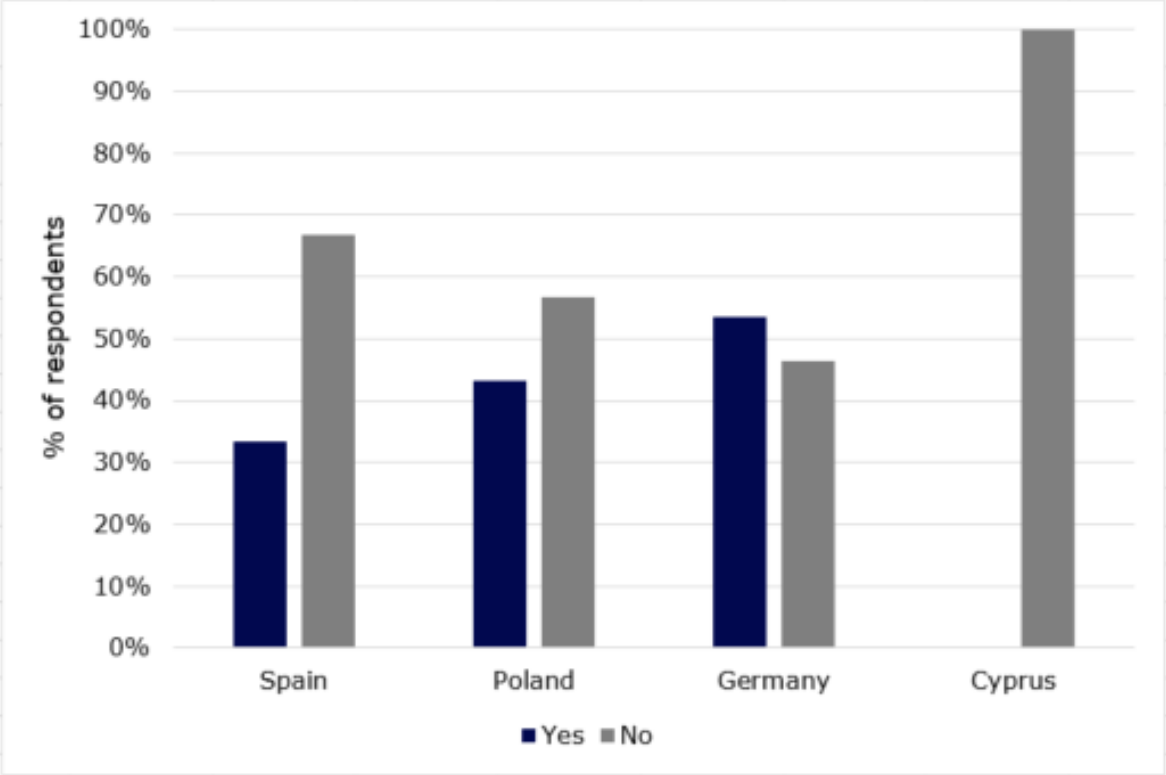
The use of financial guarantees

National legislation implementing Article 183 of Directive 2006/112/EC may require a claimant to obtain a financial guarantee in order to receive a VAT reimbursement. At the time of writing, this requirement was present in the national legislation of 13 Member States (Belgium, Bulgaria, Cyprus, France, Germany, Italy, Lithuania, Poland, Portugal, Slovakia, Slovenia, Spain, and the United Kingdom).

Financial guarantees are requested to protect the tax administrations in question from fraudulent or erroneous VAT reimbursement claims and can be obtained from banks for a fee. National legislation determines the value of the guarantee required (often with reference to the size of the VAT reimbursement being claimed) and the length of time the guarantee must remain in place.

The results of the business survey show that a third of businesses surveyed in Spain, 43% in Poland, and 53% in Germany have previously had to provide a financial guarantee to obtain a VAT reimbursement.

Figure 75: Business experience with regards to providing financial guarantees to obtain a VAT reimbursement

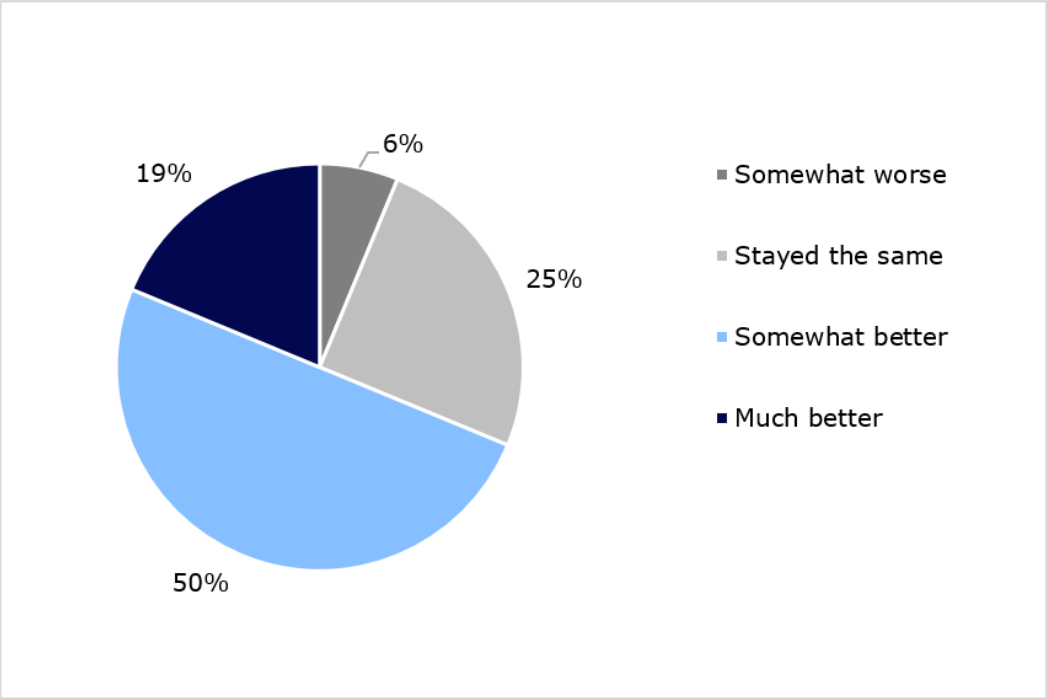


Source: PwC analysis

Improvements

Data from the business survey suggests that a large proportion (69%) of businesses surveyed believe the process for claiming a VAT reimbursement has improved over the last five years, and none think the process has significantly deteriorated. The consensus points towards a moderate improvement, with three-quarters believing the process is either the same as it was five years ago (25%) or somewhat better (50%).

Figure 76: Business perception of how the process of claiming a VAT reimbursement has changed over the last five years



Source: PwC analysis

Why a business might not submit a VAT reimbursement claim?

The results of the business survey found that, aside from the respondent not handling claims (33%), common reasons for not submitting a VAT reimbursement claims were that the business did not incur excess input VAT (17%), the process being too complicated (17%), and the increased risk of audit or investigation (17%).

Time to comply with VAT reimbursement claims: a *Paying Taxes* perspective

The process of claiming a VAT reimbursement is explored through the post-filing index of the *Paying Taxes* report[28]. An analysis of the VAT post-filing index data for the EU-28 is shown below.

Paying Taxes considers VAT reimbursements from the perspective of a hypothetical case study company in order to provide robust like for like comparisons. The specific VAT reimbursement scenario used is that the case study company buys new machinery. The cost is so large that the input VAT paid on the purchase exceeds the company's output VAT on sales in the month the machine is purchased. The company therefore claims a cash reimbursement of the excess input VAT. This specific scenario is also consistent with the results of the business survey, where capital investment is observed to be among the most common reasons that give rise to VAT reimbursement positions.

The associated impact of the above case study scenario is measured in two ways:

Time to comply with a VAT reimbursement (hours), includes:

- Time spent preparing and submitting the reimbursement claim.
- Time spent preparing information for the tax officers, if, in 50% or more cases, a company similar to the case study company that requests a VAT cash reimbursement arising from a capital purchase would be selected for additional review.

Time to obtain a VAT reimbursement (weeks), includes:

- Time from purchase of the machine to the date of submission of the reimbursement claim (this is equal to half the filing period) and length of any mandatory period that the excess output VAT must be carried forward before a claim can be made.
- Time from the submission of the VAT reimbursement claim to the date the reimbursement is received. If a company that requests a VAT cash

[28] *Paying Taxes* is a joint report between the World Bank Group and PwC which provides in-depth analysis into the tax and related compliance burden of a case study company in 190 economies around the world. The latest edition of the report "Paying Taxes 2019" was published in November 2018 and relates to the data of calendar year 2017 and can be found at www.pwc.com/payingtaxes.

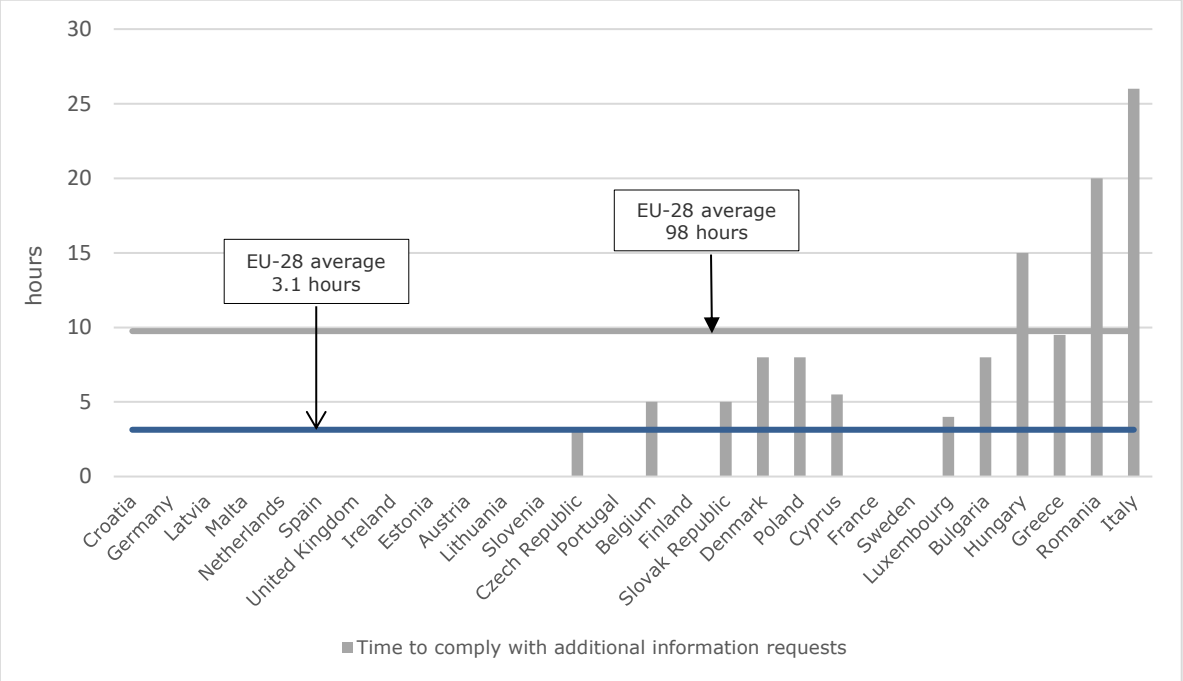
reimbursement arising from a capital purchase would be selected for additional review in 50% or more cases, the duration of the review is included in time.

A detailed explanation of the *Paying Taxes* methodology and the case study assumptions can be found on the *Doing Business* website: http://www.doingbusiness.org/en/methodology/paying-taxes.

The time to comply with a VAT reimbursement from *Paying Taxes 2019* for the EU-28 is shown in

Figure 77 with a breakdown between the time required to submit the reimbursement claim and the time required to respond to additional queries and information requests if such requests would be received in more than 50% of cases.

Figure 77: Time to comply with a VAT reimbursement claim



Source: Paying Taxes data

Figure 77 also shows that, on average across the EU-28, the case study company takes just over three hours to prepare and submit a reimbursement claim. This is in line with the results of the business survey, where it was observed that the most commonly selected timeframe to prepare and submit a claim was 2-3 hours where additional information is not requested. For 12 Member States the time to submit the reimbursement claim is nil as the claim can be made by simply ticking a box on the standard VAT return.

In 12 out of the 28 Member States, there is a greater than 50% chance that the case study company would be selected for additional review as a result of the VAT reimbursement claim. In these Member States, the average time to comply with additional information requests is 9.8 hours, ranging from three hours in the Czech Republic to 26 hours in Italy. This is somewhat higher than the 3 -4 hours suggested by the business survey, but may be due to the specific nature of the *Paying Taxes* scenario.

Summary

The results of the business survey suggest that the reimbursement process has seen a modest improvement over the last five years. However, the cost of preparing and submitting a claim remains high for some businesses. Furthermore, a significant share of businesses remain reluctant to submit a reimbursement claim due to factors such as the perception that the process is too complicated or that it increases the risk of audit or investigation.

From a Paying Taxes perspective, on average across the EU-28, the case study company takes just over 3 hours to prepare and submit a reimbursement claim where additional information is not requested, which is in line with the business survey results. In 12 Member States where additional information would be requested, the time to comply with such requests is 9.1 hours.

5.2.4 Tax administration processing efficiency

Key finding: The processing rate of VAT reimbursement claims across the EU decreased from 92.5% in 2013 to 91.5% in 2016. A lower processing rate may be caused by an increase in claims received during the year combined with no increase in resources available to tax administrations to process a higher number of claims. However, considering structural changes to the VAT system, such as split payments, that may place more businesses into a reimbursement position tax administrations will need to be prepared to process more claims on a more efficient basis.

However, looking at a breakdown for nine Member States, most countries continue to perform above this EU average. Slovenia, Lithuania and Italy processed significantly fewer reimbursement claims in 2016 with 21%, 51% and 52% respectively. Taking into account the differences in filing frequencies, the number of claims processed per employee in 2016 ranged from 18 in Romania to 1,312 in Estonia.

This section examines the relative efficiency of tax administrations in processing VAT reimbursement claims. The metrics used will include the processing rate of tax administrations (the number of claims processed as a share of the total number of claims received during the year), and the number of claims processed by the tax administrations during the year per employee. Comparing the efficiency of tax administrations will help identify those Member States with problems of administrative capacity and resource mobilisation.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

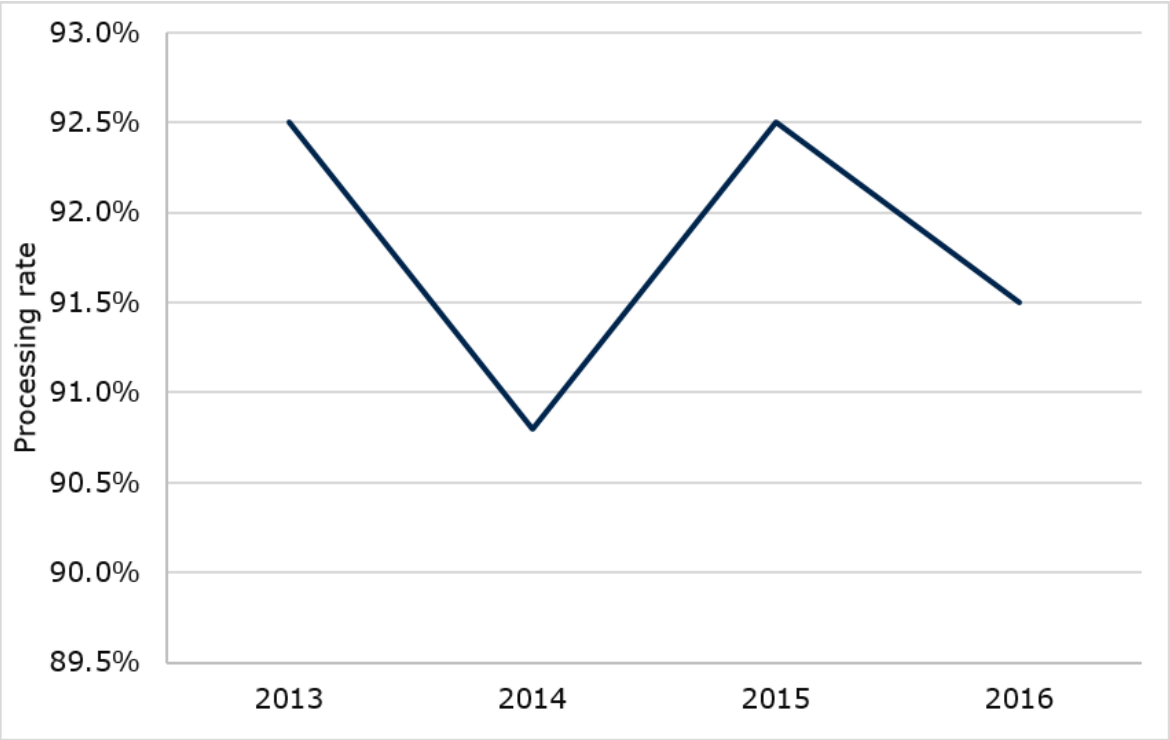
- EU-9: Estonia, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and Slovenia.

- EU-8: Estonia, Italy, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia
- EU-6: Lithuania, Poland, Portugal, Romania, Slovakia and Slovenia.

Processing rate

In the six countries for which data is available, the processing rate has varied significantly in the last four years. In comparison to 2015, the processing rate dropped by one percentage point in 2016 to 91.5%. The processing rate in 2016 was the second lowest in the last four years with the lowest being in 90.8% in 2014.

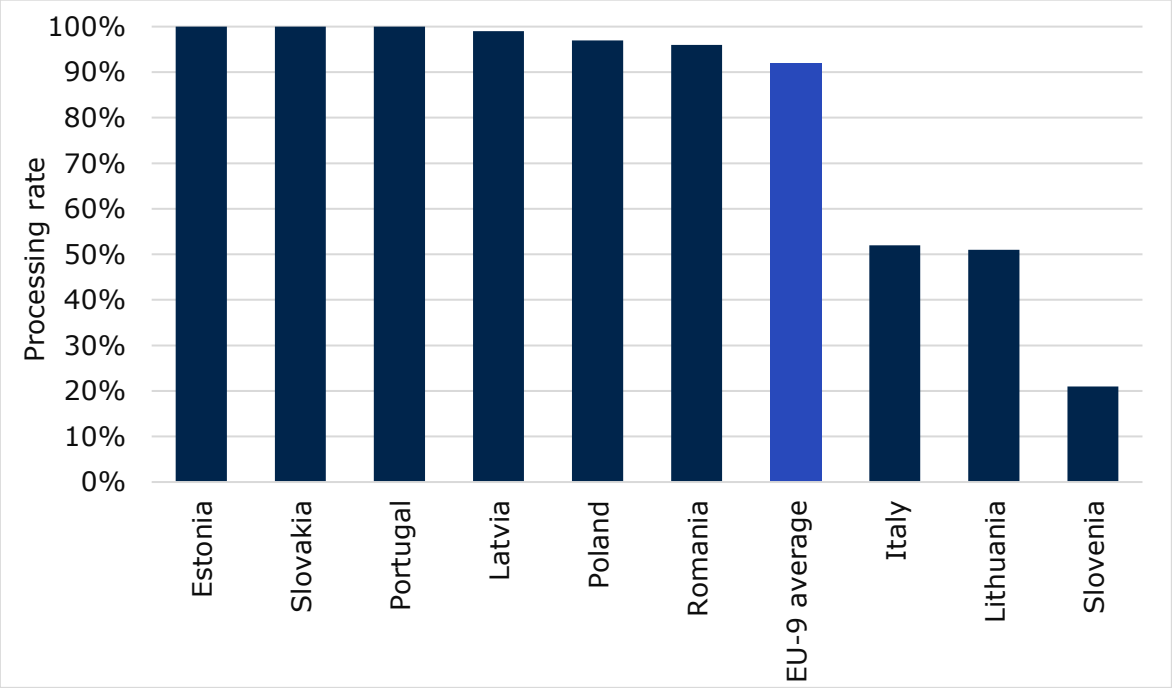
Figure 78: Processing rate across EU-6 Member States over the 2013-2016 period



Source: Tax administration data, PwC analysis

Country-level data on processing rates for the year 2016 was provided by nine Member States. These rates ranged from 21% in Slovenia to 100% in Estonia, Slovakia and Portugal. Six out of nine Member States recorded a rate above the EU average.

Figure 79: Processing rate of the EU-9 in 2016

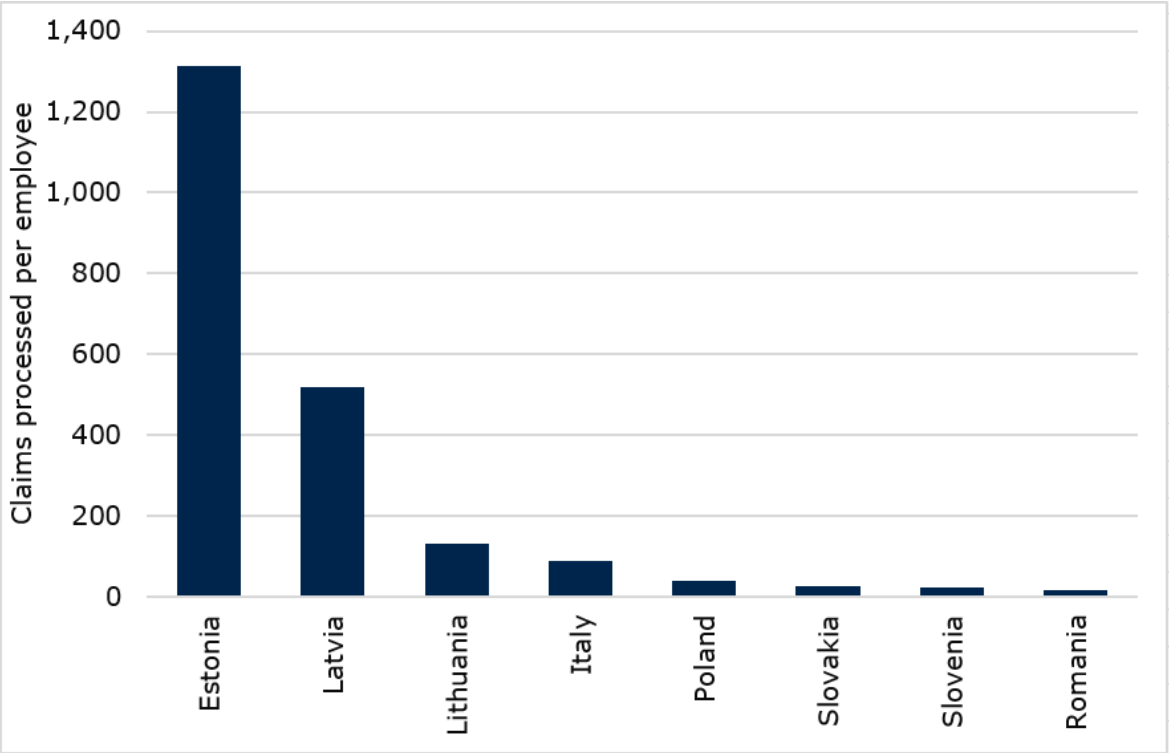


Source: Tax administration data, PwC analysis

Claims processed per employee

By dividing the number of claims processed in 2016 by the number of employees, it is possible to produce a metric of the relative efficiency of tax administrations based on the number claims that a single employee is able to process over the year. However, the frequency with which businesses are able to submit VAT reimbursement claims varies significantly between Member States, from annually in Italy to monthly in Estonia. As such, the number of claims processed per employee has been adjusted to accommodate this. Eight Member States provided information to produce this figure. Of these, the number of claims processed per employee varied significantly, ranging from 18 claims per employee in Romania, 88 in Italy, 520 claims in Latvia and 1,312 in Estonia.

Figure 80: Claims processed per employee in the EU-8 in 2016

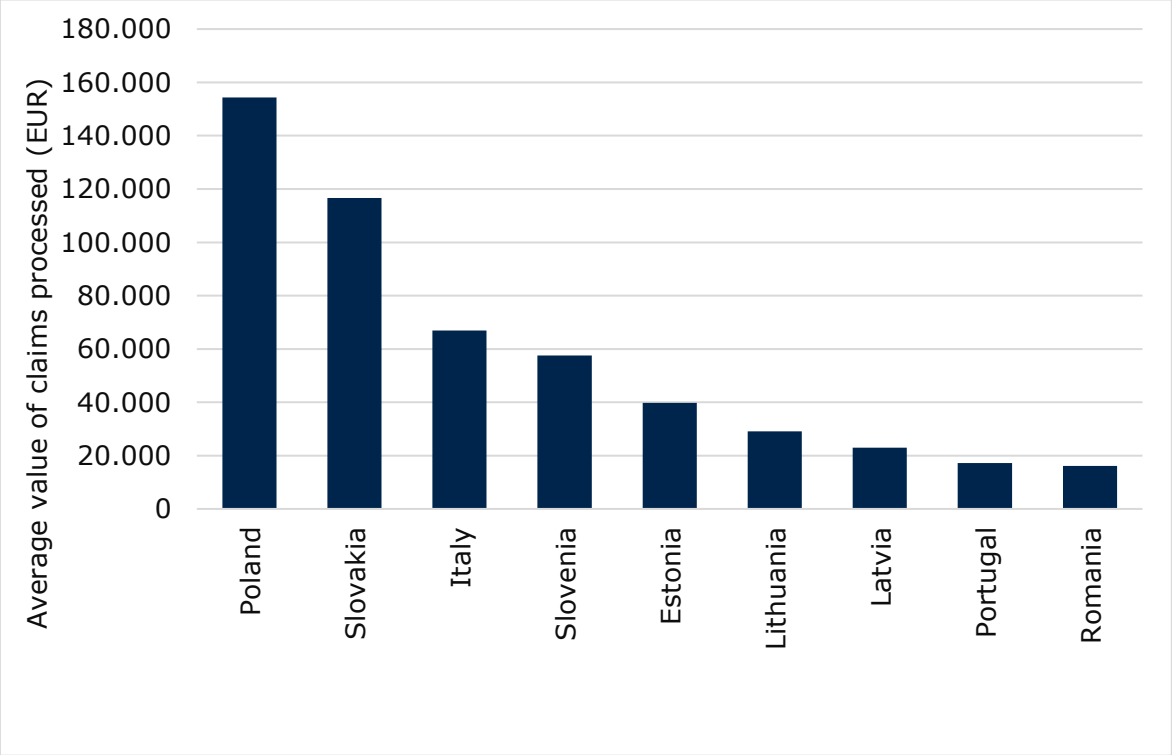


Source: Tax administration data, PwC

Value of claims processed

Nine Member States provided information on the value of claims processed in 2016. Figure 81 shows the average value of claims processed per registered business in each Member State in 2016. This metric is used to account for discrepancies in filing period between Member States. The average value per Member State ranged from a low of EUR 16,100 in Romania, to an upper value of EUR 154,300 in Poland.

Figure 81: Average value of claims processed per registered business across EU-9 in 2016



Source: Tax administration data, PwC analysis

Summary

The efficiency of tax administrations, as measured by the claim processing rate, decreased between 2013 and 2016, though this decline in efficiency has not been consistent over the four years. By Member State, the processing rate remains near to or at 100% for most countries for which data was available, and it appears that a small number of Member States, namely Slovenia, Lithuania and Italy, skewed the EU average. Measured by the number of claims processed per employee, Slovenia and Lithuania remain less efficient in comparison to better-performing Member States, such as Estonia and Latvia. Moreover, there is no trend towards higher-value claims in these worse-performing countries either. Slovenia and Lithuania sit mid-table by the average value of claims processed.

5.2.5 Queried claims

Key finding: All Member States have some form of process in place to verify claims. Verification and checks take place both prior to and after a claim is submitted. Checks that take place prior to a claim being submitted are generally aimed at

identifying taxpayer specific risks.

When verifying claims, Member States take into consideration a combination of business-specific and claim-specific risk factors. By carrying out a risk analysis, Member States distinguish between high and low risk claims. In particular, Member States recorded that they often apply greater level of stringency when processing claims from certain sectors. Additionally, most Member States recorded that larger value claims are automatically considered to be high risk. Claims that are considered to be high risk are subject to further verification, additional information requests and audits.

Six Member States provided data on the number of claims that were deemed to be fraudulent in 2016. Of the six Member States, Latvia recorded the highest share of claims that were deemed to be fraudulent as a proportion of the total number of claims received. Of the four Member States which provided data on the value of claims that deemed to be fraudulent, these claims made up the largest share of the total value of claims received in Portugal (28% of the total value of claims received in 2016). This was significantly higher than the second highest, Lithuania, where claims deemed to be fraudulent were worth 7% of the total value of reimbursement claims received in 2016. In addition, claims that were deemed to be fraudulent appeared to be of a higher value.

The business survey found that more than two-thirds (70%) of businesses receive requests for additional information on most of the claims they submit. The most commonly requested pieces of information, according to the businesses surveyed, are invoices (originals or copies). Nevertheless, most businesses say the process of preparing additional information is either fairly easy or very easy.

This section of the report explores how VAT reimbursements are verified by tax administrations, what drives the decision to query or audit certain claims and how frequently claims that are deem to be fraudulent are received by Member States.

This section does not include analysis of how frequently claims are queried as this data has not been received from tax administrations. Analysis of how claims are verified will help construct an understanding of the different processes that are in place across the EU Member States. In addition, analysis on fraudulent claims will help understand what procedures are in place across EU Member States to detect fraudulent claims and how frequently such claims are received by them.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-22: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-6: Estonia, Latvia, Lithuania, Portugal, Slovakia and Spain.

- EU-4: Portugal, Lithuania, Slovakia and Spain.

How are claims verified?

All tax administrations surveyed as a part of this study indicated that they have some form of process in place to verify claims. Most Member States carry out checks once the reimbursement claim has been submitted. However, certain Member States such as Belgium, Bulgaria, Denmark, Czech Republic and Finland also carry out additional checks prior to claims being submitted. For example, in Belgium, Denmark, Czech Republic and Estonia, the tax administration carries out checks when registering taxpayers to identify taxpayers that need monitoring. In Finland, some checks are carried out when the taxpayer is filing a VAT return electronically in order to reduce the risk of errors. This is done with the aid of pop-up boxes and notices which appear when a VAT return is being filed in the MyTax service.

Most Member States surveyed noted that verification of claims take place using a combination of automated and manual methods. Typically, reimbursement claims go through an automated risk analysis system when they are submitted. If a risk or error is identified at this stage, selected claims are then manually checked. Manual checks involve further review and assessment by tax administrations.

When verifying claims, Member States appear to pay attention to similar risk factors. Table 12 provides a summary of common risk factors identified across all Member States. Risk factors can either be business-specific or claim-specific.

Table 12: Summary of common risk factors

Business specific	Claim specific
• Nature of business • Number of employees • Sector-specific risks • Company size and structure • Prior tax violation by the company • Presence of tax debts • Time of establishment • Any unusual activity identified (such as business becoming active again after being dominant)	• Timing of the claim • Amount of the claim • Materiality of the claim

Source: Tax administration data, PwC analysis

Sector-specific risks were a recurring theme across all tax administrations. For example, in Finland it was identified that businesses in the sector often applied the VAT Act incorrectly. The tax administration chose to focus on the sector and carried out extensive audits on many businesses. Alongside, they also provided guidelines to business in the sector in order to improve their understanding of the VAT Act. As a

result, there has been a notable improvement in the submission of VAT reimbursement claims by businesses in the sector. Finland is now carrying out a similar exercise in the financial services sector.

In interview, the Croatian tax administration stated that, amongst other risk factors, it also looks into businesses trading in high-risk goods such as cars, computers and mobile phones. Although Croatia was the only Member State to declare this, it is highly likely that other tax administrations employ a similar approach.

Both, Croatia and the Netherlands mentioned that the number of employees working in the business was among the risk factors that they take under consideration. Interestingly, the Netherlands also stated that, in addition to carrying out a risk based analysis, the tax administration also carried out random checks on SMEs. Again, although the Netherlands was the only Member State to declare this, it is highly likely that other tax administrations employ a similar approach.

With regards to claim-specific risks, most Member States observed that large value claims were automatically subject to greater levels of stringency during the verification process. In addition to this, some Member State, such as Portugal, also identified timing of claims as a likely risk factor.

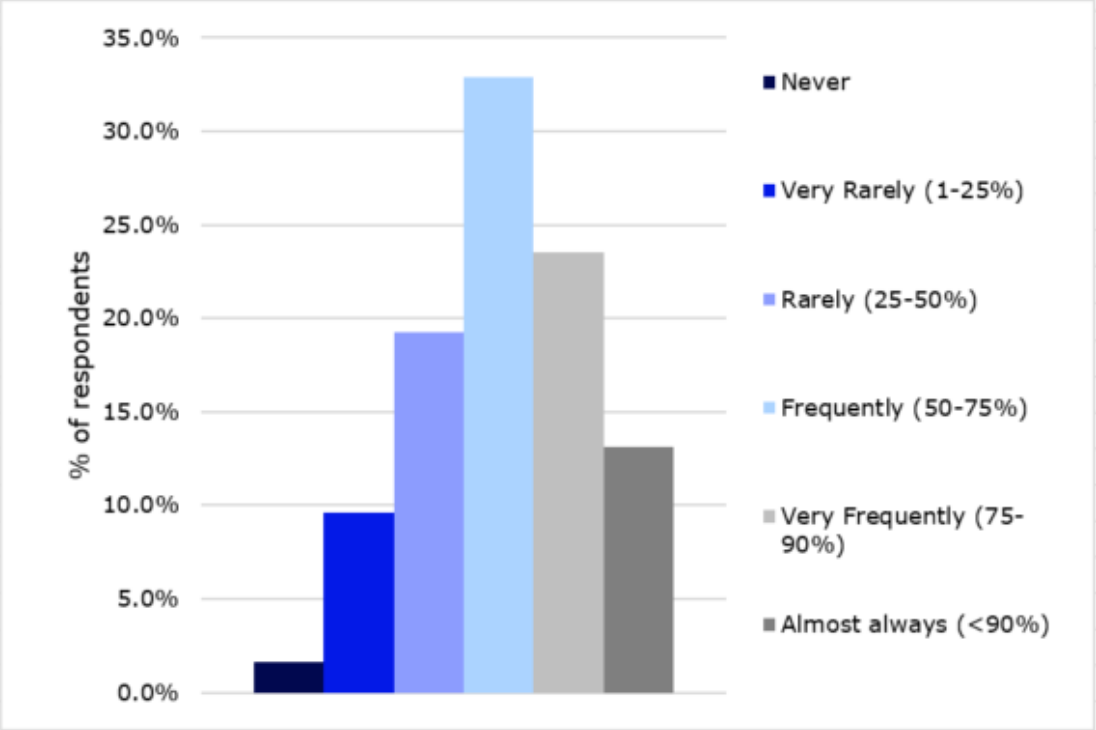
Following risk-based analysis, tax administrations categorise either claims or businesses on the basis of the level of risks. For example, in Italy, claims are categorised into three risk classes, whereas in Latvia taxpayers are divided into two lists "the white list" includes all businesses that were not considered to be a risk and "the black list" includes all businesses that were considered to be of high risk. Spain assigns points to each risk factor, irrespective of whether it is business- or claim-specific. Finland is also working towards developing a risk score to identify high risk companies help them better identify potentially fraudulent companies and claims in the future.

If a business or claim is identified as high risk, tax administrations carry out further verification, requests for additional information and even audits in certain instances.

Types of additional information requested

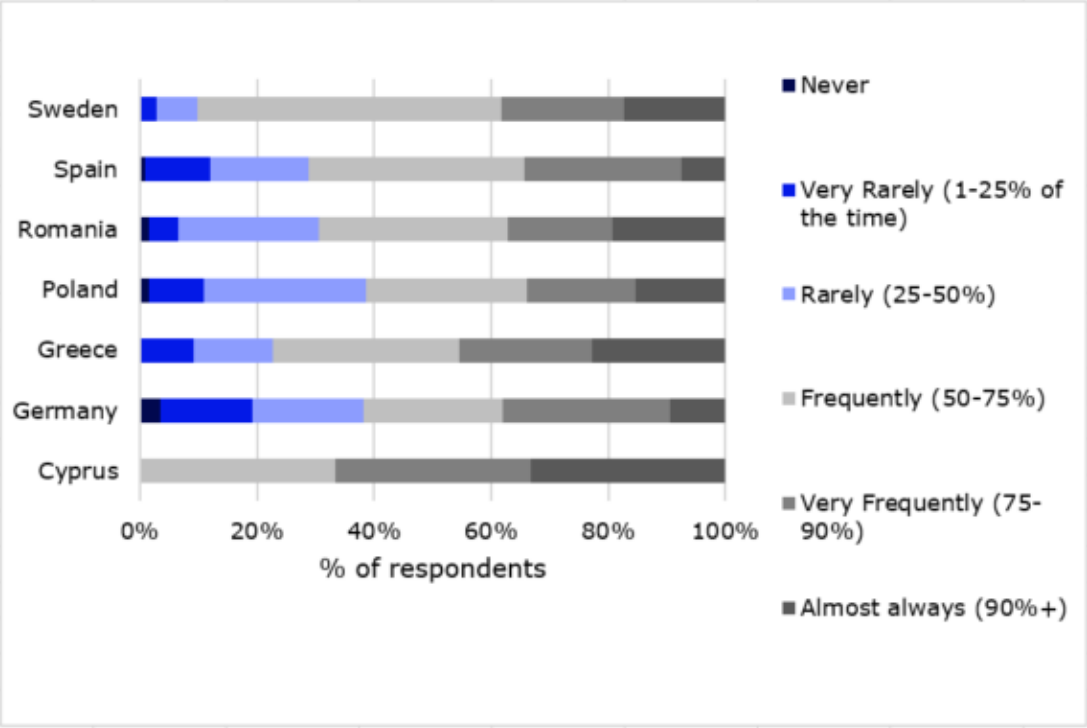
Data from the business survey found that more than two-thirds of the businesses surveyed (approximately 70%) received requests for additional information on more than half of the claims they submitted. This was broadly reflective of the individual Member States in the country sample. Nevertheless, two outliers were Sweden and Cyprus, where 93% and 100% of businesses surveyed reported receiving additional information requests more often than not. In the case of Sweden, one possible reason for this is the relatively low minimum annual filing frequency compared to other Member States in the country sample, which might result in a smaller number of larger claims and increases the chance of a request for additional information.

Figure 82: Frequency with which businesses receive requests from the tax administration for additional information



Source: PwC analysis

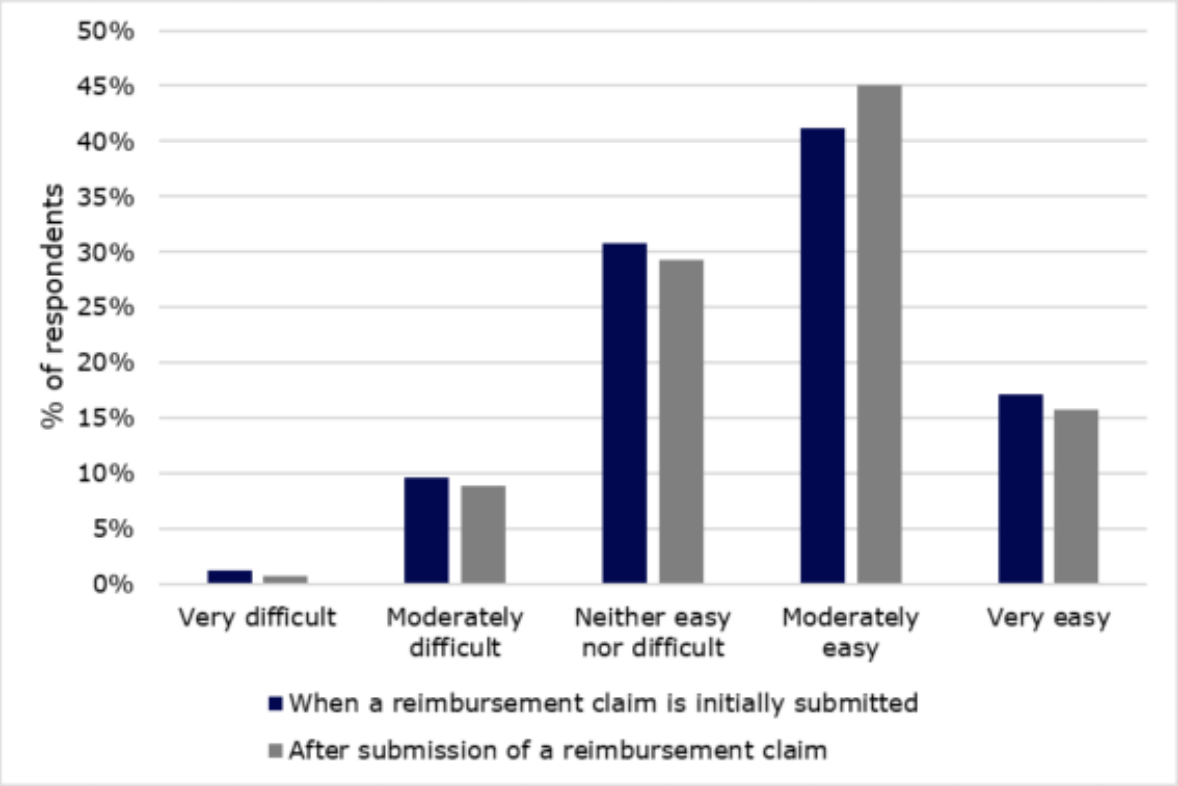
Figure 83: Frequency with which businesses receive requests from tax administrations for additional information in each Member State



Source: PwC analysis

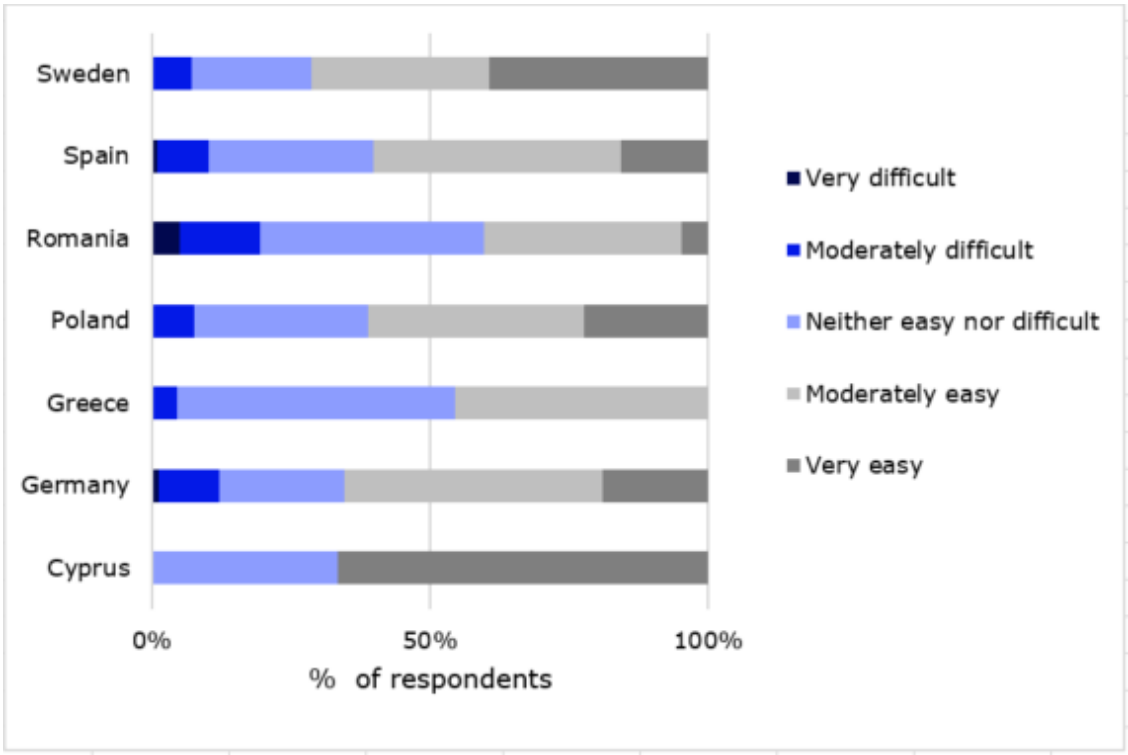
Nevertheless, the businesses surveyed do not seem to find meeting the requirements of requests for additional information particularly difficult. The process of collecting and preparing additional information is either fairly easy or very easy for 58% of businesses when a claim is initially submitted, and for 61% of businesses after a claim has been submitted. This is complemented by the findings noted above, namely that most businesses can prepare and submit a claim in under four hours and incur costs of under EUR 10,000.

Figure 84: Ease of collecting and preparing additional information required by tax administrations



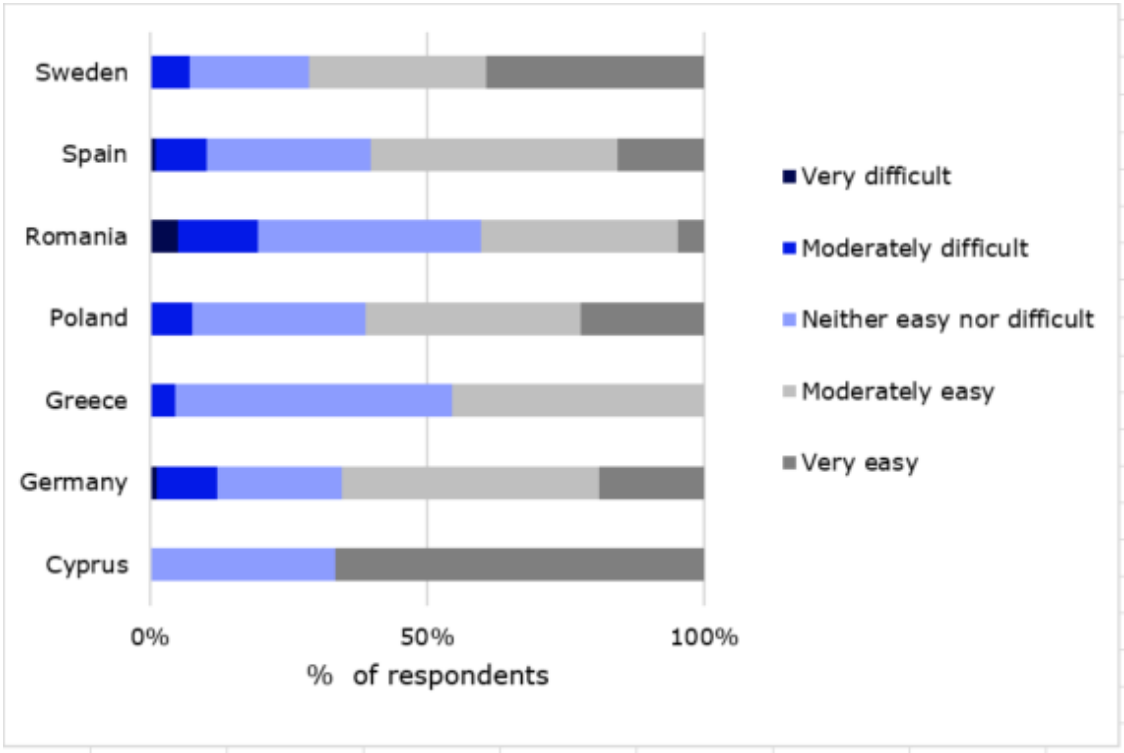
Source: PwC analysis

Figure 85: Ease of collecting and preparing information required by tax administrations at the time of submission



Source: PwC analysis

Figure 86: Ease of collecting and preparing additional information requests after a VAT reimbursement claim has been submitted

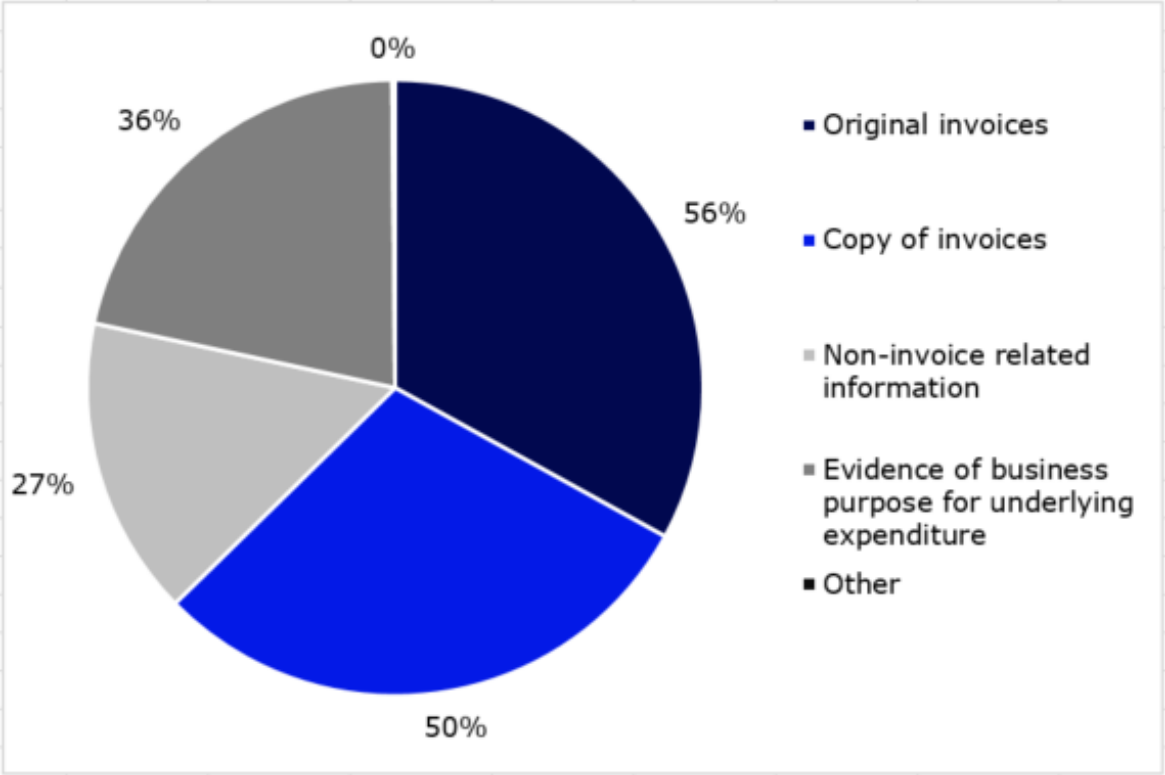


Source: PwC analysis

Invoices are the most common piece of information requested by tax administrations according to the businesses surveyed. 56% of businesses surveyed say original

invoices are among the most common pieces of information requested, and half of businesses surveyed noted that copies of invoices were the most common requests. This seems to reflect the common claim-specific risk factors identified in interviews with tax administrations. According to the businesses surveyed, requests for original invoices are particularly common in Poland, Spain and Sweden, while evidence of business purpose is particularly common in Greece and Romania.

Figure 87: Most common additional information requests after a VAT reimbursement claim has been submitted



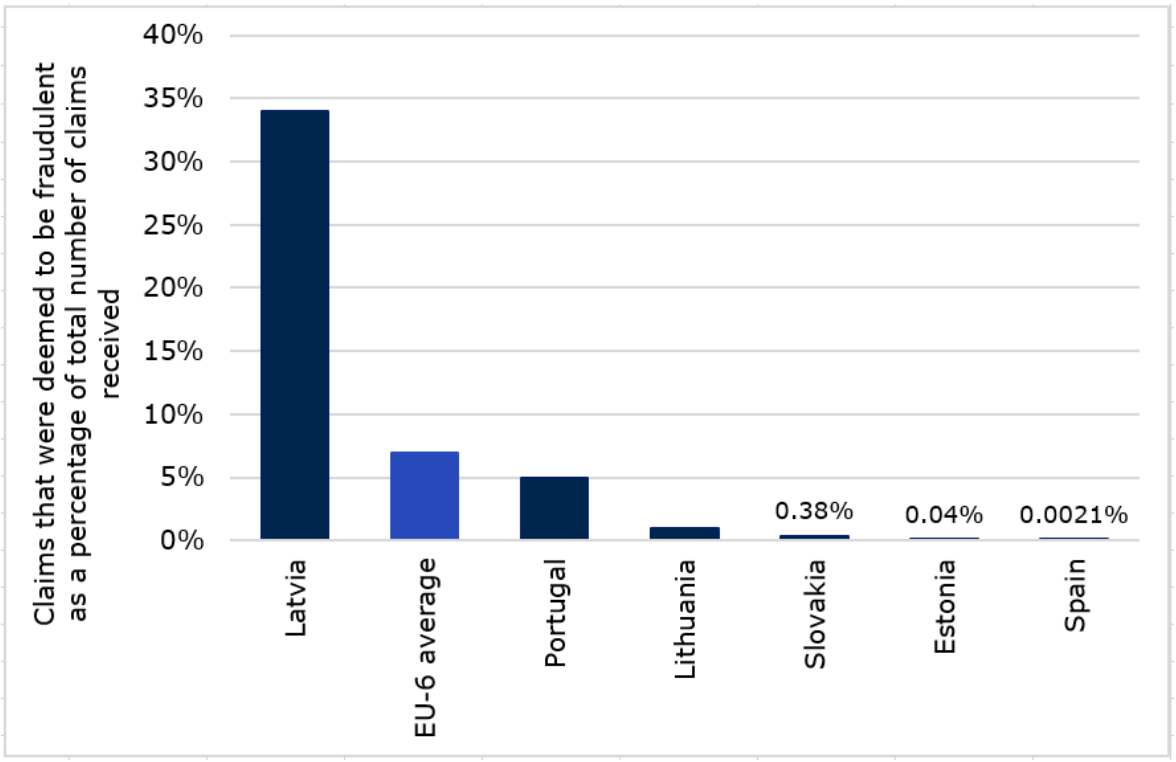
Source: PwC analysis

Fraudulent claims

Data on the number and value of claims that were deemed to be fraudulent in 2016 was collected from Lithuania, Portugal, Slovakia and Spain. The average value of claims that were deemed to be fraudulent in 2016 was EUR 240,000.

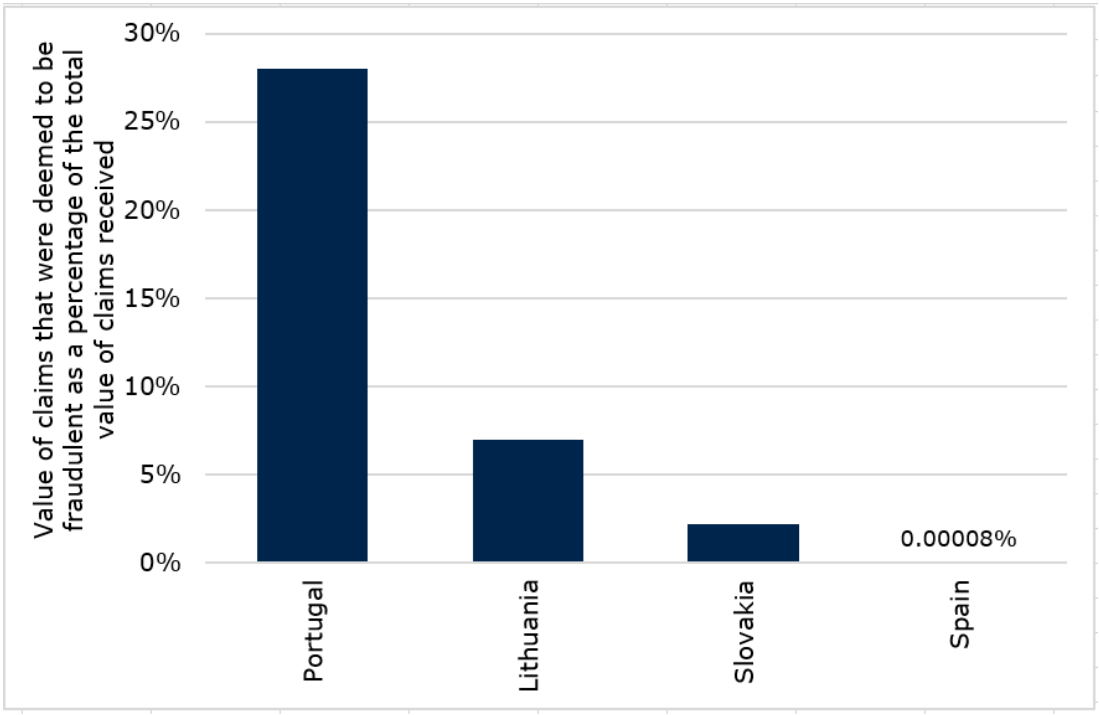
Figure 88 shows the number of claims received that were deemed to be fraudulent by six tax administrations as a percentage of the total number of claims received. Interestingly, Latvia records the highest number of claims received that were deemed to be fraudulent, equating to 34% of the total number of claims received by the tax administration. In comparison, the remaining five Member States receive substantially fewer claims that were deemed to be fraudulent. In fact, claims were deemed to be fraudulent equated to less than 10% of total number of claims received in these Member States.

Figure 88: Number of claims received that were deemed to be fraudulent per EU-6 Member State as a percentage of total number of claims received in 2016



Source: Tax administration data, PwC analysis

Figure 89: Value of claims that were deemed to be fraudulent per EU-4 Member State as a percentage of total value of reimbursement claims received in 2016



Source: Tax administration data, PwC analysis

Figure 89 shows the value of claims received that were deemed to be fraudulent as a percentage of the total value of reimbursement claims received in 2016. In

comparison to the number of claims that were deemed to be fraudulent, the value of claims equates to a larger proportion of the total value of claims received. This indicates that claims that are deemed to be fraudulent are likely to be at a higher value. This is also consistent with how tax administrations indicated that larger value claims are automatically subject to greater levels of stringency during the verification process.

Summary

All Member States indicated that they have some form of process in place to verify claims. While most Member States carry out checks once reimbursement claims are submitted, some Member States also carry out additional checks prior to submission to risk profile claims based on taxpayer characteristics. Member States typically use a combination of automated and manual methods to verify claims. When verifying claims, Member States take into consideration certain risk factors that can broadly be categorised as business-specific or claim-specific. Business-specific factors include sector specific risks, previous tax violations by the company and any other unusual activity. Claim-specific risks include the timing of the claim and value. Most Member States recorded that larger value claims were automatically considered to be high risk, which are then subject to further information requests and audit.

Four Member States also provided data on the number and value of claims that were deemed to be fraudulent in 2016. Of the four Member States, Latvia recorded the highest proportion of claims received that were deemed to be fraudulent. In comparison to the number of claims that were deemed to be fraudulent, the value of claims equates to a larger proportion of the total claims received in each Member State thus suggesting that claims that are deemed to be fraudulent are likely to be at a higher value. For example, in Portugal the value of claims that were deemed to be fraudulent equated to 28% of the total value of claims received, while they only equated to 5% of the number of claims received.

The business survey found that more than two-thirds of businesses (approximately 70%) received requests for additional information on most of the claims they submit. Requests were particularly common in Cyprus and Sweden, and less so in Poland and Germany.

Nevertheless, a large proportion of businesses considered the process of preparing additional information to be either fairly easy or very easy.

Moreover, the business survey found that invoices were the most common piece of additional information requested. 56% of the businesses surveyed received an additional information request for original invoices from tax administrations, and 50% of respondents stated that copies of invoices were requested from them.

5.2.6 Approval rates and VAT reimbursement claim rejection

Key finding: Approval rates remained largely consistent throughout 2013-2016, only rising by 0.1 percentage points from 2013 to 99.5% in 2016. The rate of processing decreased by 1 percentage points in the same year.

At the Member State level, six of the 11 Member States had an approval rate above the 2016 average.

Rejected claims have a higher average value (EUR 61,000) than approved claims (EUR 21,600), which suggests that larger claims are more likely to be rejected. Overall, the average value of a approve claim has decreased by 5.4% over the period 2013-2016, whereas, the average value of a rejected claim has seen an increase of 1.8 percentage points over the same period.

Tax administrations across 17 Member States that provided such data stated that the most common reasons for a claim to have been rejected were that the claim was either fraudulent, the taxpayer did not submit sufficient or valid additional information or the claim did not meet the legal requirements of the local VAT systems.

The business survey found that a rejected claim had resulted in deferred investment for 41% of the businesses surveyed in the past three years, 34% of the business surveyed reported cash flow problems and 26% stated that a rejected claim had resulted in deferred recruitment of staff.

This section of the report explores how many reimbursement claims are approved and rejected by Member States. In order to do so, this section will look into the approval rate at an EU-level, as well as for individual Member States. It will also consider the role that the value of a claim plays in a tax administration's decision making.

To obtain a better insight into the key drivers for a positive decision on a VAT reimbursement claims, claims rejected must be included in the analysis. In order to do so, further discussion will revolve around identifying common reasons and justifications given by tax administrations across the EU for why VAT reimbursements claims have been rejected. As for VAT refunds, this information will be used to offer explanations as to why some Member States have exceptionally high rejection rates compared to their peers.

The final part of this section examines the impact a rejected reimbursement claim has on businesses. This section will also assess the possibility of an imposed carried forward in individual Member States and discuss the effects such legal provisions have on businesses.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

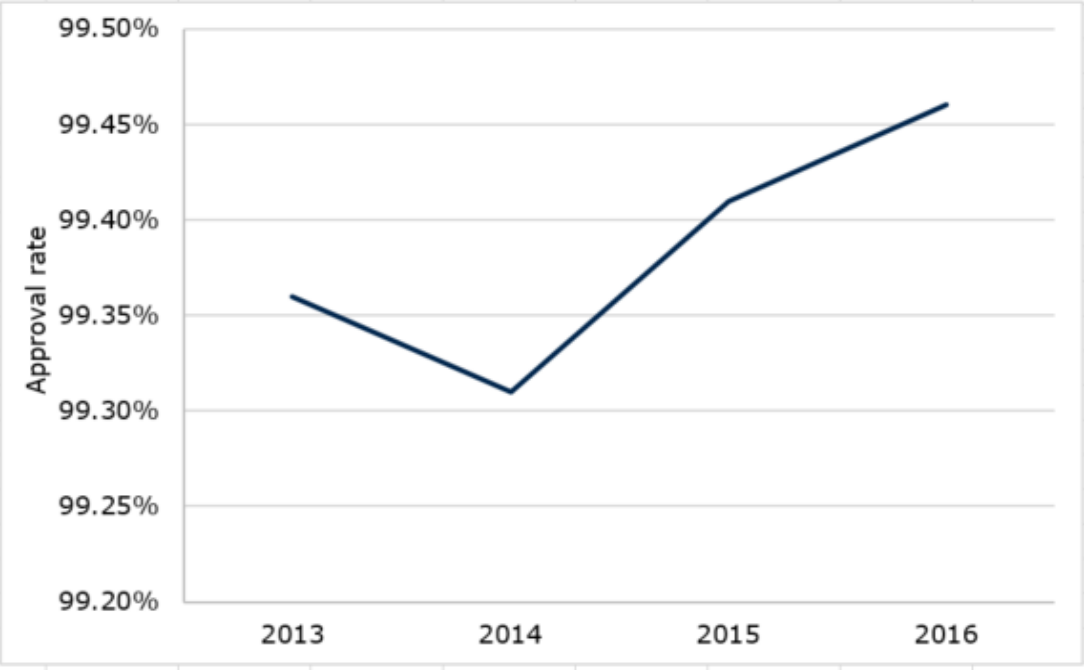
- EU-17: Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

- EU-11: Estonia, Greece, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.
- EU-10: Estonia, Greece, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and Spain.
- EU-8: Greece, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.

Number of reimbursement claims approved and rejected

Consistent data was collected for the periods 2013-2016 from tax administrations in eight Member States. Based on the responses from the EU-8, a total of 2.5 million claims were approved in 2016, equating to an approval rate of 99.5% in that year. Looking at the period 2013-2016, the absolute number of claims approved has increased consistently by 7.1% from approximately 2.4 million claims in 2013. However, in Figure 90, the development of the approval rate over this period, remained largely consistent, increasing 0.1% from 99.4% in 2013 to 99.5% in 2016.

Figure 90: Development of approved rate across EU-8 Member States over the period 2013-2016

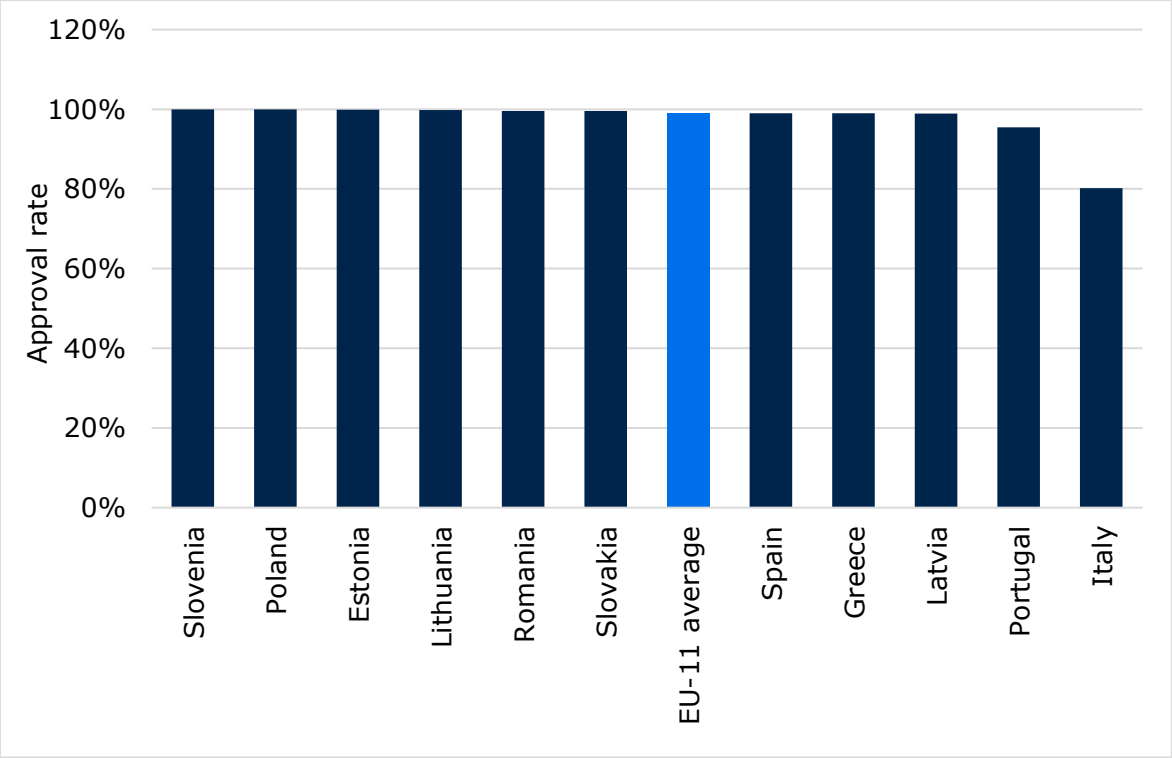


Source: Tax administration data, PwC analysis

For the year 2016, data on the number and value of approved claims was collected from eleven Member States. As illustrated in Figure 91, six Member States had an approval rate above the EU-11 approval rate of 99% in 2016.

Slovenia, Poland, Estonia, Lithuania, Romania and Slovakia approved the highest number of claims received, with an approval rate of 100% each. On the other hand, the Member State with the lowest approval rate was Italy with 80%, followed by Portugal with 96%.

Figure 91: Approval rate across EU-11 in 2016



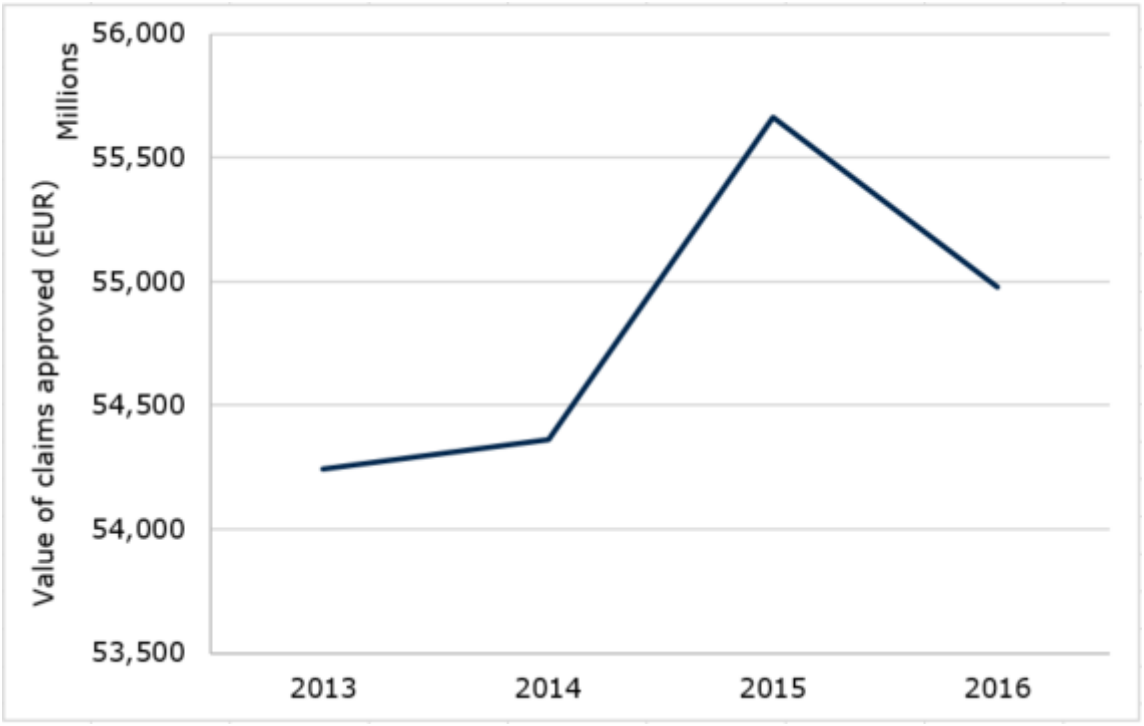
Source: Tax administration data, PwC analysis

Value of reimbursement claims approved and rejected

In 2016, tax administrations in the EU-8 approved claims with a value of EUR 55 billion, which equated to 98.5% of the total value of all claims processed in the year. Looking at the development of the total value of claims approved over the period 2013-2016 as illustrated in

Figure **92** the total value claims approved increased by 1.4% from EUR 54.2 billion in 2013.

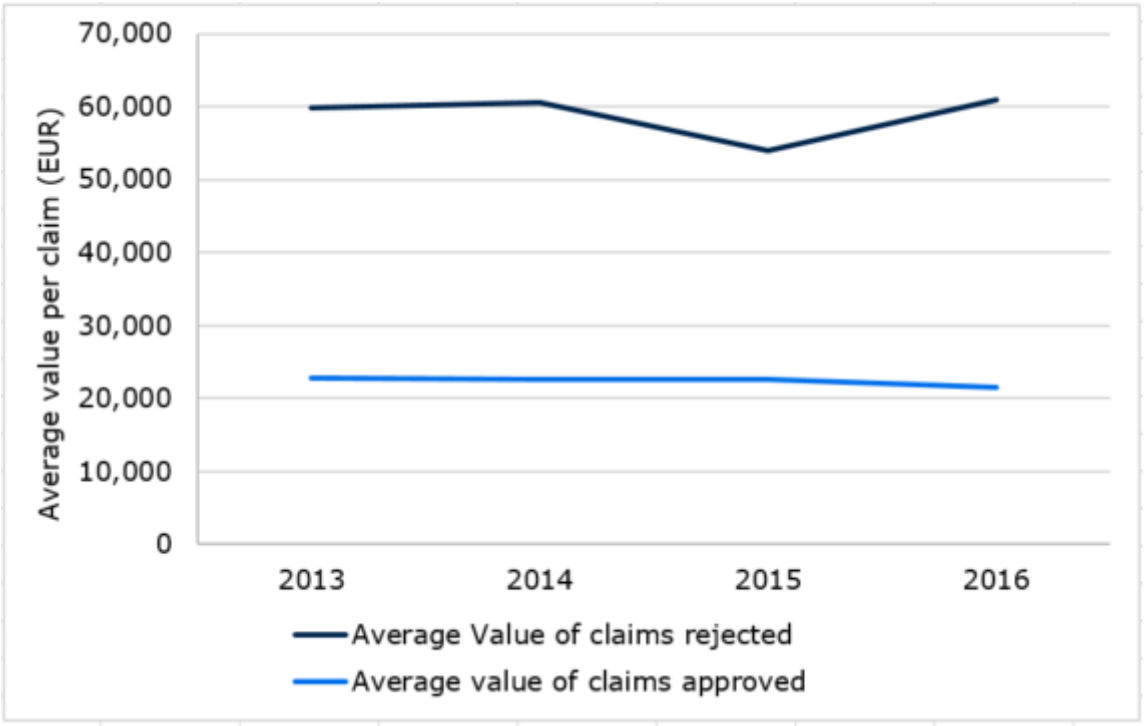
Figure 92: Total value of claims approved across EU-8 Member States over the period 2013-2016



Source: Tax administration data, PwC analysis

Contrary to a growth in the total value of approved claims, the average value per approved claim across the EU-8 Member States, for which consistent data was received, decreased slightly over the period 2013-2016. As outlined in Figure 96: Comparison of the average value of approved and rejected claims in the EU-8, in 2016, the average value of an approved claim in the EU-8 was EUR 21,600, which was 5.4% lower than in 2013. Compared to this, the average value of a rejected claim fluctuated more significantly over the period 2013-2016. Figure 96: Comparison of the average value of approved and rejected claims in the EU-8 illustrates that the average value for a rejected claim increased by 1.8% from 2013 to a maximum of EUR 61,000 in 2016. However, before reaching this high, the average value of a rejected claim dropped to approximately EUR 54,000 in 2015.

Figure 96: Comparison of the average value of approved and rejected claims in the EU-8



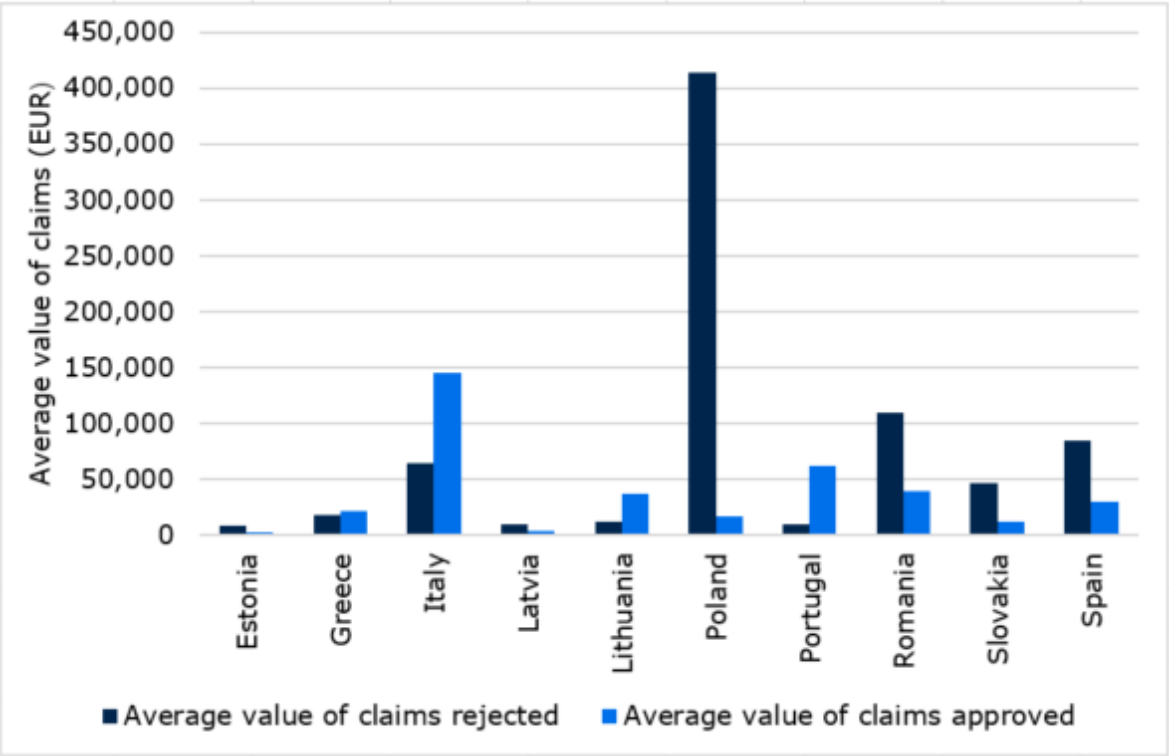
Source: Tax administration, PwC analysis

For the year 2016, data from ten Member States on the average value of claims approved and claims rejected was collected. As illustrated in

Figure **93**, Italy and Portugal approved claims of the highest average value across the EU-10, with EUR 145,600 and EUR 61,200 respectively. On the other hand, the Member States with the lowest average value per claim approved were Estonia and Latvia, with EUR 2,900 and EUR 3,200 respectively.

Compared to this, Poland had the highest average value for a rejected claim across the EU-10, with EUR 414,000, followed by Romania with EUR 109,000. This confirms a trend of a higher average value per claim rejected compared to the average value of a claim approved.

Figure 93: Average value of approved claims and rejected claims across EU-10 in 2016



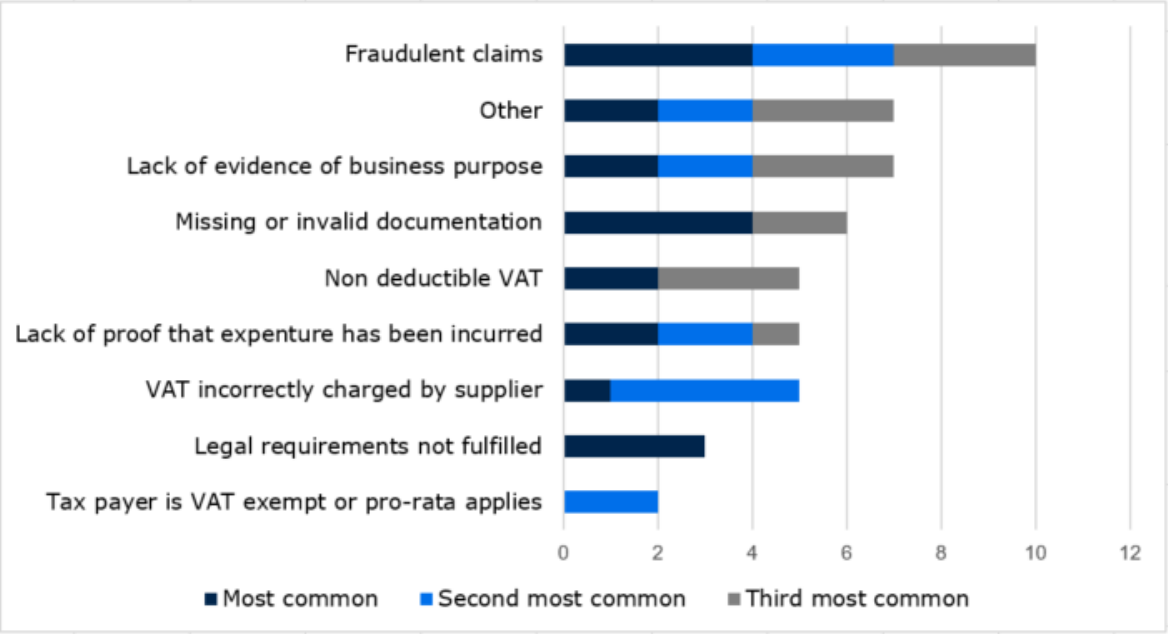
Source: Tax administration data, PwC analysis

Reasons for claims being rejected

Data on the most common justifications for why claim are rejected was collected from 17 Member States across the EU. As shown in Figure 94, the most common reason for a claim being rejected was that taxpayers either submitted claims that were deemed to be fraudulent or failed to submit sufficient and valid documentation, with 20% of tax administrations citing these reasons. In 15% of cases, claims were rejected due to the claim not fulfilling the legal requirements outlined in provisions of domestic legislation or administrative practice implementing Article 183 of Directive 2006/112/EC and relevant principles of CJEU case law.

Moreover, 27% of tax administrations stated that the second most common reason for claims being rejected was that VAT was charged incorrectly by the supplier. Finally, a lack of evidence of business purpose for the underlying expenditure, as well as VAT not being deductible, were also commonly used justifications as to why a VAT reimbursement claim was rejected.

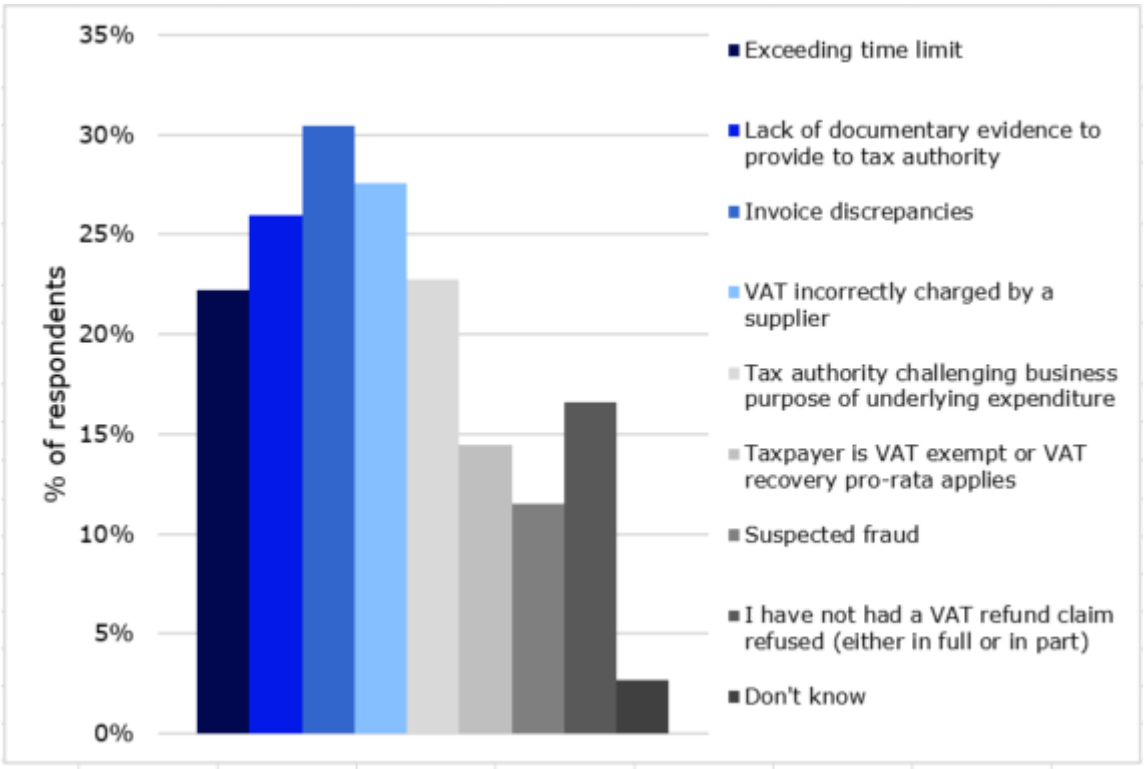
Figure 94: Common justifications given by tax administrations to reject reimbursement claims across EU-17 Member States



Source: Tax administration data, PwC analysis

The results of the business survey suggest that there was no single overriding reason for VAT reimbursement claims being rejected. Invoice discrepancies (31% of businesses surveyed), VAT incorrectly charged by a supplier (28%), lack of documentary evidence to provide to tax administrator (26%), and a tax administration challenging the business purpose of the underlying expenditure (23%) were all listed among the most common reasons for rejection. This is in line with perceptions of tax administrations, who also noted insufficient documentary evidence, VAT being incorrectly charged by a supplier and a lack of business purpose of the expenditure as the most common reasons for a claim being rejected.

Figure 95: Reasons for VAT reimbursement claims being refused according to businesses



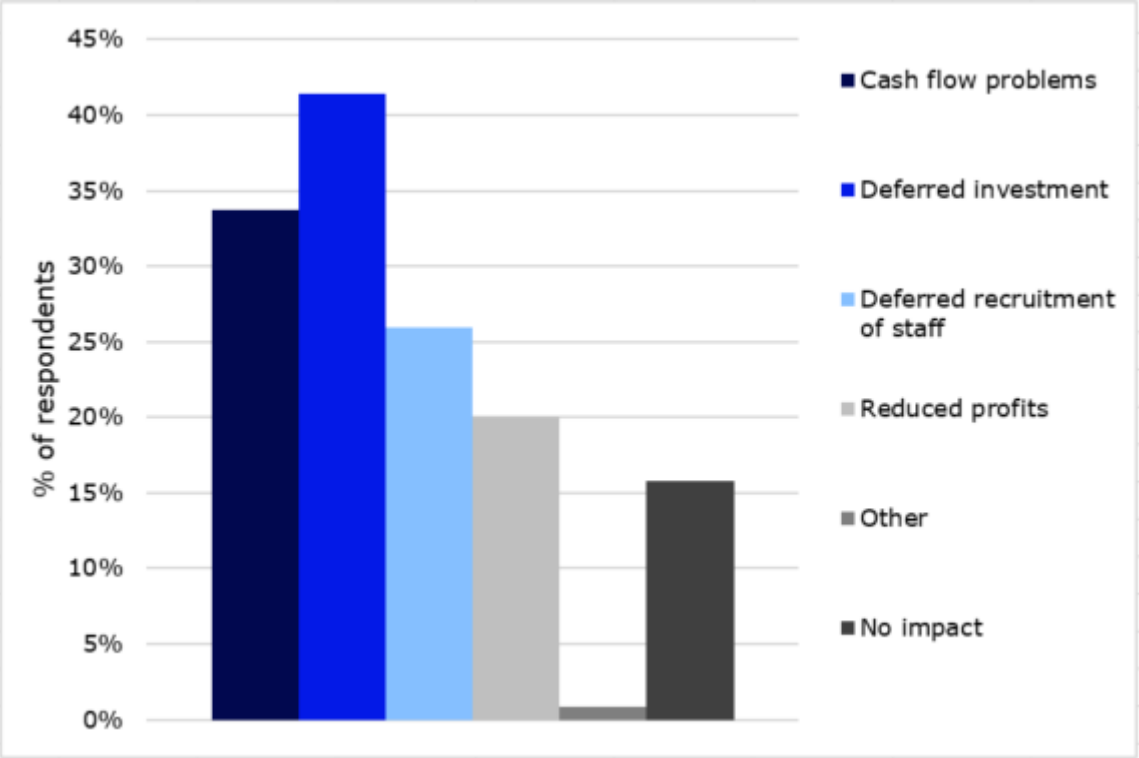
Source: PwC analysis

How can a rejected VAT reimbursement claim affect a business?

Data collected in the business survey suggests that deferred investment is the most common impact a rejected VAT reimbursement claim has on a businesses. 39% of the businesses surveyed listed this as an impact they experienced in the last three years, followed by cash flow problems (33%) and deferred recruitment of staff (25%). Only 15% of the businesses surveyed claimed that a rejected claim did not impact them in the last three years.

At a Member State level, businesses in Cyprus and Sweden seem particularly concerned with cash flow problems resulting from a rejected claim, with 100% and 54% of businesses respectively citing this as a way in which a rejected claim has affect their business. Businesses in Germany and Romania, on the other hand, were more likely to be concerned with deferred investment, with 50% and 55% respectively listing this as a way in which they were affected by a rejected claim.

Figure 96: Impact on businesses of VAT reimbursement claims being rejected



Source: PwC analysis

Summary

From 2013-2016, the approval rate has remained largely consistent and the number of claims over the period has increased by just 0.1 percentage point to 99.5%. Six Member States had an approval rate above this average, with Slovenia, Poland and Estonia having had the highest approval rates of 100% respectively in 2016. The total value of approved claims increased over the period by 1.4% to EUR 55 billion. The highest total value in this period was in 2015 at EUR 55.6 billion.

The average value of an approved claim has decreased by 5.4% over the same period, reaching EUR 21,600 in 2016. However, compared to this, the average value of a rejected claim was at EUR 61,000, much higher in 2016 and has increased over the period 2013-2016 by 1.8%.

Overall, the most common reasons cited by tax administrations for the rejection of VAT reimbursement claims were suspected fraud, missing or invalid documentation including taxpayers' failure to respond to additional information requests from tax administrations, and claims not meeting the legal requirements of local VAT systems.

Moreover, respondents to the business survey stated that deferred investment and cash flow problems were the primary impact that a rejected reimbursement claim previously had on their business.

5.2.7 Prevalence of delays and impacts on businesses

Key finding: Eight Member States provided data on the number of claims paid outside deadline for the period 2013-2016. Over the period, the proportion of VAT reimbursement claims paid outside deadlines trended upwards. This can be attributed to growth in the absolute number of claims received and a drop in processing efficiency.

In 2016, approximately 4.6% of claims received, equating to 10% of the value of VAT reimbursement claims received, were paid outside deadlines in these Member States. This indicates that higher-value claims are more likely to be delayed. In the "claims queried" section it was observed that higher value claims are more likely to be queried. Thus, there appears to be a correlation between claims being queried and then subsequently delayed.

Nine Member States provided data on the number of claims paid outside deadlines in 2016. Of these, only Greece, Romania and Italy, appear to have a high rate of claims paid outside deadlines, ranging from 54% in Greece to 27% in Italy. Poor performance in these three Member States also appears to skew the EU average (4.6%). In all of the remaining six Member States less than 3% of claims processed were paid outside deadlines.

The results of the business survey show that 40% of businesses deferred investment in the past as a result of a delayed reimbursement claim, and a third faced cash flow problems. Deferred recruitment of staff and reduced profits have not affected 75% of the businesses surveyed. The survey also found that a third of businesses across the country sample, and as many as 57% in Romania, never or rarely receive interest for reimbursement claims paid outside statutory deadlines. Only Sweden recorded a significantly lower number of businesses claiming they never or rarely received interest on delayed claims.

This section of the report attempts to understand the prevalence of delays in the processing of VAT reimbursement claims, how perceptions of delays differ between taxpayers and tax administrations and how a delayed reimbursement may impact a business.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

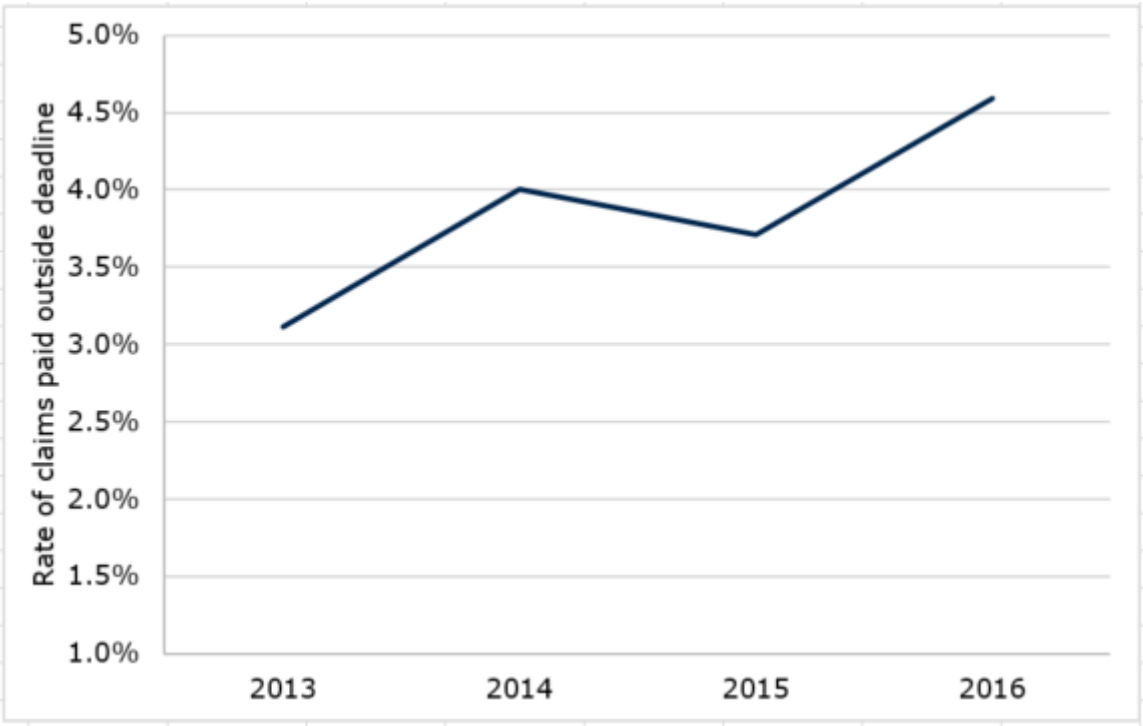
- EU-9: Estonia, Greece, Italy, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.
- EU-8: Greece, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.
- EU-5: Italy, Poland, Portugal, Slovenia and Spain.

How prevalent are delays?

To put the impact of delays of reimbursement claims on VAT registered businesses into context, it is important to first understand how prevalent delays are, both by volume and by value.

Data on the number of VAT reimbursement claims paid outside statutory deadlines across the period 2013-2016 was collected from eight tax administrations. As Figure 97 shows, approximately 4.6% of all the VAT reimbursement claims received by those tax administrations in 2016 were paid outside statutory deadlines. Over the period 2013-2016, the proportion of VAT reimbursement claims paid outside deadlines has trended upwards, despite falling to 3.7% of all claims received in 2015.

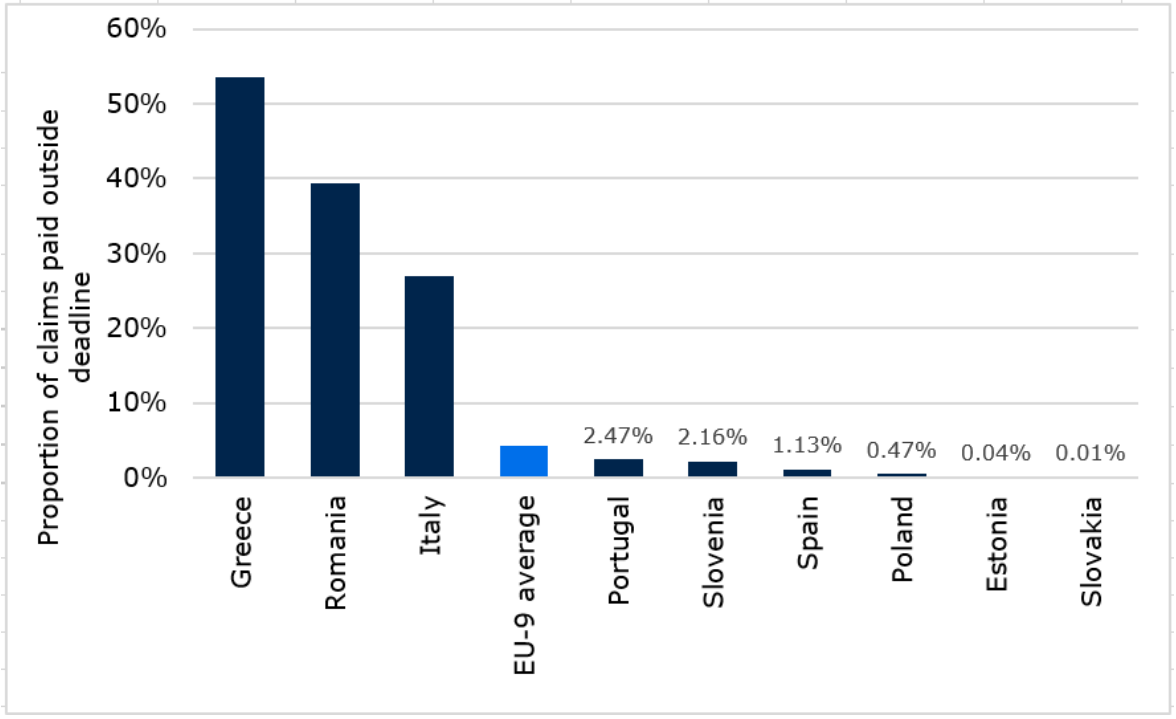
Figure 97: Prevalence of VAT reimbursement claims paid outside deadline over the 2013-2016 period



Source: Tax administration data, PwC analysis

Data on the number of claims paid outside deadlines in 2016 was collected from nine tax administrations. Although only a small proportion of VAT reimbursement claims received in 2016 were paid outside deadlines by these administrations, the average is skewed by a small number of Member States with a relatively large number of such claims. As Figure 98 shows, Greece, Romania and Italy paid significantly more VAT reimbursement claims outside the relevant statutory deadlines than the 2016 average for these nine countries.

Figure 98: Proportion of VAT reimbursement claims paid outside deadline per EU-10 Member State in 2016

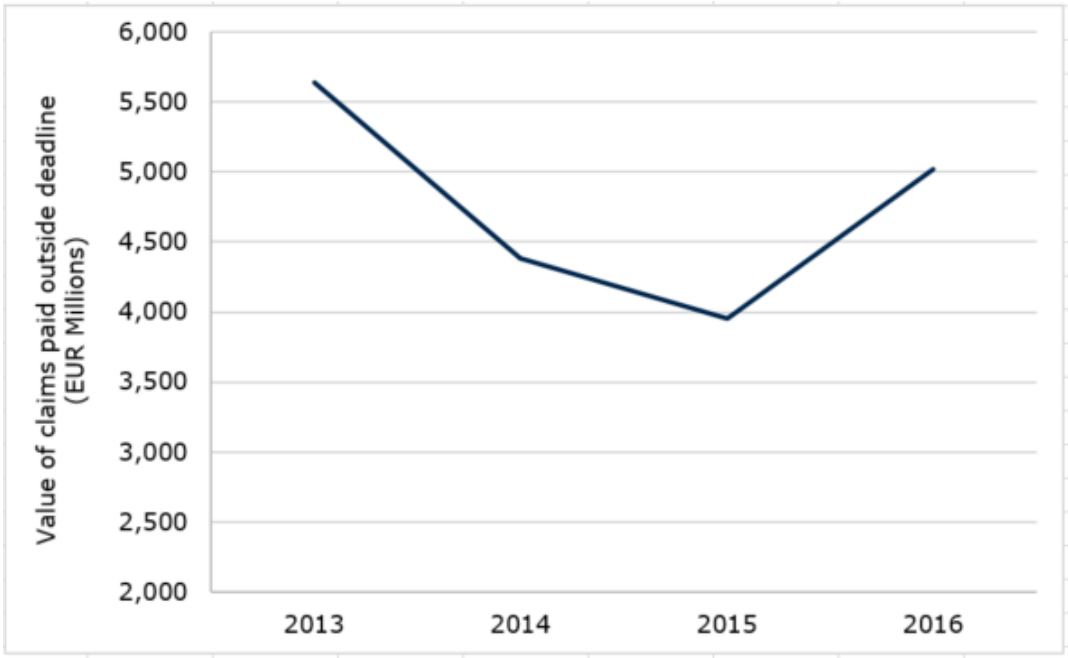


Source: Tax administration data, PwC analysis

In terms of value, approximately EUR 5 billion in VAT reimbursements were paid outside deadlines in 2016 by Greece, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain. This equates to 10% of the value of VAT reimbursement claims received in 2016 in those Member States.

Prior to 2016, the value of VAT reimbursements paid outside deadlines had been declining, having fallen from just over EUR 5.6 billion in 2013 to EUR 3.9 billion in 2015.

Figure 99: Value of VAT reimbursement claims paid outside deadline in the EU-8 over the 2013-2016 period



Source: Tax administration data, PwC analysis

Time to obtain a VAT reimbursement claim: A Paying Taxes perspective

The time to obtain a VAT reimbursement is one of the VAT components of the post-filing index of the Paying Taxes report and is measured in weeks.

Time to obtain a VAT reimbursement (weeks),[29] includes:

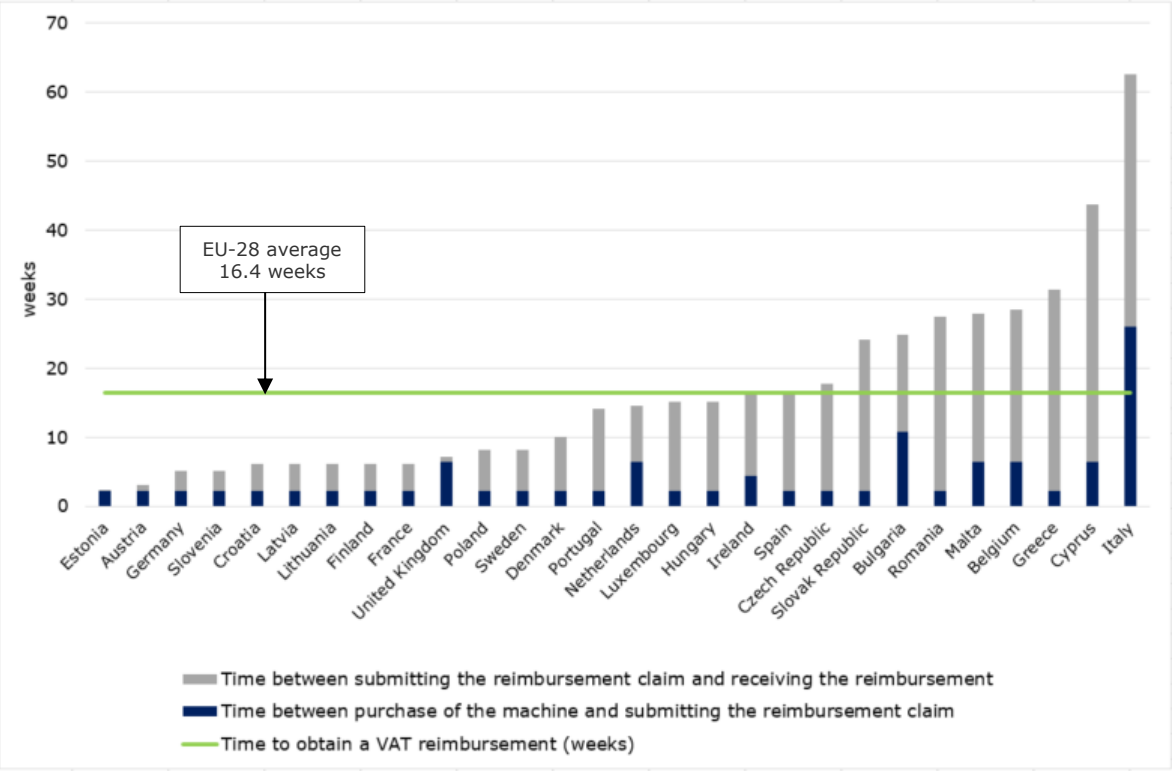
- Time between purchase of the machine and submitting the reimbursement claim.
- Time between submitting the reimbursement claim and receiving the reimbursement.

Figure 100 shows the time the hypothetical case study company takes to obtain a VAT reimbursement for the EU-28 according to Paying Taxes 2019, split into the period

[29] The full explanation of the *Paying Taxes* methodology can be found at the *Doing Business* website: http://www.doingbusiness.org/en/methodology/paying-taxes.

between buying the machine and submitting the claim and the time between submitting the claim and receiving the reimbursement.

Figure 100: Time to obtain a VAT reimbursement claim, breakdown by components



Source: Paying Taxes data - calendar year 2017

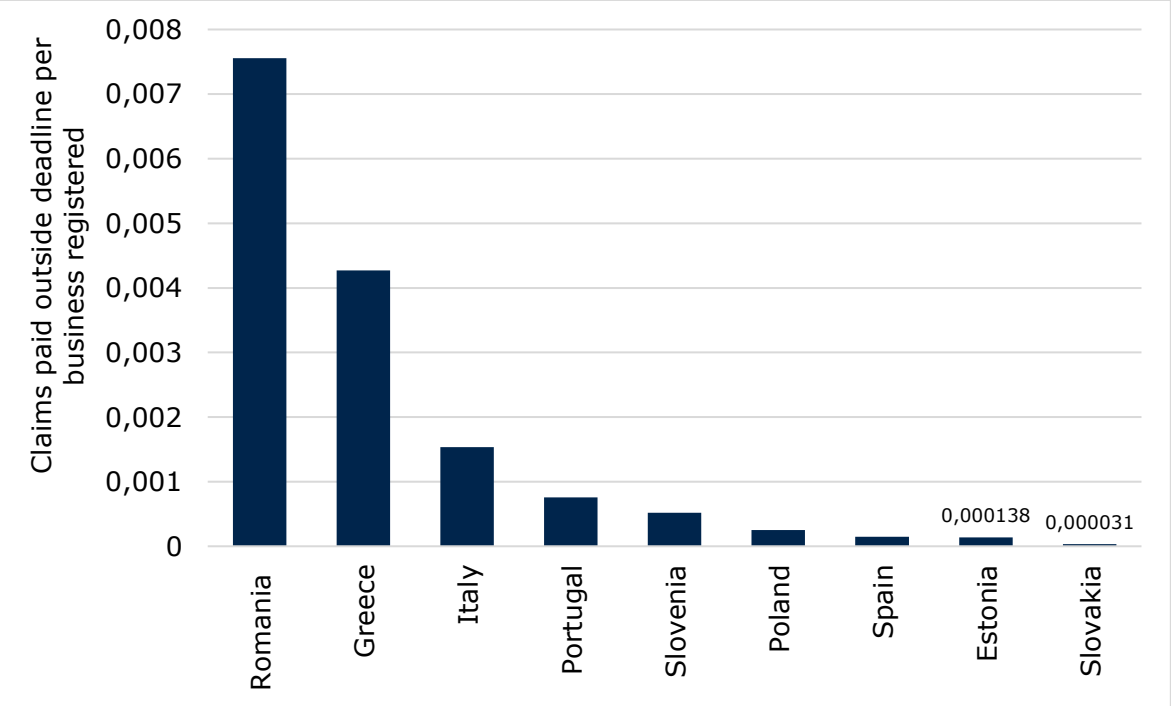
Similar to the findings from the tax administration data, the *Paying Taxes* data also suggests that, in Italy, the time to obtain a reimbursement is the longest among all of the EU-28 Member States due in part to the fact that reimbursements can only be requested once a year. While on average across the EU-28 it takes the case study company 16.4 weeks to obtain a VAT reimbursement, in Italy this takes 62.6 weeks.[30]

[30] Time between purchase of the machine and submitting the reimbursement claim is a standard measure equal to half of the filing period. In Italy, our case study company files VAT annually and this time element is equal to 6 months or 26 weeks. Our case study company takes another 36.6 weeks from the moment of submitting the claim until the reimbursement is received.

Greece and Romania were also highlighted by the tax administration data as have among the longest time to obtain a VAT reimbursement, with 31.5 weeks and 27.5 weeks respectively, compared to the EU-28 average of 16.4 weeks.

Figure 101 views the number of reimbursement claims paid outside deadline against the number of VAT-registered businesses in each of these Member States to understand the prevalence of delays. Of the nine Member States, businesses in Romania are most likely to experience delays. Greece and Italy are amongst other countries where businesses are more likely to experience delays.

Figure 101: Claims paid outside deadline per business registered per EU-9 in 2016



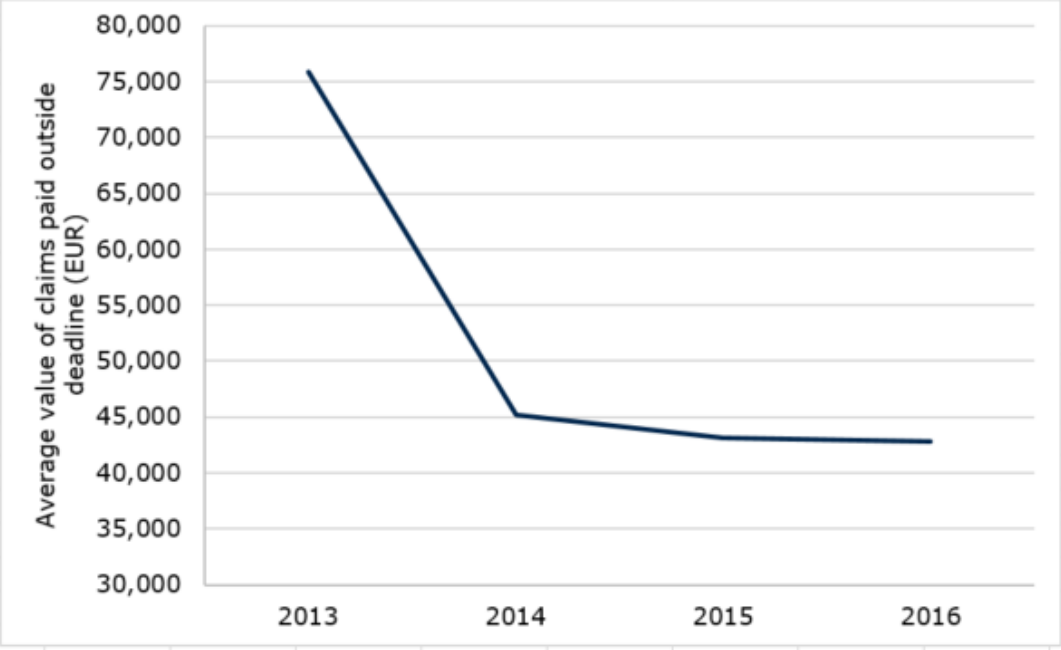
Source: Tax administration data, PwC analysis

What is the average value of a delayed VAT reimbursement claim?

In 2016, the average value of a VAT reimbursement claim paid outside deadlines was approximately EUR 42,700 across the 8 Member States for which data was received (Greece, Lithuania Poland, Portugal, Romania, Slovakia, Slovenia and Spain). The average value of a VAT reimbursement claim paid outside deadlines by these Member States declined sharply from 2013 to 2014, falling from EUR 75,900 in 2013 to EUR

45,200 in 2014. The decline continued between 2014 and 2016, but at a much slower rate.

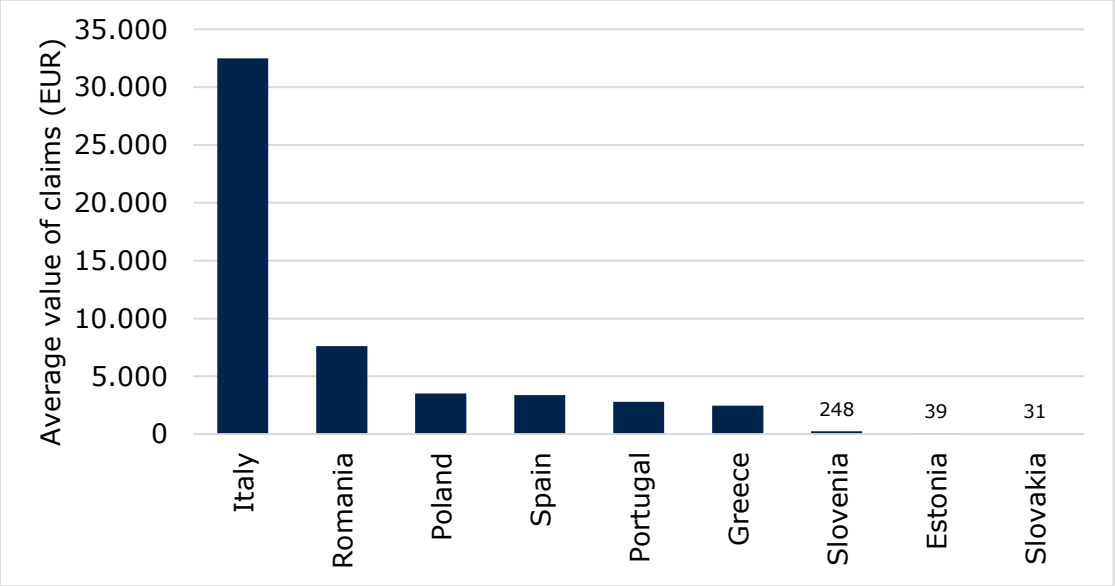
Figure 102: Average value of VAT reimbursement claims paid outside deadline over the 2013-2016 period



Source: Tax administration data, PwC analysis

Nine Member States provided data on the average value of claims paid outside deadlines in 2016. Figure 103 shows the average value of claims paid outside deadlines per business in a reimbursement position in 2016. The values ranged from a low of EUR 31 in Slovakia to an upper value of EUR 32,500 in Italy.

Figure 103: Average value of VAT reimbursement claims paid outside deadlines across EU-9 in 2016



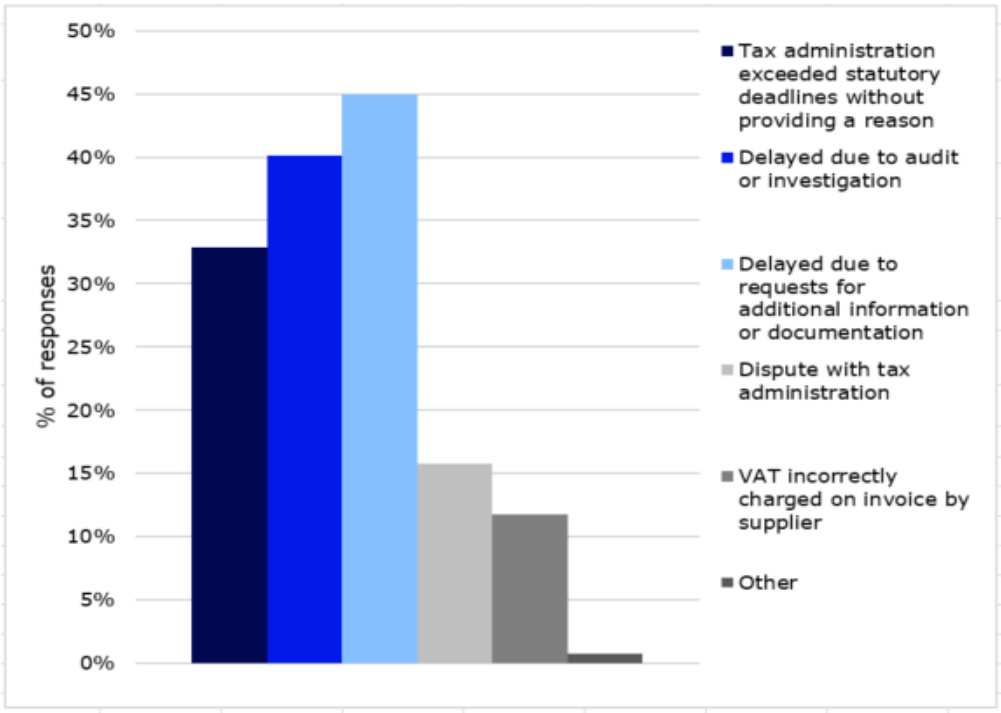
Source: Tax administration data, PwC analysis

What are common justifications for delays?

Delays in the processing of VAT reimbursement claims can occur for a number of reasons, either because of the actions of the tax administration or the taxpayer.

The results of the business survey suggest requests for additional information are the most common justification for delays in processing VAT reimbursement claims, with 45% of businesses surveyed noting this as one of the most common reasons. Another frequent justification for delays was an audit or investigation (40%). However, a third of businesses surveyed claimed that tax administrations frequently exceed statutory deadlines without providing a reason. Not being provided with a reason for delays was particularly common among Swedish businesses, with half of the businesses surveyed claiming this to be among the most frequent outcome. Polish businesses were the least likely of the businesses surveyed to report frequently not being given a reason for delays.

Figure 104: Most common reasons for delayed reimbursement claims according to businesses



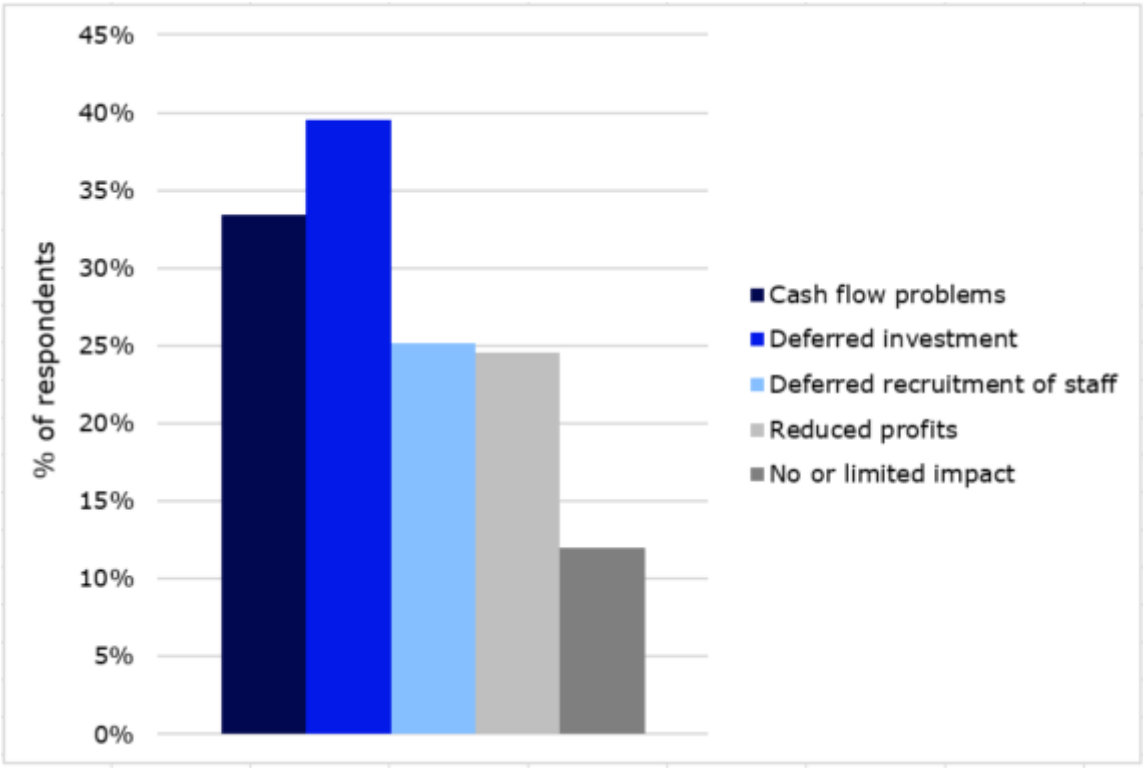
Source: PwC analysis

How can a delayed VAT reimbursement claim affect a business?

Delayed VAT reimbursement claims can create financial impacts for the claimant. Given that the average value of a VAT reimbursement claim paid outside deadlines across nine Member States (Estonia, Greece, Italy, Poland, Portugal, Romania, Slovakia, Slovenia and Spain) was around EUR 42,700 in 2016, it comes as no surprise that a delay can create a financial risk for businesses, particularly for MSMEs.

Indeed, the results of the business survey show that delayed claims impact businesses in multiple ways. 40% of the businesses surveyed claimed that a delayed VAT reimbursement claim resulted in deferred investment, and a third of respondents claimed a delay resulted in cash flow problems. Deferred recruitment of staff and reduced profits were also cited by approximately a quarter of businesses respectively. Only 12% of respondents reported not having experienced any impact. However, this was somewhat higher in Germany and Greece, with 17% and 18% respectively. Deferred investment was a particular issue for German, Polish and Romanian businesses in the sample, while cash flow problems were the main issue for Greek and Swedish businesses.

Figure 105: Impact on businesses of delayed VAT reimbursement claims



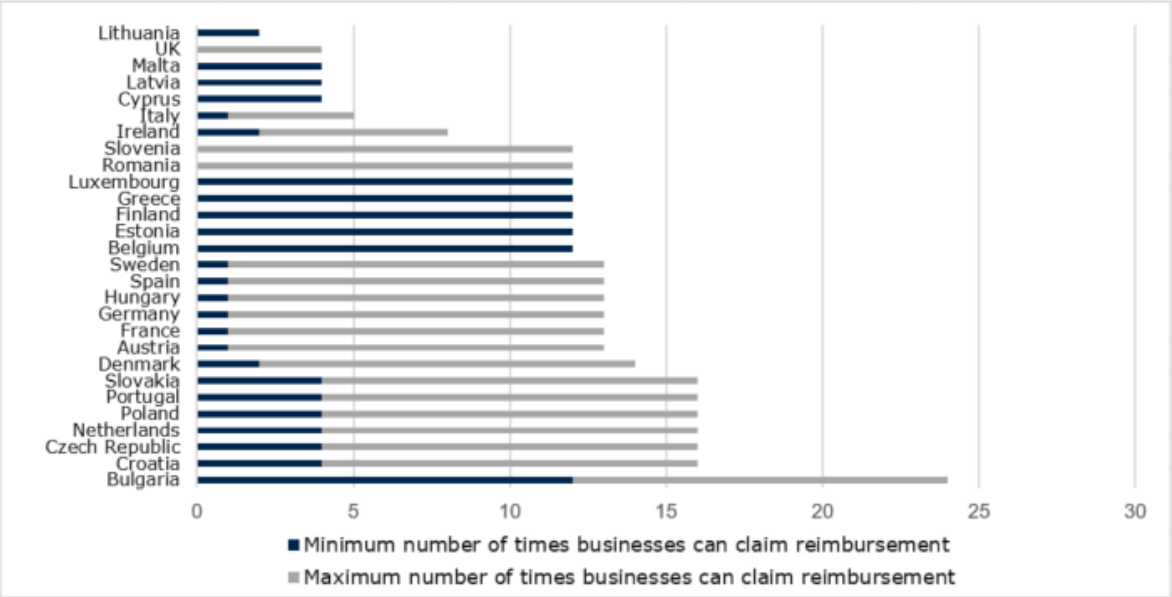
Source: PwC analysis

The precise quantum and timing of the impact will be largely dependent on the timing of the delay and whether the claim is eventually approved or rejected. However, it is also important to recognise that the magnitude of the impact can be driven by the frequency with which VAT registered businesses are permitted to claim a reimbursement.

As

Figure **106** shows, VAT registered businesses are permitted to claim reimbursements with different frequency depending on the legal and administrative frameworks of their Member State of Establishment. These range from monthly claims (e.g. Greece) to annual claims (e.g. Italy).

Figure 106: Filling frequency for making reimbursement claims across the EU-28



Source: Tax administration data, PwC analysis

All else being equal, a less frequent VAT reimbursement claim schedule could compound any cash flow problems generated by delayed claims, especially for those businesses in a regular reimbursement position (e.g. reduced and zero-rated traders).

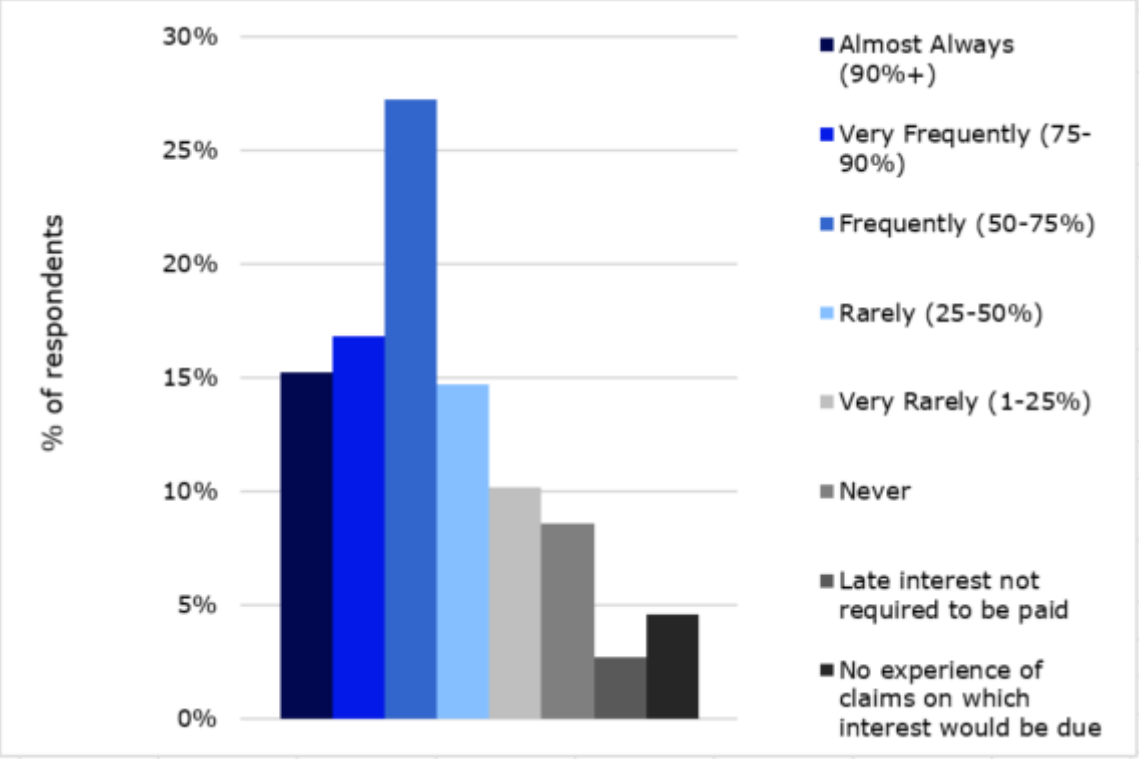
Claiming late payment interest from tax administrations

If a VAT reimbursement claim is approved and paid outside deadlines due to delays caused by the tax administration businesses are entitled to receive late payment interest as compensation for the delay.

Data collected from five tax administrations across the EU shows that businesses received approximately EUR 890 of interest per VAT reimbursement claim paid outside deadlines in 2016. On average, a late interest rate of 3.5% is applied on claims paid outside deadline.

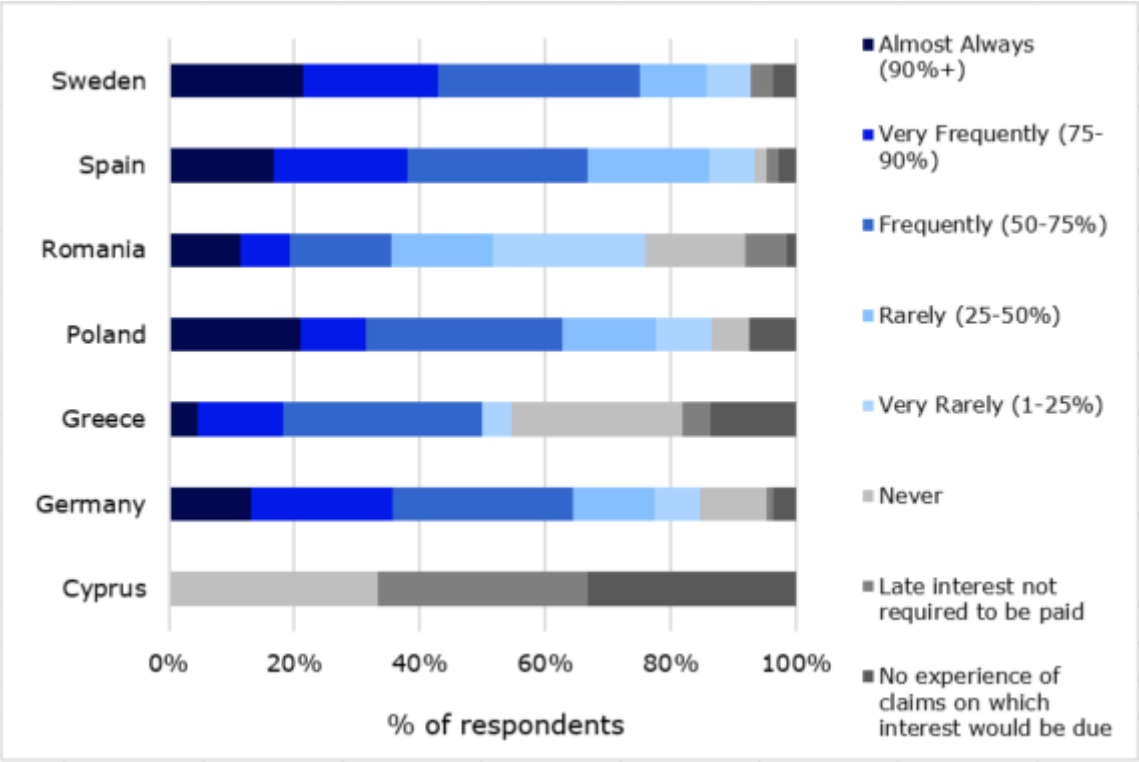
The results of the business survey show that more than one third of the businesses surveyed received interest on fewer than half of the claims for which they were entitled to late payment interest. Only 15% of the respondents noted that they almost always receive interest. This issue seems to be particularly prevalent in Greece and Cyprus, where 27% and 33% of the businesses surveyed claim they never receive interest in respect of delayed claims.

Figure 107: Frequency with which tax administrations pay interest on VAT reimbursement claims that are paid outside statutory deadlines.



Source: PwC analysis

Figure 108: Frequency with which tax administrations in each Member State pay interest on VAT reimbursement claims that are paid outside statutory deadlines.



Source: PwC analysis

Summary

Eight Member States provided data on claims paid outside statutory deadlines across the period 2013-2016. Over the period, the rate of claims paid outside deadlines has trended upwards. This is in line with the drop in processing efficiency that was observed in the previous section. In 2016, approximately 4.6% of claims were paid outside deadlines, the highest in the four-year period. In contrast, over the same period 2013-2016, the value of VAT reimbursement claims paid outside deadline in these eight Member States declined.

According to the Paying Taxes report for a Italy, Greece and Romania have the longest timeframes to obtain a VAT reimbursement, while the average time to obtain a refund is 16.4 weeks across the EU-28.

Data on claims paid outside deadlines in 2016 was provided by nine Member States. Greece, Romania and Italy paid the highest proportion of claims outside deadlines in 2016. This subsequently skewed the EU average. In fact, the remaining six Member States each had less than 3% of claims paid outside deadlines.

The average value of claims paid outside deadlines saw a steep decline between 2013 and 2014. Although the average value continued to fall, the rate of decline in the period 2014 and 2016 was much slower. The average value of a claim paid outside deadlines was EUR 42,800 in 2016.

Delays in VAT reimbursement claims have a substantial financial impact on businesses, particularly on MSMEs. The exact impact such delays have on a business depends on how often VAT registered businesses are allowed to make a reimbursement claim. This ranges from monthly claims to annual claims. The results of the business survey show that many businesses face cash flow problems, deferred investment, and deferred recruitment of staff when a reimbursement claim is delayed.

Finally, when a claim is paid outside deadlines, provisions in domestic legislation provisions may entitle claimants to late payment interest. Data collected from five tax administrations shows that, on average, Member States pay interest of 3.5% on claims that are paid outside deadline. However, one third of businesses surveyed say that they never or rarely receive interest on reimbursement claims that are paid outside deadlines.

5.2.8 Frequency and causes of appeals, disputes and litigation

Key finding: Taxpayers disputed a low number (0.12%) of reimbursement claims received in 2016. This is in line with expectations due to a low rejection rate in the year of 0.5%.

The majority of disputes (94%) occurred at the administrative level. Considering the average value of a disputed claim (EUR 39,600 at the administrative level and EUR 36,200 at the judicial level), the size of claim does not appear to be a decisive factor for the level at which taxpayers appeal a decision.

Overall, disputes are more likely to be decided in favour of the tax administrations, with 71% of disputes at the administrative level and 87% at the judicial level having been decided in favour of the tax administrations. Considering the most common

reasons for a VAT reimbursement claim to be rejected were claims being fraudulent (20%) and missing or invalid documentation (20%), tax administrations appear to be in a strong position to defend their grounds for rejecting a claim.

The business survey found that a dispute lasted less than six months on average for more than 80% of businesses and costed less than EUR 30,000 for more than three-quarters of businesses.

This section of the report discusses the frequency and causes of appeals, disputes and litigation in a VAT reimbursement context. Developing an understanding of both the prevalence and possible drivers of disagreements between the taxpayer and tax administrations helps to highlight potential areas of inefficiency and, consequently, options for improvement.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-4: Bulgaria, Estonia, Latvia and Spain.
- EU-5: Bulgaria, Estonia, Latvia, Poland and Spain.

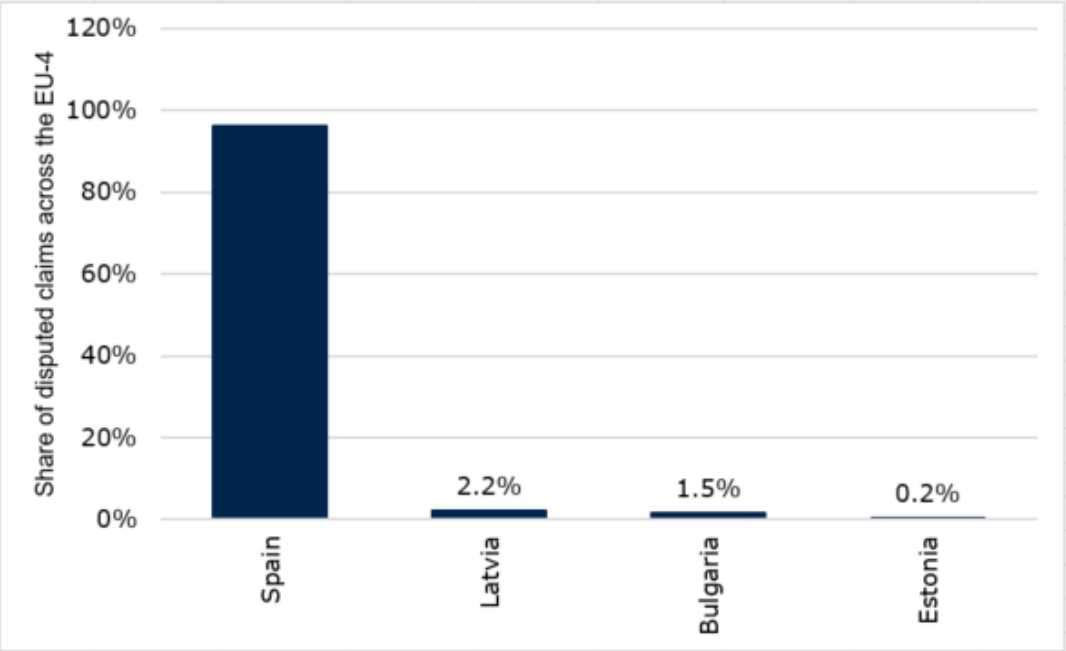
How frequent are appeals, disputes and litigation?

Data on the number and value of appeals, disputes and litigation at administrative and judicial levels was collected from four tax administrations within the EU.
Collectively, these tax administrations dealt with approximately 1,800 disputed claims amounting to a value of EUR 69.5 million in 2016. This equated to an average dispute rate of 0.12% of all VAT reimbursement claims received by those Member States, and amounted to an average value per disputed claim of EUR 39,400.

As outlined in

Figure 109, 96.1% of all reimbursement claims disputed in 2016 were done so in Spain. Latvia, Bulgaria and Estonia had a modest share contributing 2.2%, 1.5% and 0.2% to the overall number of claims disputed.

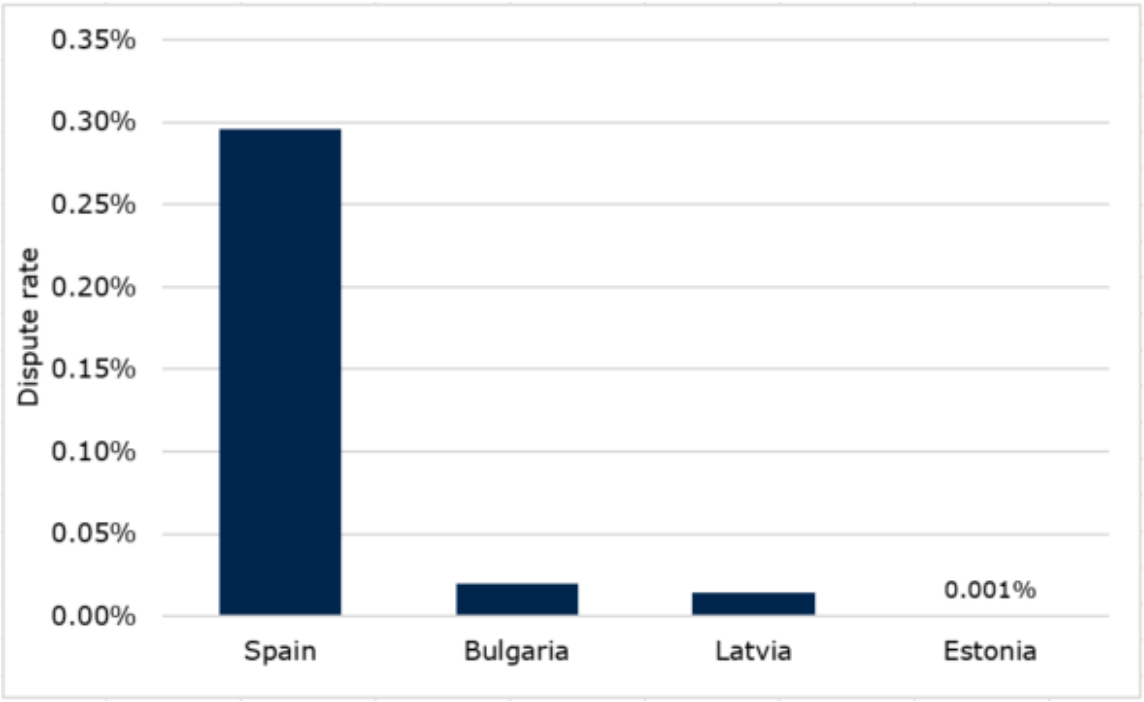
Figure 109: Share of claims disputed in 2016 across EU-4 Member States



Source: Tax administration data, PwC analysis

As suggested by the overall dispute rate for the EU-4 of 0.12%, the number of claims disputed in the Member States compared to the total number of reimbursement claims received was small. Figure 110 shows that taxpayers in Spain were the most frequent disputers of reimbursement claims, with a dispute rate of 0.3% in 2016, whereas taxpayers in Estonia recorded a dispute rate of just 0.001%.

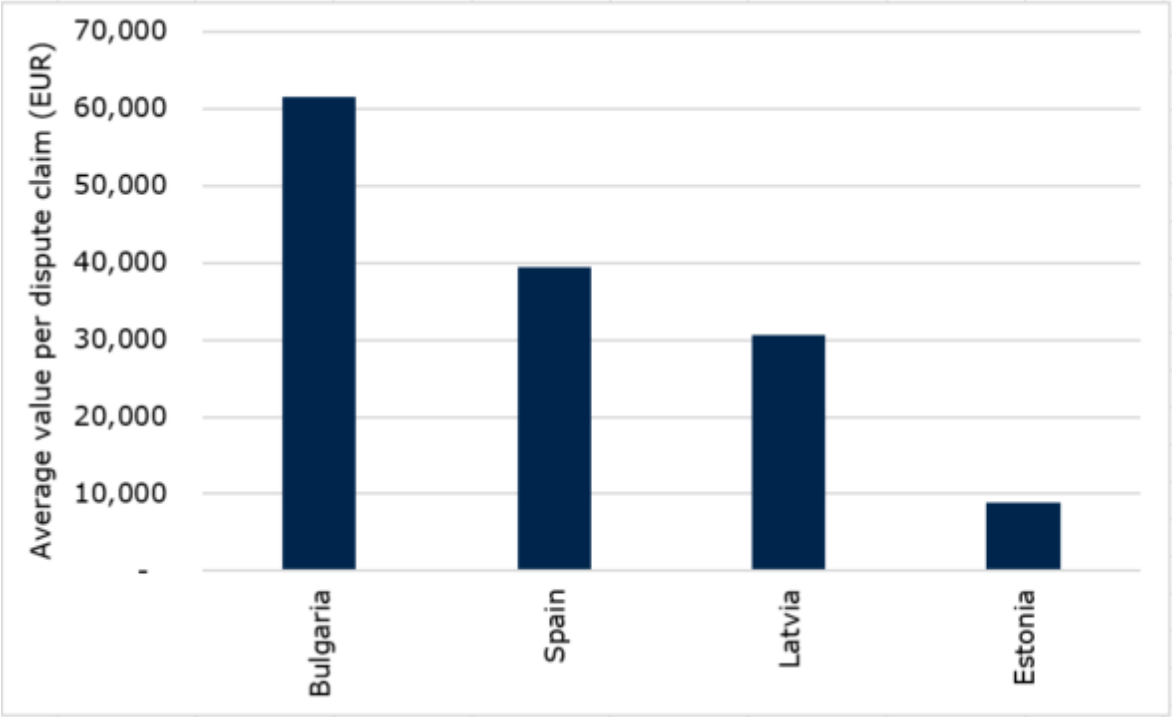
Figure 110: Percentage of claims disputed compared to total reimbursement claims received in 2016 across the EU-4



Source: Tax administration data, PwC analysis

A significant difference between EU-4 Member States can also be seen in the average value per disputed claim in 2016 as outlined in Figure 111. Bulgaria had the highest average value per disputed claim with EUR 61,400, followed by Spain with EUR 39,300. In comparison to that, taxpayers in Estonia not only disputed fewer claims but also claims of lower value.

Figure 111: Average value per disputed claim in 2016 across EU-4 Member States



Source: Tax administration data, PwC analysis

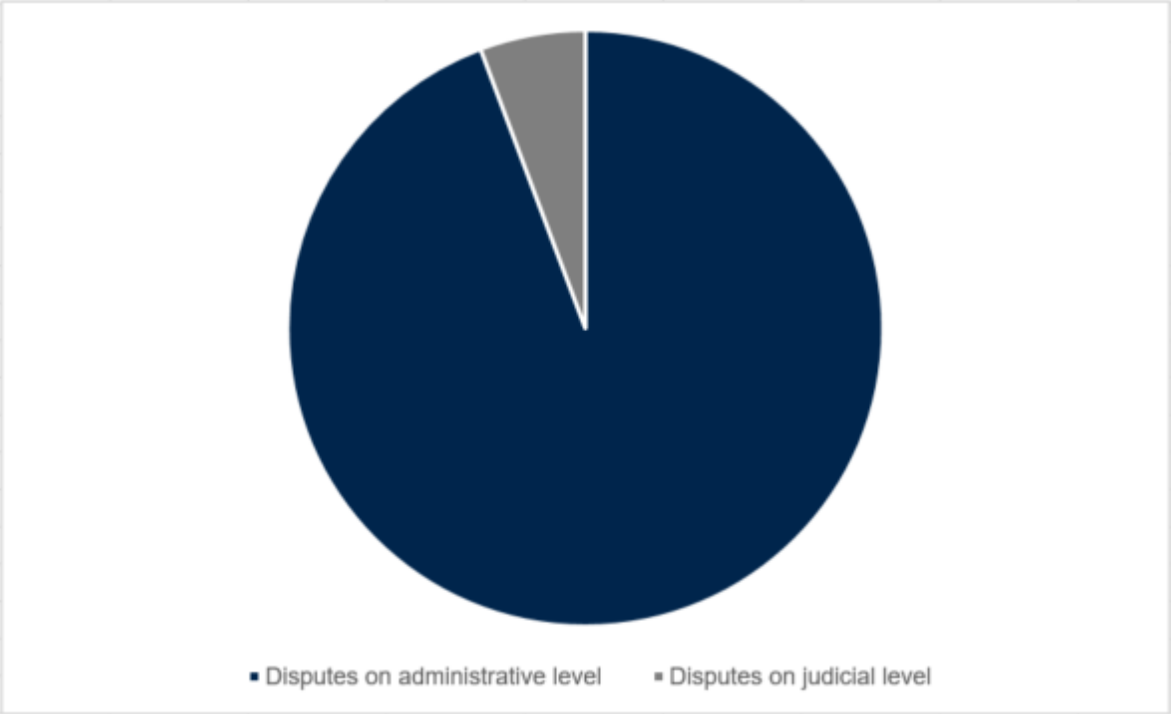
At which level did the appeals, disputes and litigation occur?

Generally speaking, tax administration decisions on VAT reimbursement claim can be appealed at the administrative or judicial level.

As outlined above, for the purposes of this study appeals at an "administrative level" include appeals and disputes which are handled within the tax administration itself, such as appeals to a higher level than the tax official that made the original decision on the VAT reimbursement claim. Appeals at a "judicial level" includes appeals and disputes which are handled by a body outside of the tax administration such as a local or national court.

Figure 112 below illustrates that, with 94.3% of reimbursement claim disputes occurred at the administrative level. Again, the highest number of disputes occurred in Spain with taxpayers disputing 0.28% of all reimbursement claims received in 2016 at the administrative level, whereas only 0.02% were disputed at the judicial level.

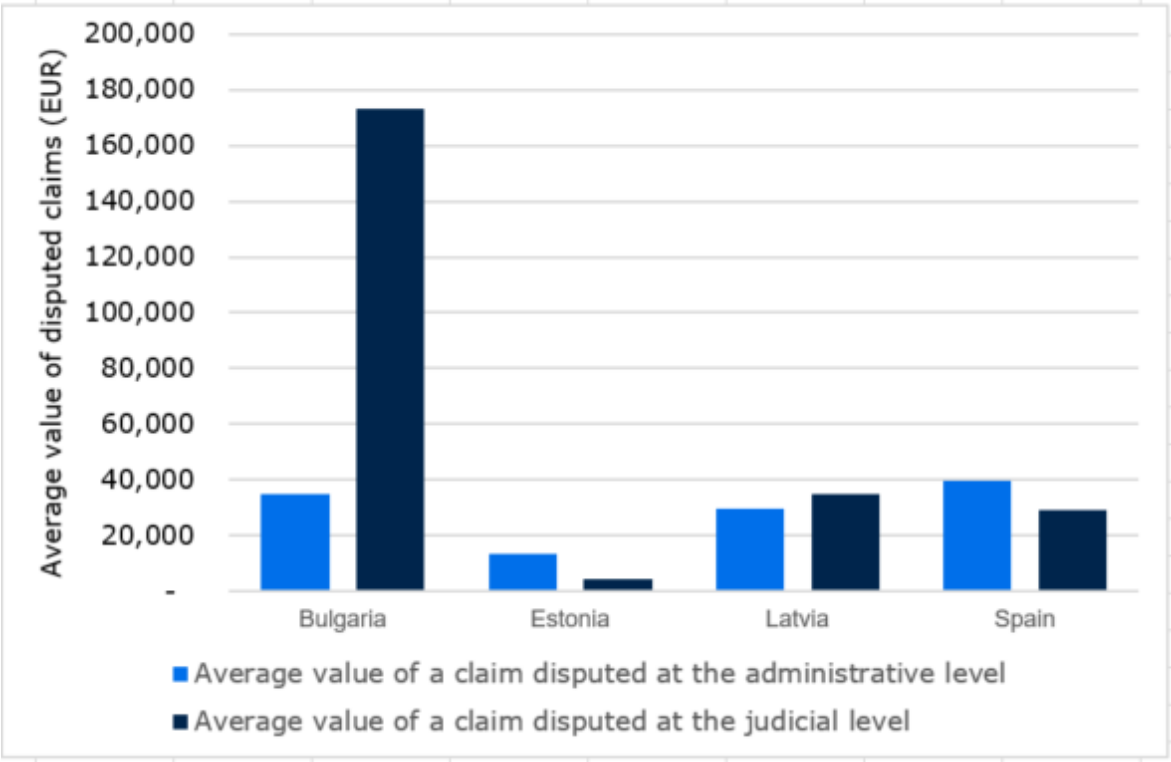
Figure 112: Percentage of disputed reimbursement claims at administrative and judicial level across the EU-4 Member States in 2016



Source: Tax administration data, PwC analysis

As illustrated in Figure 113, in three of the EU-4 Member States, the average value of a disputed claim is fairly consistent regardless of the level at which the dispute occurs. However, in Bulgaria, the average value per disputed claim differs significantly for disputes at judicial and administrative levels. With an average value of EUR 173,000, Bulgarian taxpayers tend to proceed to a judicial level to dispute very high-value claims. Compared to this, a claim disputed at the administrative level in Bulgaria is of an average value of EUR 34,800.

Figure 113: Average value of a reimbursement claim disputed at the administrative level compared to the average value of a claim disputed at the judicial level across the EU-4 in 2016

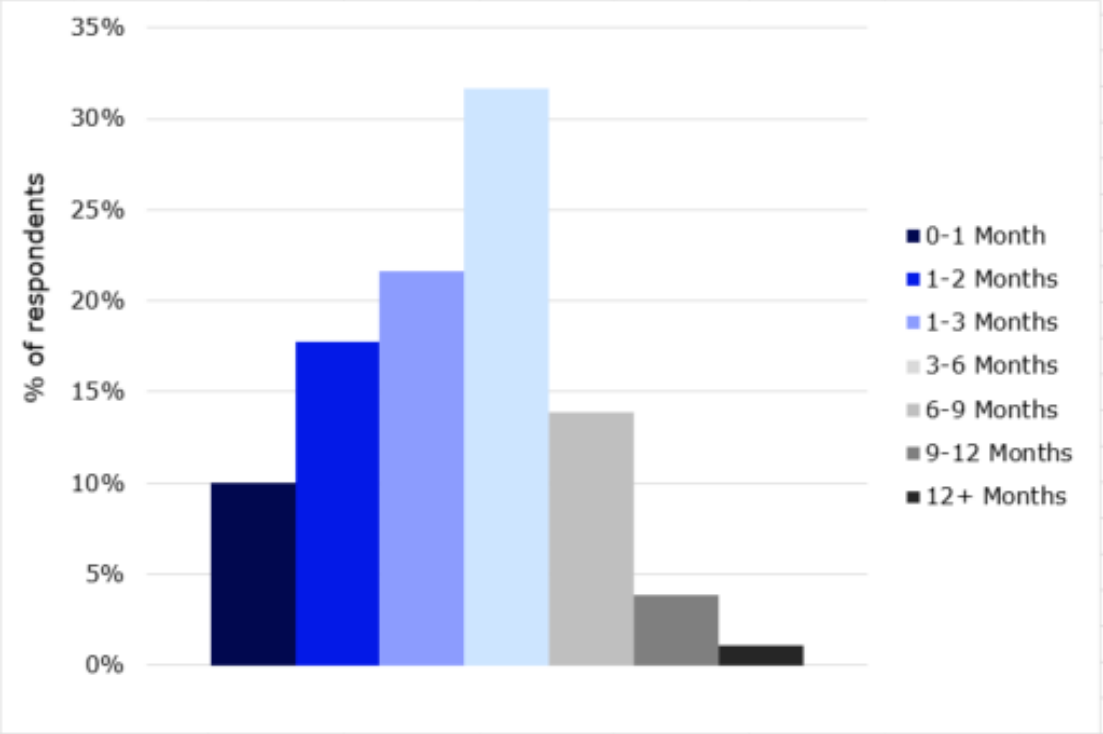


Source: PwC analysis

Average duration and cost of an appeal, dispute or litigation

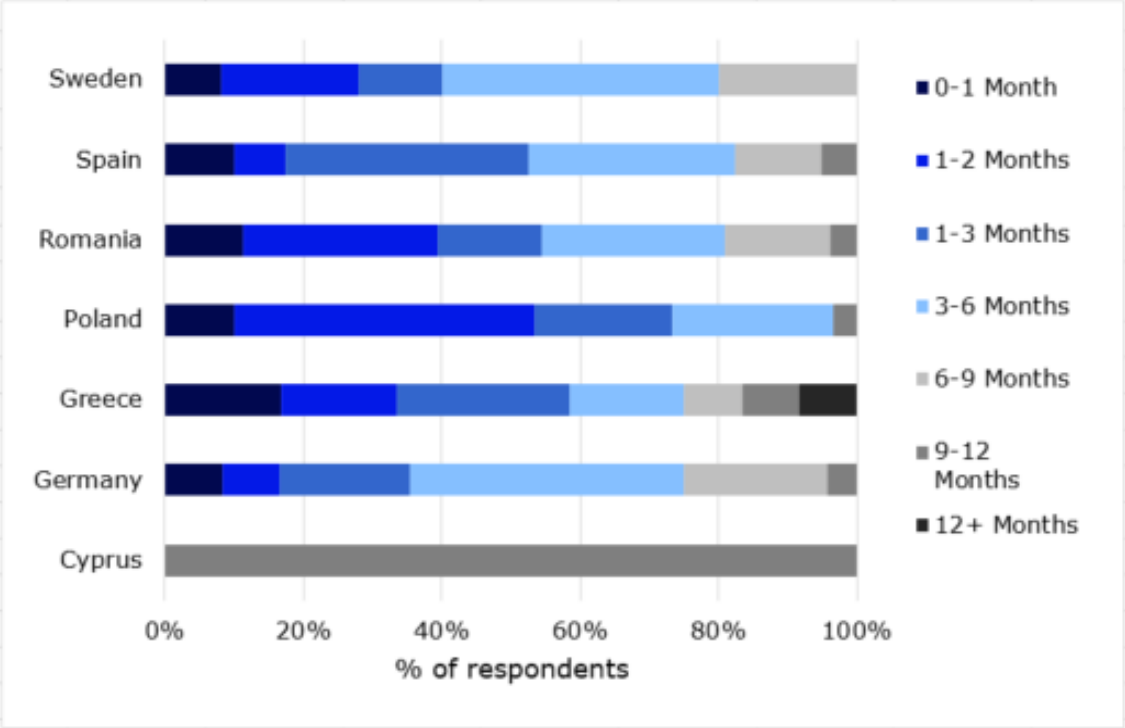
The results of the business survey show that, on average, disputes (at either administrative or judicial levels) last less than nine months for almost all businesses surveyed (95% of respondents), and take less than three months for almost half of the businesses surveyed (49% of respondents). Just 1% of businesses surveyed claim the average duration of a dispute to be in excess of a year. The businesses surveyed in Poland seem to experience shorter dispute durations than businesses in other Member States in the business survey country sample, with 53% of respondents experiencing an average duration of less than two months.

Figure 114: Average duration for a dispute procedure for a VAT reimbursement claim according to businesses



Source: PwC analysis

Figure 115: Average duration for a dispute procedure for a VAT reimbursement claim according to businesses in each Member State

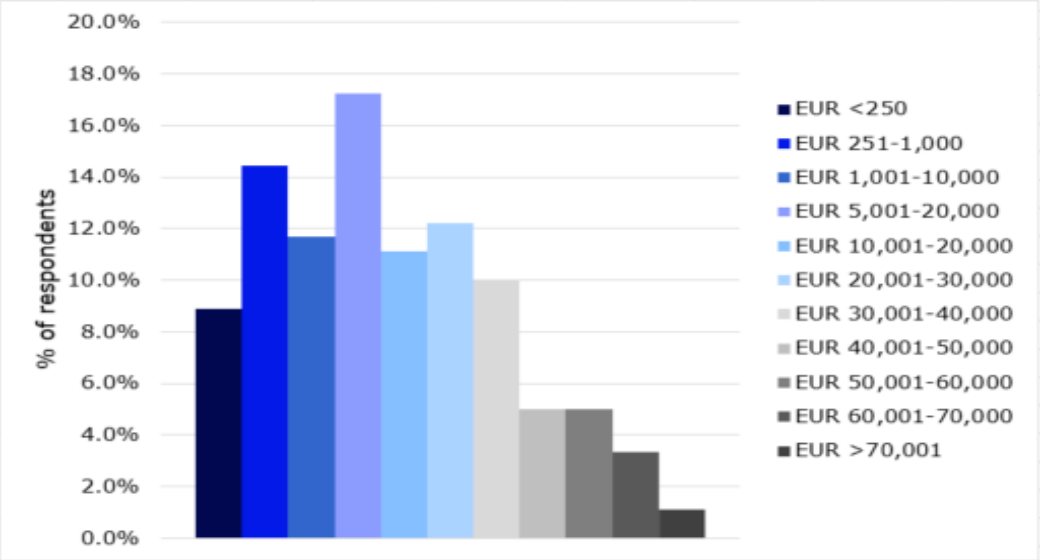


Source: PwC analysis

Approximately, a quarter of businesses surveyed claim that the average cost to dispute a VAT reimbursement claim was less than EUR 1,000, and 52% of respondents claim the average cost to dispute a VAT reimbursement is less than EUR 20,000. The

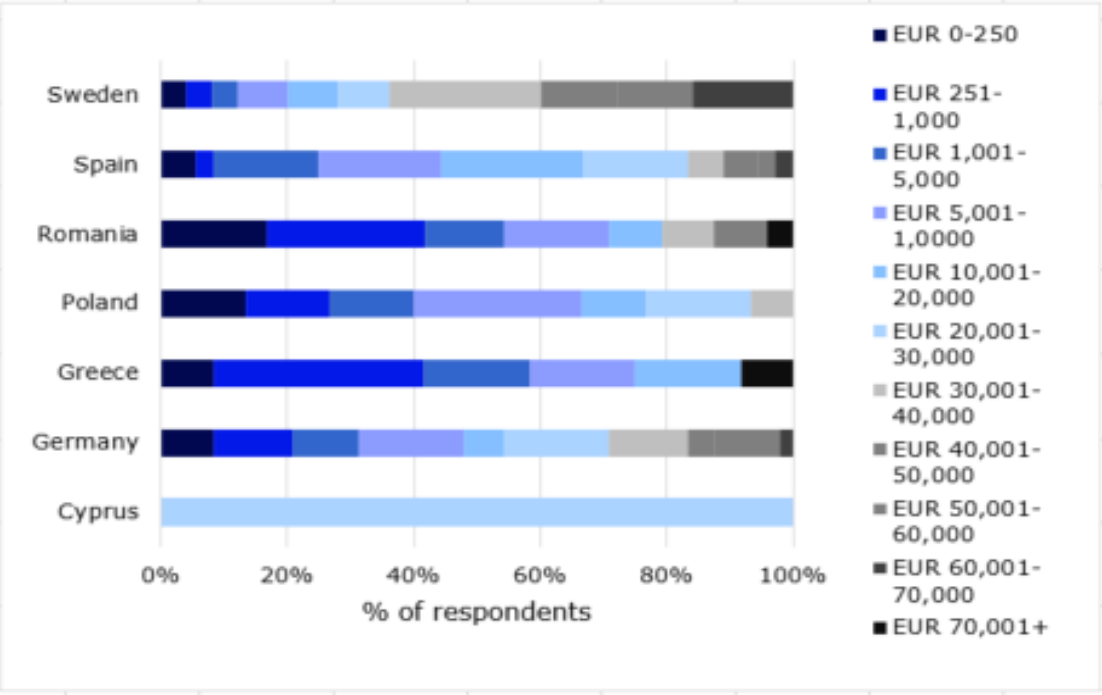
cost of disputing a claim seems was significantly higher in Sweden than in the other Member States surveyed, with almost three-quarters of Swedish businesses surveyed (72% of respondents) claiming the average cost to be in excess of EUR 20,000.

Figure 116: Cost to businesses to dispute a cross-border VAT reimbursement claim



Source: PwC analysis

Figure 117: Cost to businesses to dispute a cross-border VAT reimbursement claim in each Member State



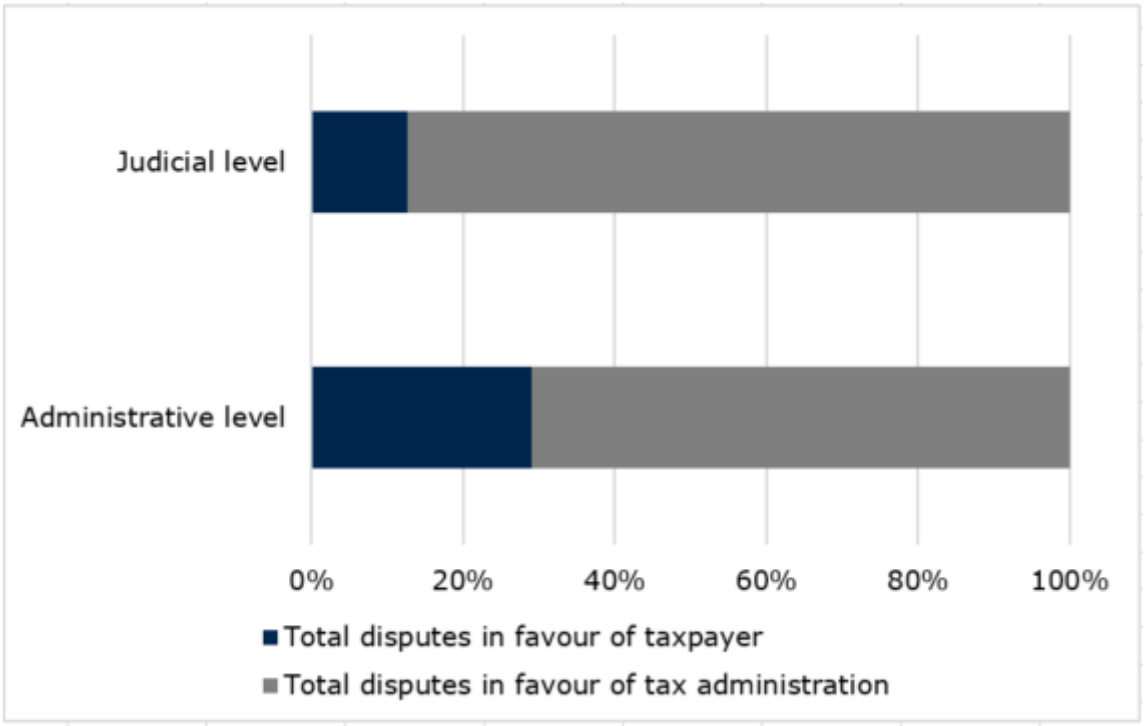
Source: PwC analysis

Decisions awarded in favour of the taxpayer versus the tax administrations

Five tax administration within the EU have provided data on the decisions made on appeals, disputes and litigation in 2016 from five tax administrations within the EU.

Of the VAT reimbursement claims for which a decision was made within the EU-5 Member States, 26.6% were decided in favour of the taxpayer and 73.4% in favour of the tax administrations. This trend can also be witnessed at the different dispute levels, as illustrated in Figure 118. Tax administrations won disputes in 87.4% of judicial level and in 71.1% of administrative level disputes.

Figure 118: Percentage of disputed claims decided in favour of taxpayers compared to % of disputed claims decided in favour of tax administrations at different disputed levels

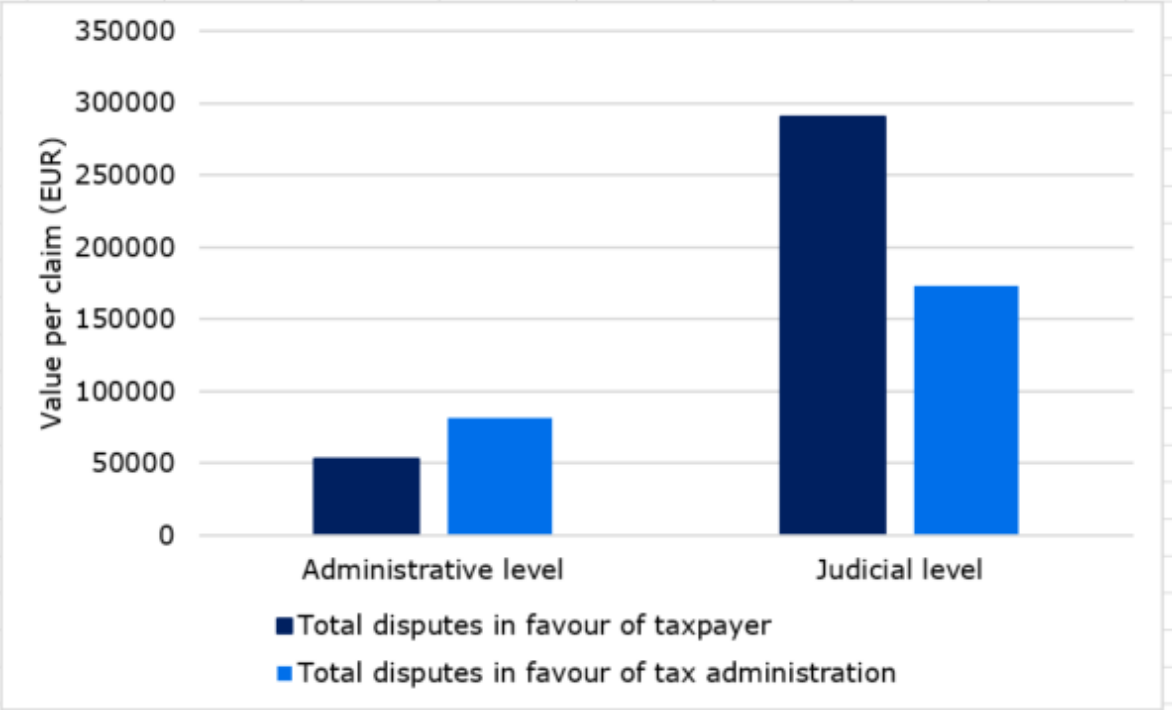


Source: Tax administration data, PwC analysis

Overall, the average value per disputed claim fluctuated significantly depending on whether a claim was found in favour of the taxpayer or tax administrations. Not taking the level at which the claim is disputed into account, the average value of a claim awarded in favour of the taxpayer is EUR 49,600 nearly 50% lower than the average value of a claim awarded in favour of the tax administration.

Looking at average values awarded to each party of a disputed claim at the different levels of disputes as outlined in Figure 119, claims decided in favour of tax administrations at the administrative level are worth, on average EUR 81,100, higher than claims won by taxpayers (EUR 53,500). However, the opposite is true for claims disputed at judicial level. The average value of claims decided in favour of the taxpayer is EUR 290,000, significantly higher than the average value of a disputed claim won by tax administrations (EUR 173,000).

Figure 119: Average value per claim awarded in favour of taxpayers and tax administrations at administrative and judicial level in 2016



Source: Tax administration data, PwC analysis

Summary

The tax administrations from the four Member States analysed in this section, collectively, dealt with approximately 1,800 claims amounting to EUR 69.5 million in 2016. This is an average dispute rate of 0.12% of all VAT reimbursement claims received, and amounts to an average value per disputed claim of EUR 39,400. Spain contributed the largest share, with 96.1% of all disputed reimbursement claims.. This was followed by Latvia, Bulgaria and Estonia, with 2.2%, 1.5% and 0.2% respectively. Bulgaria had the highest average value, with EUR 61,400. This is followed by Spain, with EUR 39,300. In Estonia, the average was of EUR 8,900.

The majority of reimbursement claim disputes (94.3%) occurred at the administrative level. In Spain, 0.28% were disputed at the administrative level, whereas only 0.02% were disputed at the judicial level. Bulgaria had an average value of EUR 173,000 being disputed at the judicial level. At the administrative level, the average was of EUR 34,800.

In the EU-5, 26.6% of the claims were decided in favour of the taxpayer and 73.4% in favour of the tax administrations. Tax administrations won disputes in 87.4% of cases at the judicial level and in 71.1% of cases at the administrative level. The average value of a claim awarded to a taxpayer was EUR 49,600. Claims decided in favour of tax administrations at the administrative level are, on average, EUR 81,100 higher than claims won by taxpayers (EUR 53,500). However, at the judicial level the average value of a case decided in favour of the taxpayer is EUR 290,000 higher than the average value of a disputed claim won by tax administrations (EUR 173,000).

More than 80% of respondents to the business survey stated that the average duration of a dispute was less than six months. Only 1% of the businesses surveyed

noted that the average duration of a dispute was longer than a year. The businesses surveyed also found that the average cost of a dispute was less than EUR 20,000 for more than half of businesses surveyed, and less than EUR 30,000 for more than three-quarters of respondents. Again, only 1% of the businesses surveyed noted that the average cost of a dispute was in excess of EUR 70,000.

5.2.9 Effectiveness of tax administrations communication and support

Key finding: Communication can be effective in improving the VAT reimbursement process if sufficient resources are available and used to their full extent. Support provided by tax administrations aims to answer questions as swiftly as possible in order to help taxpayers to avoid making, or to correct mistakes, before submitting the application.

Member States that take full advantage of online resources have benefited from utilising platforms allowing for instant and rapid communication between businesses and tax administrations. Utilising telephone helplines and visits to the tax administration also enable swift interaction between taxpayers and tax administrations.

Making information on the VAT reimbursement process easily accessible and widely available is critical. Online resources were shown to be the most used and effective source (used by 95.5% of the respondents). Telephone helplines are the second most popular source of support, with 77.3% of the Member States providing such a helpline to assist taxpayers.

The results of the business survey show that 62% of businesses hold a positive view of the accessibility of information relating to the reimbursement processes, and 50% hold a positive view on the user friendliness of tax administration support.

This section assesses the effectiveness of the communication and support provided by tax administrations is. Sufficient levels of communication and support are critical to a smooth VAT reimbursement process as it can help to improve the processing time by ensuring a thorough understanding of the procedures and legal requirements included in the process.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- EU-22: Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.
- EU-21: Austria, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

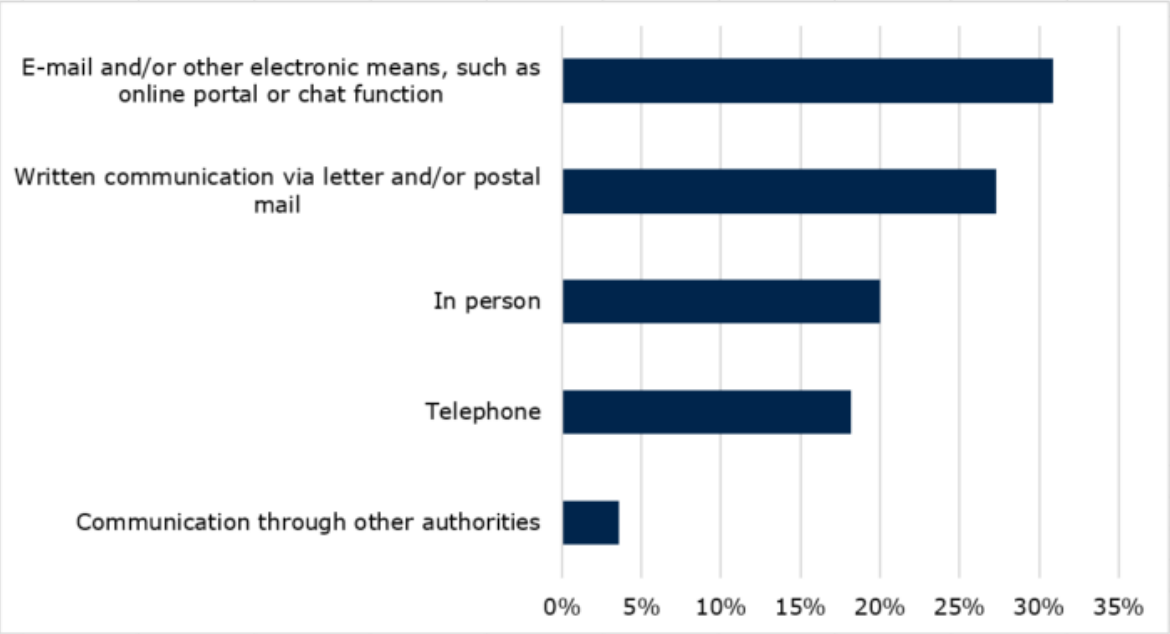
- EU-10: Czech Republic, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, the Netherlands, Portugal and Slovakia.

Communication with taxpayers

Tax administrations are in contact with claimants for the whole of the VAT reimbursement process. Different means are used to communicate with the taxpayer. The three most widely used forms of media, representing 79% of all means of communication, were emails and/or other electronic means, such as online portals or chat function, written communication via letter and in person visits to the tax office.

Communication via telephone is the next most widely used form of contact, with 18% of the respondents using it. Only 3.6% of the communication is through other administrations. This small percentage represents Greece and Germany. The national or central tax administrations of these Member States do not communicate directly with the taxpayer. In Greece, local tax offices are responsible for communicating with taxpayers. While in Germany, the administration of each state has this responsibility.

Figure 120: Most widely used forms of communication across the EU-21 in 2016



Source: Tax administration data, PwC analysis

Engagement with tax administrations:
Contacting the claimant

In interview, tax administrations indicated that a range of methods of communication are used when contacting the claimant. These include email, telephone and post. Generally, tax administrations seek to ensure that the tax officer assigned to the claimant handles all communication in order to promote consistency and continuity for the claimant.

Moreover, one tax administration stated that any changes made to the VAT reimbursement process are communicated to the taxpayers by organised courses and seminars. Depending on the extent of the change, such courses can be either face-to-face or online and are usually targeted at a certain audience (those considered to be affected the most by the changes). Taxpayers are made aware of such courses by either general communications made on the respective tax administration's website, subscriptions to website alerts, or through letters or email communication directly with certain taxpayers.

Effectiveness of communication with taxpayers

The interaction and communication between tax administrations and taxpayers varies in character and efficacy. Ten Member States (the Czech Republic, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, the Netherlands, Portugal and Slovakia) highlighted particular instances where positive contact with taxpayers in connection with VAT reimbursement claims improved the process.

Although these accounts vary in character, they emphasise how flexibility, online resources and swift interaction can benefit both parties. For example, the Danish tax administration highlighted that personal visits from can positively impact communication and interaction. Similarly, in Latvia, the tax administration prioritises constructive and timely communication with the taxpayers, which has favourably impacted the process. Slovakia has adopted a similar approach. The Slovakian tax administration aims to maximise help during the completion of VAT returns and to publicise general information about reimbursement claims. The Netherlands highlighted how practical solutions can be beneficial and minimise delays. If a claim is submitted in the wrong period, but the period is not vastly different from the period it was meant to be submitted for, in the Dutch tax administration allows for flexible solutions.

Likewise, the Estonian tax administration collects information about the reasons for the business to be in a reimbursement position prior to declaration deadlines in order to make the process faster. This allows the tax administration to check in advance that the information provided is correct so that when the deadline is reached the declarations can be dealt with quickly. Taxpayers responded positively to this approach. The Czech Republic, on the other hand, emphasised that constructive interactions rely on cases when mistakes are unintentionally made.

Hungary, Lithuania and Portugal have taken advantage of online resources to facilitate the VAT reimbursement process. In Hungary, there is an online tool available that enables large taxpayers to consult with the appointed tax officer about any specific case or issue. Furthermore, the platform allows taxpayers to book appointments if personal support is needed. The Lithuanian tax administration has a system that enables them to instantly request additional information from the businesses, allowing documents to be collected within minutes of the initial request. Similarly, Portugal alerts taxpayers to instances of noncompliance or errors in their VAT return, allowing them to be corrected and helping to avoid rejections.

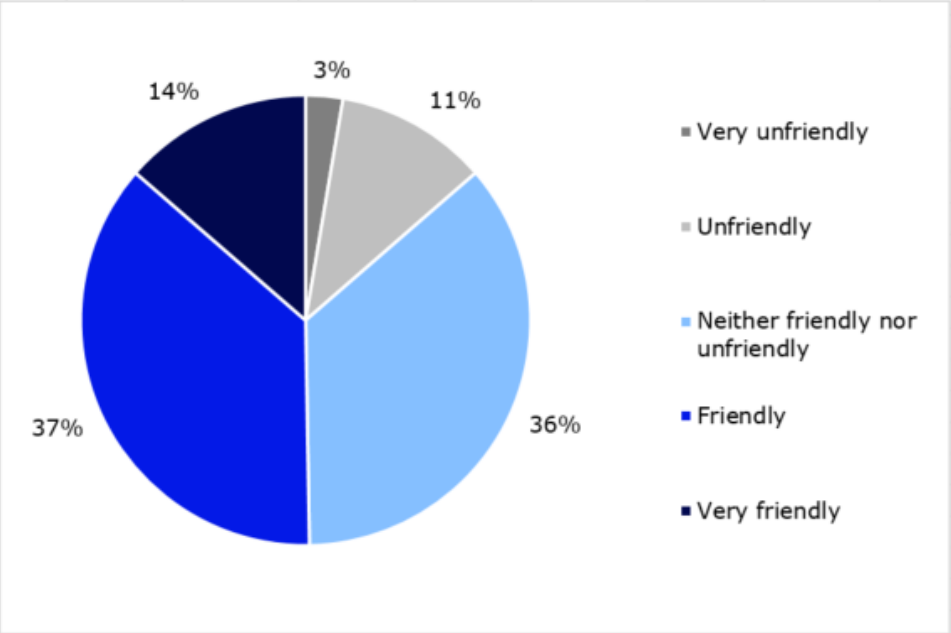
The Finnish tax administration highlighted how in-depth cooperation with tax agents and accounting companies has positively impacted the process. Such cooperation improved the quality of VAT returns and reduced the need for adjustments and corrections. Furthermore, it reduced administrative burdens.

Engagement with tax administrations: Feedback from taxpayers

In interview, a number of tax administrations expressed interest in receiving constructive feedback on VAT reimbursement processes from taxpayers. However, there was a perception that taxpayers may be reluctant to provide unsolicited feedback, suggesting the need for the tax administration to collect feedback proactively. Indeed, Latvia operates an annual customer satisfaction survey, which provides an opportunity for taxpayers to share feedback on the procedure for claiming a VAT reimbursement.

The results from the business survey suggest that businesses are broadly positive towards the support provided by tax administrations during the reimbursement process. Half of the businesses surveyed describe the user-friendliness of tax administration support as either 'friendly' or 'very friendly', with a further 36% describing the user-friendliness of support offered by tax administrations as neither friendly nor unfriendly. Only 3% of respondents held very negative views.

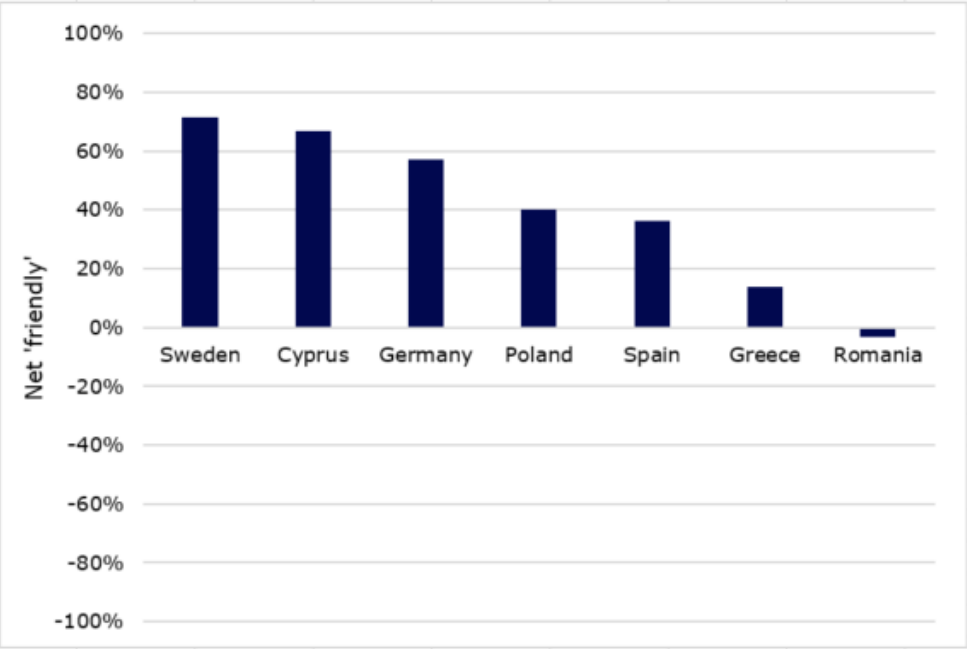
Figure 121: Business perception of the user-friendliness of tax administrations' communication and support



Source: PwC analysis

Romania was the only Member State whose businesses had a net negative view towards tax administration support (total 'friendly' minus total 'unfriendly'), with a net negative view of -3%. The net positive views of other Member States ranged from +14% in Greece and +36% in Spain, to +40% in Poland, +57% in Germany, and +71% in Sweden.

Figure 122: Net user-friendliness of tax administrations' communication and support according to businesses



Source: PwC analysis

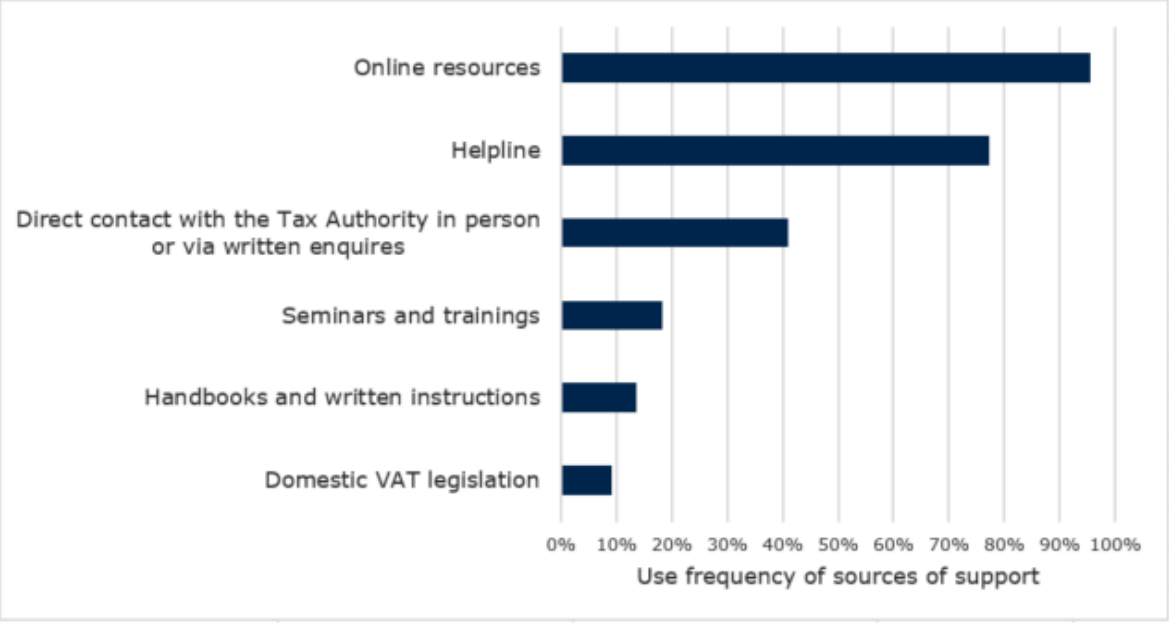
Effectiveness of tax administrations support

The effectiveness of support tax administrations provide to businesses has a significant impact on the VAT reimbursement process. Online resources, which encompasses guidance available on the tax administrations' website about the procedures, legal requirements and advice on the application was the most widely used source of information for businesses. Out of the 22 Member States that responded, 95% of them reported to use of some form of online resource. Germany was the only Member State to not refer to the use of online resources. As previously mentioned, this is due to the fact that in Germany, state-level tax administrations hold the responsibility for providing support to businesses. Therefore, since it is out of their scope, the national administration has not mentioned any source of information.

Helplines were the second most widely used support, being accessible in 77% of the Member States. This is followed by direct contact, in person or via written queries, with the tax administration which represented 40% of the responses.

Hungary, Latvia, Lithuania and Spain provide seminars, courses and training to improve knowledge on the VAT reimbursement process. Moreover, Austria, Hungary and Lithuania have developed handbooks and written guidance. Finally, representing only 9.1% of the respondents, Belgium and Croatia cite domestic VAT legislation as a source of information, since it contains explanatory notes on the process.

Figure 123: Most widely available sources of support in the EU-22 in 2016

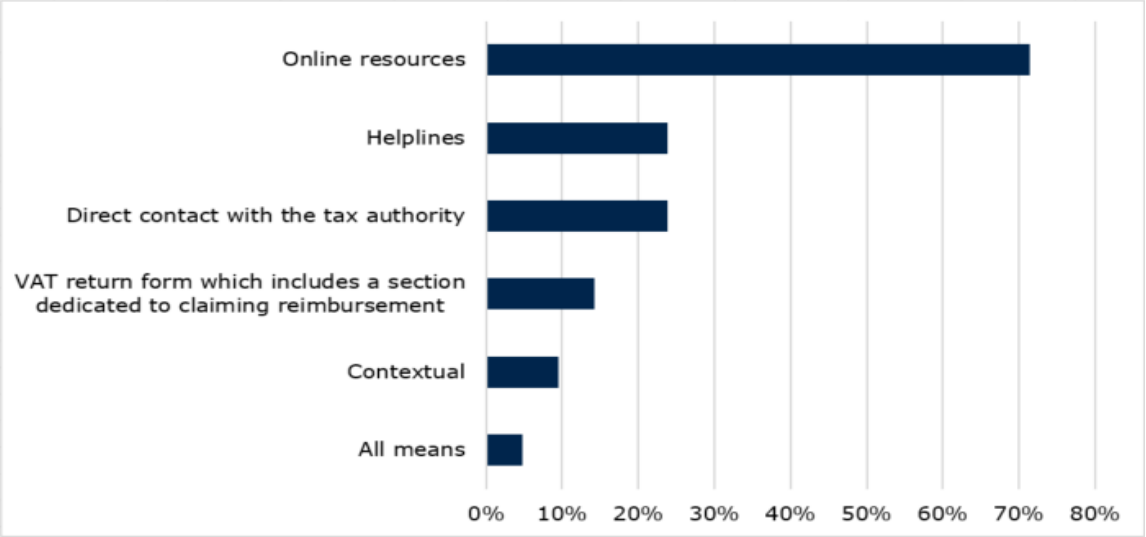


Source: Tax administration data, PwC analysis

Tax administrations also described the sources of help and support that are the most effective in ensuring that reimbursement claims are submitted with the correct information and in a timely fashion. Consistent with the data on the most widely used types of information, online resources, helplines and direct contact with the taxpayers are the three most effective sources. Online resources represent 71% of the responses, while both helplines and direct contact with tax administrations each represent 23%. Interestingly, Sweden, the Netherlands and Latvia considered a well-designed VAT return, which includes a section dedicated to claiming reimbursement as

one of the most effective ways to ensure that reimbursement applications will be processed in timely fashion. This represented 14% of the responses. Portugal and Estonia highlighted that the most effective source of help and information varies depending on the taxpayer. The only Member State to consider all sources to be equally effective was Luxembourg.

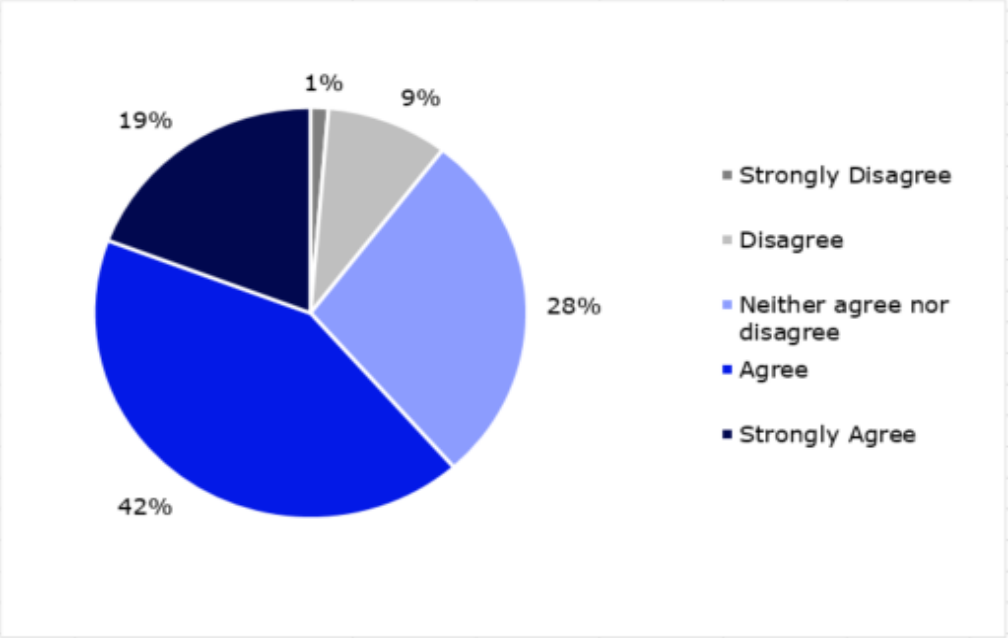
Figure 124: The perceived most effective sources of support by tax administrations across the EU-22 in 2016



Source: Tax administration data, PwC analysis

62% of the businesses surveyed are of the opinion that information published by tax administrations on processes and deadlines in place for claims VAT reimbursement is useful.

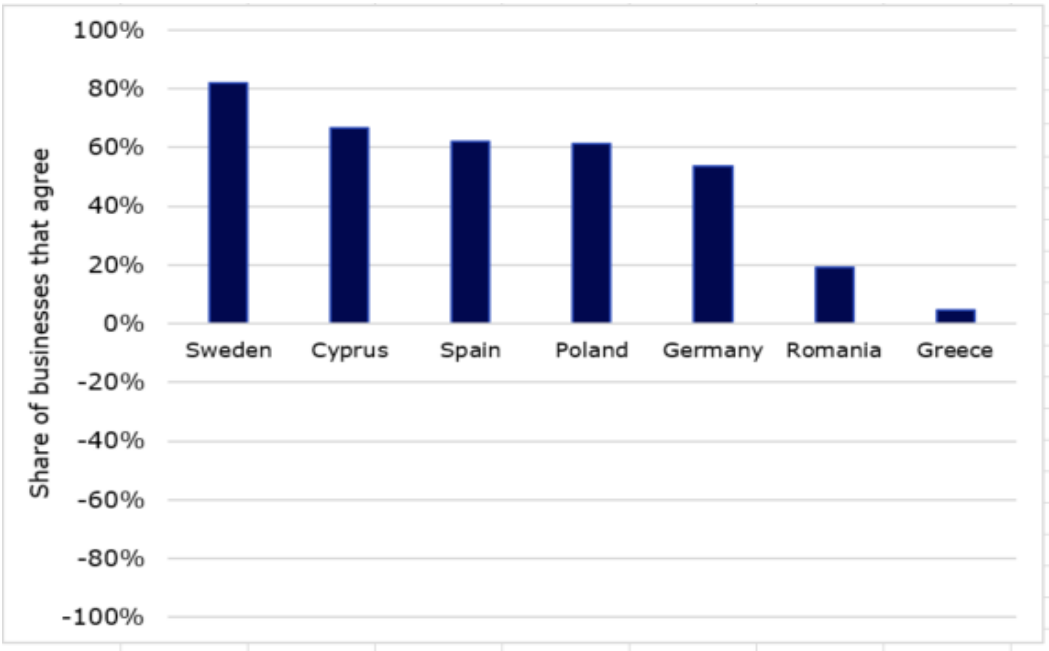
Figure 125: Business perception of how detailed and easily accessible information published by tax administrations is.



Source: PwC analysis

At a Member State level, businesses in all Member States surveyed expressed a net agreement (total 'agree' minute total 'disagree'). This ranged from +5% in Greece and +19% in Romania, to +54% in Germany, +61% in Poland, +62% in Spain, +67% in Cyprus, and +82% in Sweden.

Figure 126: Net-agreement of businesses that the information published by the tax administrations in each Member State is sufficiently detailed and easily accessible



Source: PwC analysis

Summary

According to the data collected, a large proportion of communication and support is provided by tax administrations is carried out through online resources. The most widely used forms of communications, cited 30.9% of the time, was online resources. The second was written communication via letters representing 27.3% of the responses.

Member States highlighted how online resources enable instant and rapid responses from both businesses and the tax administrations. Utilising telephone lines and visiting the tax administration in person also enable the same level of swift interaction.

On the support available, online platforms have, again, been the most cited resource used, representing 95.5% of the responses. Helplines were the second most available support, being accessible across 77.3% of the Member States. This is followed by contacting the tax administration representing 40.9% of the responses. Seminars and training, handbooks and written instructions and domestic VAT legislation are the least used source of support.

The three most effective sources of help and information align with the three most used resources. Tax administrations ranked online resources as the most effective source with (71%), followed by helplines and direct contact with the tax administration as second and third most effective source (24%).

The results of the online business survey show that most businesses held a positive view of the user friendliness of tax administration support throughout, and of the accessibility of information on the reimbursement process. Swedish businesses were the most positive on both of these issues, while Greek and Romanian businesses were the least positive.

5.2.10 The impact of technology on VAT reimbursement process

Key finding: The benefit of technology enabled systems is that they notify taxpayers if errors have been made during filing and how these can be rectified. Similarly, technology has made the claim processing more efficient whereby electronic operated systems automatically direct VAT filings to the relevant departments within the tax administrations; conduct risk analysis to determine whether further assessments are required; and allow for the comparison of historic and current data of taxpayers to determine whether further analysis is required.

The purpose of this section of the report is to understand the extent to which technology helps or hinders the VAT reimbursement process for both taxpayers and tax administrations.

Summary of data limitations

Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. In this section EU-22 (Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania,

Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.) was used.

Impact of technology on claim preparation

As for VAT refunds, businesses can use technology to shorten the length of time taken to prepare and submit VAT reimbursement claims. All 22 of the tax administrations which responded have shown a heavy reliance in their respective technology operated systems to aid taxpayers in their claim preparations.

Furthermore, technology has allowed for the streamlining of the filing process for taxpayers where certain electronic systems. For example Hungary's e-VAT return application issue warnings to taxpayers if errors have been made during filling. The problematic fields are highlighted on the system and the error is explained in detail.

Impact of technology on claim processing

From the responses of the 22 Member States, it is clear that the use of technology for reimbursement claims has a number of benefits. Firstly, for many tax administrations, such as Belgium, Croatia and Italy, technology operated systems have been used to direct and assign VAT filings to the correct departments within the tax administrations for further processing. Moreover, most Member States' technology systems are used to conduct risk analysis to allow the tax administrations to determine whether any further assessment or investigations are required. For example, the Hungarian tax administrations uses technology to detect non-compliant filings and prevents such filings from being reimbursed. Lastly, technology has also ensured that tax administrations have visibility of the historic and current data of taxpayers to allow for further analysis. This has been adopted in Latvia, Slovakia and Slovenia.

The use of technology has allowed for a more efficient method of processing claims, where the process is often immediate and automated with limited manual intervention required from tax administrations. This was noted by the responses from Portugal, Spain and the Netherlands. Furthermore, the effectiveness of the use of technology is reflected in the inefficiencies experienced by Croatia in its processing of the limited amount of VAT returns which are submitted in paper. This inefficiency stems from the fact that officials have to manually enter VAT returns into the database and manually create orders for VAT reimbursements after having checked the returns.

It should, however, be noted that for a few of the Member States which responded, including Croatia and Luxembourg, technology enabled systems are still in their infancy. Croatia had only introduced their pilot electronic programme to five local offices in 2016 with plans to complete the roll out of the system in full to all local tax offices by the end of 2018. Similarly, the tax administration in Luxembourg had only introduced its electronic system in 2017. As such, the efficiency which technology enables for the processing of claims may still be in the process of being realised.

Summary

The impact of technology on claim preparation and processing can be seen through Member States and businesses' wide-adoption of the electronic operated systems. Similarly, tax administrations have benefited from the automation which technology brings as the electronic operated systems allow for VAT fillings to be directed to the relevant departments within the tax administrations, conduct risk analyses to determine whether further assessments are required, and allow for the comparison of historic and current data of taxpayers to determine whether further analysis is required. However, given that some technology enabled systems have only been implemented in recent years, there may be a time lag in the efficiency of the system being realised.

6. Conclusions

The operation of efficient and effective procedures for claiming VAT refunds and reimbursements is of critical importance to businesses operating in the EU-28, especially MSMEs. However, specific aspects of this process, such as robust and reliable data collection and data sharing, are equally as critical for the competent tax administrations in Member States, as well as the European Commission.

This section of the report will draw together the output of the various work streams of the study to synthesise a number of conclusions. The conclusions seek to assess significant overarching issues, as well as process specific challenges. Suggestions for improvements resulting from the analysis of data received from businesses, tax administrations and VAT refund agents will also be outlined in detail below.

6.1 Main challenges to current procedures

6.1.1 Overarching challenges identified in VAT refunds and reimbursement procedures

Lack of detailed and consistent data available within most Member States which makes comparability across the EU-28 difficult

Over the course of the study it became apparent that tax administrations in most Member States face significant challenges in extracting data with regards to VAT refunds and VAT reimbursements from their systems. Evidence for this is presented in the limitations faced with the data collected from EU-28 tax administrations, as outlined in Annex 3. Two main reasons were identified that contribute to the difficulties experienced by tax administrations.

Firstly, systems used by national administrations are restricted in their ability to extract data for a variety of different metrics and at a sufficient level of detail. This was especially true for VAT reimbursement data, where information received from tax administrations was very limited in quantity and detail. Secondly, most tax administrations do not appear to have a clear allocation of responsibilities between departments for the collection of VAT refund and VAT reimbursement data.. This hinders the efficient collection of comparable and detailed data within a tax administration.

Difficulties in extracting data from systems create two more critical challenges. On one hand, generic and low-level data makes it difficult to develop performance metrics and indicators for each Member State that are comparable across the EU-28. Having such metrics and indicators would allow the European Commission to make a thorough assessment and compare the performance of Member States in handling VAT refund and VAT reimbursement claims.

On the other hand, differences in the nature, quantity and level of detail of data collected across Member States hinders any pan-EU data sharing exercise. Such data sharing is essential in supporting the integrity of the VAT base by ensuring businesses (both foreign and domestic) are registered and pay VAT, as well as helping to reduce and prevent instances of VAT fraud.

Limited follow up between departments within tax administrations

Businesses surveyed noted that approximately 14% of refund claims were rejected on the grounds that the claimant should be registered for VAT in the Member State of Refund (i.e. a VAT registered foreign trader).

To explore this issue in more detail, questions were included in the interviews with national tax administrations to determine whether guidance and support is provided to taxpayers in such cases. The interviews revealed that the tax administrations usually provide detailed guidance to the respective taxpayers on how to register for VAT if a VAT refund claim were to be s rejected based on the claimant needing a local VAT registration. However, the tax administration interviews revealed that there appears to be little communication between departments responsible for VAT refunds and VAT reimbursements. Generally, tax administrations appear to have limited internal processes to refer or follow up on cases where VAT refund claims were rejected based on the taxpayer requiring a local VAT registration. This leads to tax administrations having limited ability to check whether the businesses in question have applied for a local VAT registration as required.

This means that tax administrations may be restricted in their ability to establish robust and sustainable processes ensuring that all taxable activity in their Member State is taxed appropriately. Moreover, tax administrations may encounter difficulties in identifying and reducing instances of non-compliant behaviour from taxpayers.

Difficulties in receiving late payment interest

As outlined in Article 26 of Directive 2008/9/EC, taxpayers have the right to receive late payment interest if the tax administration does not process and pay the VAT refund within the timeframes stipulated by the Directive. Similarly, for VAT reimbursements, judgment of 24 October 2013, Rafinaria Steaua Romana SA (Case C-431/12 EU:C:2013:686) established that tax administrations are liable to pay interest where a VAT reimbursement is not paid within a reasonable period.

Despite clearly defined and established rules, respondents to the business survey noted that they struggled to receive late payment interest. Of the businesses responding, approximately one third of businesses reported that they received interest for fewer than half of the VAT refund claims for which they were entitled to late payment interest. This percentage was even higher for VAT reimbursement claims, for which 33% of respondents stated that tax administrations did not make late payment interest.

This further aggravates the risk that delays and a mismatch in VAT-related cash inflows and outflows have on a business' cash flow, and therefore on its liquidity and financial stability.

6.1.2 Main challenges to VAT refund procedures

Lack of awareness of rules in place in Member States

Although attempts have been made to harmonise rules for VAT refunds, rules with regards to the refundability of VAT vary between Member States depending on the nature and value of the expenditure that can be refunded. Significant differences in VAT refundability rules between Member States were noted for VAT incurred on hotel and accommodation expenses, entertainment expenditure, expenditure on food and drinks, and travel expenses (most notably on costs for taxis and public transport).
To address this issue, VAT refund claimants need to ensure that they are aware of the specific rules in place in the respective Member State of Refund. However, businesses that submit VAT refund claims to a variety of Member States of Refund may not be aware of the details of, and differences in, the rules in place in each of these Member States. This leads to claimants frequently submitting VAT refund claims that are rejected by tax administrations based on the fact that the expenditure incurred is not eligible for a refund or the business purpose of the underlying expenditure is challenged. This was noted as a common reason for a claim being rejected by 32% of businesses, whilst 20% of tax administrations stated non-refundable expense being claimed to be the most common reason for a claim rejection.

Claimants often struggle to obtain information about rules in place in specific Member States as noted by half of the respondents in the business survey. This is aggravated by one third of respondents were not aware of any points of contact for information and clarification in the respective Member States. As highlighted in results of the business survey, such points of contact provide valuable support to businesses as nearly 86% of respondents who were aware of such contact points considered them to be efficient and helpful.

Therefore, a lack of awareness of, and accessibility to, information and points of contacts in Member States restricts the ability of the claimant to seek clarification about what expenditure can be included in their claim, and limits their ability to ensure a compliant VAT refund claim is submitted.

No clear responsibilities for verification of pro-rata calculations

Article 6 of Directive 2008/9/EC states that taxpayers who carry out transactions giving rise to a right of deduction and transactions not giving rise to a right of deduction can only claim a VAT refund from the respective Member State of Refund for the transactions that meet the requirement for a VAT refund as outlined in Article 5 of Directive 2008/9/EC. To do so, taxpayers should claim the respective proportion of VAT using the rules in place in their respective Member State of Establishment.

Results from the tax administration questionnaire and interviews show that the responsibilities for checking the accuracy and completeness of pro-rata calculations submitted by claimants are not clearly defined. This could lead to neither the Member State of Establishment nor the Member State of Refund verifying the pro-rata calculations submitted by claimants.

Additionally, nearly 10% of respondents to the business survey reported that, in their experience, the interpretation and performance of pro-rata calculations was a common reason for a VAT refund claim to be refused. In particular, business survey respondents established in Sweden and Greece appear to face challenges with pro rata

calculations when submitting VAT refund claims. In both Member States, businesses surveyed noted that the interpretation and performance of pro rata calculations was one of the most common reasons for a VAT refund claim to be rejected. This suggests that rules to calculate pro rata amounts in these Member States of Establishment are more complex and less easy to follow by taxpayers.

The absence of clear verification procedures in place across tax administrations, in combination with the claimants' lack of clarity around VAT refund rules in place in each Member State, may lead to businesses claiming and tax administrations refunding incorrect amounts.

Issues with rules around incorrectly charged VAT

In the context of VAT refunds, nearly a quarter of the businesses surveyed experienced issues with VAT not being refunded by tax administrations as VAT had been incorrectly charged by the vendor in the first place. This issue was also noted as a commonly recurring problem by all four VAT refund agents surveyed.

VAT being charged incorrectly may occur in good faith as the vendor is not aware of rules regarding VAT exemptions, which can be complex. However, it was noted that in some cases charging VAT is also used as a safety measure by vendors to mitigate any risk of not charging VAT, by incorrectly exempting the supply. This overly prudent approach pushes the risk and financial burden to the customer. Additionally, the department responsible for VAT refunds and reimbursements, which is often a separate department within the tax administration, may assert that VAT should not have been charged, while at the same time, the policy department or local office of the same tax administration asserts that VAT has been correctly charged. This leads to businesses potentially being stuck between conflicting views.

This issue has also been addressed in CJEU ruling C-218/10 ADV Allround Vermittlungs AG, which concluded that EU VAT law does not require Member States to amend their domestic procedural rules to ensure a consistent approach is adopted regarding a VAT liability. Instead, the CJEU confirmed that Member States should adopt the measures that are necessary to ensure that VAT is collected accurately and that the principle of fiscal neutrality is observed. However, in practice, it seems that many Member States have, by and large, not addressed this issue. Therefore, in these situations it is common for the customer to experience ongoing difficulties in recovering the VAT incurred since it is unclear for the supplier what the correct course of action should be. It is not uncommon in these circumstances for businesses to forgo the recovery of such VAT given the complexities involved for both supplier and customer.

Disproportionate number of additional information requests

According to tax administrations across the EU, only a small number of claims attract additional information requests with a query rate of approximately 9% in 2016. However, this appears to be different to the experience of businesses. Approximately 70% of respondents to the business survey noted that they receive requests for additional information from tax administrations frequently, very frequently or almost

always. Therefore, there appears to be a gap between the tax administration's view and the perception of businesses.

This leads to the possibility that tax administrations request a disproportionate amount of additional information and that this issue is widespread across the EU. Moreover, the process of requesting information appears to be increasingly formalistic, with a wide range of documentation requested including original invoices, copies of invoices, evidence of the business purpose for the underlying expenditure, and further non-invoice related information.

Taxpayers facing language issues and difficulties with translations

Anecdotal evidence received from businesses before administering the online business survey noted that they experienced language issues with tax administrations in a selected number of Member States. More specifically, tax administrations asked businesses to communicate in their national languages only and rejected documentation or communication in any other language.

This finding was reiterated by responses received in the business survey; 21% of businesses surveyed stated that language and/or translation problems were one of the most common problems encountered when making claims to another Member State of Refund. An analysis of how Directive 2008/9/EC was implemented in domestic legislation across the EU Member States revealed more specific detail about languages used in the VAT refunds process. Results of the analysis showed that five Member States (Czech Republic, Poland, Romania, Slovenia and Spain) only accept applications for VAT refunds, including additional information, in their respective national languages. Moreover, two Member States (Austria and France) noted that, in general, all communication and documentation should be in their national language but English and may be used if necessary. Finally, one Member State (Malta) did not outline which languages are to be used in the VAT refund process.

VAT refund agents stated that, in their experience, translation costs can make a claim uneconomic. However, this has to be considered in light of VAT refund agents operating on a commission basis, and therefore having to work with tight margins. Therefore, even small additional costs could make submitting a claim uneconomic for them.

By not accepting claims and supporting documentation in other languages than the national official languages, tax administrations may be creating an additional burden for taxpayers.

6.1.3 Main challenges to VAT reimbursement procedures

Financial risks generated by frequency for claiming VAT reimbursements

Across the EU, the rules on how frequently businesses established in the Member State can claim a VAT reimbursement vary significantly. For example, in Italy, reimbursement of excess input VAT can only be claimed once a year, whereas businesses established in Estonia can make VAT reimbursement claims on a monthly basis if they wish to do so.

The frequency of being able to submit a VAT reimbursement claim has an impact on a business' ability to receive a timely reimbursement. Any delays in receiving a reimbursement have an impact on a business' cash flow, which may have an adverse effect on its liquidity and financial stability. This issue is aggravated when there is a mismatch between VAT related cash outflows and inflows, for example in cases where businesses pay VAT on a monthly basis but are only able to claim a reimbursement quarterly or once a year.

This finding was emphasised by responses received from businesses, which showed that approximately one-third of respondents found that a delayed VAT reimbursement resulted in impacts to their cash flow, and 40% of businesses had to defer investment.

Tax administrations requesting original invoices to verify VAT reimbursement claims

Approximately 70% of respondents to the business survey reported that additional information to verify VAT reimbursement claims is requested almost always, very frequently or frequently by tax administrations. Moreover, 56% of these businesses stated that tax administrations specifically asked them to submit original invoices for expenditure included in the claim.

While this may be compliant with domestic legislation implementing Article 183 of Directive 2006/112/EC, such requests should be considered against recent technological developments and IT solutions used by businesses. In the age of online portals and applications, businesses are increasingly using online tools to collect data on expenses. Moreover, with the increased use of e-invoicing, many expenses may only be supported by electronic invoices. Therefore, many businesses may struggle to comply with requests to provide original invoices as they may only be in possession of copies of these invoices.

Considering nearly half of the businesses surveyed (45% of respondents) noted a request of additional information to be the reason for a VAT reimbursement claim to be delayed, requests for supporting documentation that may not be readily available or accessible pose challenges for businesses in being able to claim a VAT reimbursement in a timely fashion. This is substantiated by CJEU ruling of 10 July 2018, Alicja Sosnowska, Case C-25/07 EU:C:2008:395, which states that precautionary measures to ensure the accuracy of a VAT reimbursement claim should not place a disproportionately high burden on taxpayers.

6.2 Suggestions for improvement

The core objective of the Directive 2008/9/EC, as set out in its opening remarks, is to improve harmonisation of the laws of the Member States relating to turnover taxes and amending issues which arose following the implementation of Directive 79/1072/EEC in 1979.

Especially in light of a number of ongoing structural changes in the overall framework of the VAT system, an effective VAT refund system to fulfil the fundamental right of a taxable person to be relieved entirely from the burden of VAT, as well as the need to promote and maintain effective procedures for granting VAT reimbursements, becomes increasingly important.

This study found evidence of multiple successes in achieving this. Nevertheless, a decade on from the passing of the Directive, evidence from tax administrations, businesses and VAT refund agents suggests there is still significant room for improvement.

The remainder of this section of the report outlines a number of suggestions for improvement that can be led by either Member States or the Commission. Moreover, the means by which these suggestions are implemented will vary. It may be sufficient to implement changes through best practice circulars or changes to administrative guidance and practice. However, if deemed necessary, it is conceivable that some of the suggestions outlined below could be realised through changes to the relevant EU Directive and/or the corresponding national legislation.

6.2.1 Overarching recommendations for improvements

Standardised collection and systematic sharing of data on VAT refunds and VAT reimbursements across Member States

In order to perform a rigorous assessment of the VAT refunds and VAT reimbursement processes across the EU, consistent and sufficiently detailed data has to be available across the EU-28 to allow for comparison within and between all Member States.

However, as outlined in section 6.1, it became apparent throughout the course of this study that tax administrations rarely collect data on a systematic basis and the format of data differs between Member States (driven in part by differences in the baseline VAT system, such as filing frequencies).

Moreover, through administering the tax administration survey it became apparent that relevant data is gathered by multiple teams and/or units within the same department, or sometimes across multiple departments, within a tax administration. Data collected by tax administrations also varied in completeness and level of detail, hampering the ability to make meaningful comparisons across the EU.

Given the importance to businesses of well-functioning VAT refund and reimbursement procedures and the need to protect government revenue from abuse, it is essential that the appropriate administrators in each Member State collect and analyse data to manage process efficiency and drive improvements.

The implementation of systematic data collection frameworks by EU-28 tax administrations is the first step in aiding the gathering of consistent and comparable information on VAT refunds and VAT reimbursements in.

This opens up the possibility for multiple further improvements, including the establishment of a central collection mechanism for VAT refund and VAT reimbursement data within each Member State. Additionally, the Standing Committee on Administrative Cooperation (SCAC) could consider establishing a mechanism for the central collection of VAT reimbursement data across all Member States.

Furthermore, a harmonised framework of performance indicators can be developed on the basis of such data. This would aid the analysis of data to identify any unusual

trends in the number and value of VAT refund and reimbursement claims submitted across the EU-28. This can be led either by the Member States and shared with the European Commission or managed by the European Commission itself.

All of these suggestions, would provide an important mechanism to combat VAT fraud, especially in the context of VAT reimbursements which, according to Europol costs national tax administrations across the EU-28 approximately EUR 60 billion annually in tax losses.[31] The reason for this is that it allows Member States to share equivalent data and metrics, which enables them to communicate in an efficient manner and work together in reducing fraudulent activity.

Improved follow up processes between departments within national tax administrations

The analysis contained in this report identifies that one of the most common reasons for rejections of VAT refund claims is that the claimant should have a local VAT registration. Follow up interviews with nine tax administrations revealed that tax administrations generally provide guidance and support to claimants on how to obtain a local VAT registration. However, despite this and due to the prevalence of the issue, it does not appear that businesses are fully aware of the circumstances under which they should become a VAT-registered foreign trader. Moreover, the interviews showed that tax administrations only have limited processes in place internally to refer to or follow up on such cases with the relevant departments.

Appropriate communication with businesses, as well as regular follow ups, is particularly important to ensure that businesses action the information and support they receive from tax administrations. Moreover, this is essential to support taxpayers in obtaining VAT registration so that tax administrations can check that all taxable activity within the Member State is taxed according to national and EU law. This also limits any potential for non-compliant behaviour by taxpayers.

An example of best practice is how one tax administration offers courses for taxpayers to provide assistance and information on any changes in the VAT refunds and reimbursement process. These courses can be face-to-face or online, and targeted at specific groups of taxpayers or for a wider audience.

Finally, tax administrations are advised to establish internal processes that ensure regular communication between departments responsible for VAT refunds and VAT reimbursements. This allows tax administrations to refer VAT refund claims where taxpayers need a local VAT registration to the competent department for VAT registered foreign traders. Such processes would allow tax administrations to follow up on the claimant in question with the relevant department; therefore, giving additional assurance that the claimant correctly registered for VAT.

[31] EUROPOL (2019) "MTIC (Missing Trader Intra Community) Fraud". (Available at: https://www.europol.europa.eu/crime-areas-and-trends/crime-areas/economic-crime/mtic-missing-trader-intra-community-fraud [Accessed on: 20th February, 2019]

Increasing adherence of Member States to the Directive 2008/9/EC to ensure late payment interest for taxpayers

As outlined in section 6.1, respondents to the business survey stated that they struggled to receive late payment interest in 29% of cases for VAT refund claims and in 35% of cases for VAT reimbursement claims.

In light of the clear provision included in Directive 2008/9/EC on interest payments for VAT refund claims that are paid outside deadlines, as well as CJEU judgement Rafinaria Steaua Romana of 24 October 2013 for VAT reimbursement, the Commission may wish to investigate this issue further to ensure EU VAT law is adhered to at a national level by Member States.

6.2.2 Suggestions for improving the VAT refund process

Awareness of Member State of Refund rules and requirements

As identified in section 6.1, one of the most common reasons for a VAT refund claim to be rejected is that the underlying expenditure is non-refundable in the Member State of Refund in question. To address this issue and reduce instances of rejections caused by claims for non-refundable items of expenditure, accessibility and quality of information for businesses should be improved.

To do this, the European Commission should consider putting measures in place to raise taxpayer awareness of the existence of, and improve the accessibility to, vademecums as the central point of information. Moreover, the European Commission may wish to find ways to promote the use of the specific contact points in place in the respective Member States of Refund to receive more information or support on certain which they encounter in the VAT refund process. This is consistent with the responses collected through the business survey which indicated that not many of the businesses surveyed are aware of points of contact in Member States. However, nearly three-quarters of respondents who were aware stated that these points of contact are efficient and helpful.

Despite the Eighth Directive having been developed to promote harmonised VAT refund arrangements, prior attempts to align the rules on the eligibility of refundable expenditure were unsuccessful. In the absence of harmonised rules on the deductibility of expenses that can lead to complexities for taxpayers in applying for a VAT refund, two potential improvements can be made to the VAT refund process in this respect:

- **Option 1**: One of the most important and straightforward recommendations is to map the rules for each Member State and establish a process for updating these rules on a regular basis. Vademecums, which have already been established as a central point for collecting information, should feature all relevant rules in the respective Member States and responsibility should be placed on Member States to update them promptly regarding any changes. Moreover, vademecums should be made easily accessible for taxpayer with a link to the relevant information placed on each Member State online submission portal. Alternatively, a more comprehensive solution could be implemented in

the form of an EU web portal covering a wide variety of VAT rules and regulations.

Additionally, Member States of Refund should be urged to clearly reference the points of contact for claimants to reach out to in their Member States should they have any queries with regard to the rules in place for VAT refunds in the respective Member State.

- **Option 2**: Technological solutions could be used to prevent taxpayers from making claims for non-refundable expenses. Member States of Establishment could build in rules reflecting the eligibility for refund in Member States of Refund to their online portals. For example, these rules could make it impossible for the taxpayers to submit claims in respect of certain expenses that are not refundable in the specific Member State of Refund.

Verification of pro-rata calculations

Enquiries with tax administrations across the EU-28 revealed that few checks are performed by them to ensure the accuracy and completeness of pro-rata calculations submitted by claimants. This in part, appears to result from a lack of clarity as to which Member State is responsible for the inspection of the calculation and supporting documentary evidence.

To counteract this and make sure that correct amounts are refunded, it is important that the European Commission clarifies the allocation of responsibilities for checking the legitimacy and accuracy of pro-rata calculations submitted by claimants. Therefore, the European Commission should consider issuing official guidance for Member States with regard to the responsibilities of claimants, Member State of Refund and Member States of Establishment in the pro-rata verification process.

Additionally, depending on the rules and responsibilities, the Commission should urge the Member State of Refund to request evidence for the pro-rata calculations made in a VAT refunds claim from the claimant before approving it. Alternatively, if the responsibility for ensuring the accuracy of pro-rata calculations lies with the Member State in which a claimant is established, improvements to the online portal may support Member States of Establishment in checking calculations.

Such improvements could be achieved, for example, by adding a function for businesses to upload supporting evidence for any pro-rata calculation to the claim before being able to submit it. However, it is important to recognise that tax administrations may aim to make portals as user-friendly as possible to ensure claimants have a positive experience when submitting a VAT refund claim. Additional functionality to the portal, such as the one proposed, may increase the administrative burden imposed on claimants, which may lead to lower levels of compliance by taxpayers. Therefore, it is important to implement such an IT solution in a way that allows tax administrations to balance the impact of this on taxpayer compliance burdens.

Recovery of incorrectly charged VAT

As mentioned in section 6.1, businesses as well as tax administrations reported that a common reason for the rejection of VAT refund claims is the fact that VAT was charged incorrectly by the vendor or that taxpayers suffer from a difference in views between tax administration departments as to the correct VAT treatment of the relevant supply.

Standard procedure in such cases is for tax administrations to reject the claim and refer claimants back to the vendors to recover the VAT. However, in some cases, businesses stated that the recovery of VAT from vendors has proven difficult due to confusion and disagreement between tax administrations and businesses with regard to who is liable for the refund of this VAT.

The European Commission may want to conduct further research into this topic to find a solution for businesses facing such a situation since mechanisms such as the Cross Border Ruling request process would not seem to apply in such circumstances. It may be difficult for the Commission to influence administrative practice in cases where two different departments of the same tax administration disagree on the appropriate VAT treatment. However, this area may be a useful topic of conversation for the EU VAT Forum.

Better targeted requests for additional information

As outlined in section 6.1, businesses appear to experience requests for additional information more frequently than recognised by tax administrations. Therefore, in order to reduce the administrative and compliance burdens on businesses and promote the willingness of the taxpayers to submit VAT refund claims, the following three options of improvement should be considered:

- **Option 1:** The Commission should review the reasonableness and proportionality of additional information requests. As part of this review, the Commission is advised to urge tax administrations to refrain from requesting an inadequate level of documentation and to also accept alternative evidence from businesses. Moreover, this should include a thorough review of the time limits set out in Directive 2008/9/EC for providing such documentation, as they may be too short for businesses to comply with especially in cases where additional documentation is needs to be translated.

- **Option 2:** The Commission should encourage national tax administrations to provide businesses with guidance on what information and documentation can be submitted upfront as best practice. This will gives businesses the opportunity to submit relevant information straight away and tax administrations will be able to process claims in a timely fashion in line with deadlines stipulated by Directive 2008/9/EC.

- **Option 3:** The Commission should urge tax administrations to record business related information appropriately to avoid repeated requests of similar or identical information from businesses. This includes having appropriate systems in place to ensure a business is risk profiled and recorded approximately.

Use of established business languages in the VAT refund process

As outlined in section 6.1, businesses reported having experienced issues in some Member States of Refund when communicating and providing documentation for VAT refund claims in languages other than the respective national languages. This can have a variety of negative impacts for businesses. For example, they may not be able to comply with additional information requests within the deadlines stipulated by Directive 2008/9/EC. Moreover, language problems experienced by businesses can ultimately lead to businesses refraining from exercising their right to a VAT refund.

Therefore, the Commission should urge tax administrations to accept certain documentation required in the VAT refund process in languages other than the respective national languages. This may include the publication of guidance around what documents should be accepted in other languages, for example "base" information for a claim such as the actual VAT refund claim and invoices to support expenditure. Such guidance may also include a list of documents that tax administrations may want to request in the national language due to then containing more complex information, for example a detailed description of the nature of the business to ensure the tax administration can be satisfied as to the details of the business and eligibility to a VAT refund.

Moreover, the Commission may consider advising Member States to review which Member States of Establishment they receive the majority of VAT refund claims from. This will allow Member States to tailor their language requirements according to the needs of their claimants and support tax administrations in the use of languages other than their national language. This will create the possibility of efficiencies in communication and documentation requests for the VAT refunds process.

Finally, it is worth noting that the Commission has commenced testing private ruling requests relating to cross-border situations with a number of Member States. Participating Member States have accepted that cross-border requests can be submitted either in their official language(s) or English. The Commission may consider extending this program to all Member States, and including more languages based on the specific requirements of each individual Member State.

6.2.3 Suggestions for improving the VAT reimbursement process

Guidelines on VAT reimbursement claim frequency

The ability of a business to receive a VAT reimbursement depends on the rules and laws regarding the frequency of VAT reimbursement claim submissions in place in the Member State of Establishment. Therefore, claim frequencies can have a profound influence on a cash flow as they may prolong the time it takes to receive a VAT reimbursement.

This increases the cash flow risk for businesses from paying excess input VAT, and such risks are aggravated by delays. Therefore, the European Commission may consider conducting an economic study to quantify the financial impact on businesses of this issue, and to identify any further burden resulting from it.

It is recognised that the responsibility for the administration of the VAT system lies with each Member State. However, on the basis of results in the economic study, the European Commission may consider having an open dialogue with Member States to explore potential adjustments that can be implemented by the national tax administrations.

Improved additional information request procedures to verify VAT reimbursement claims

As outlined in section 6.1, VAT reimbursement claims are often delayed because of requests for additional information. Moreover, respondents noted that additional information, especially original invoices, are frequently requested by tax administrations.

Given the technological advancements in recent years and the increased use of IT solutions, the requirement to submit original invoices seems questionable. Moreover, requests for additional information should be proportionate to the size and nature of the claim. The Commission may wish to explore the use of additional information requests by Members States, in particular whether they are proportionate to the size and nature of the claim. The commission should encourage tax administrations to request copies of invoices, rather than originals.

This will allow businesses to be able to respond to additional information requests more quickly and efficiently, while at the same time ensuring more robust and timely verification of VAT reimbursement claims by tax administrations.

Appendix 1: Detailed overview of the methodology

As outlined in section 4, this study is divided into five tasks. These are outlined in Table 13.

Table 13: Summary of study sections

Task no.	Description
Task 1	Summary of the domestic legislation and administrative procedures that implement the relevant provisions of the EU VAT Directives concerning VAT refunds and reimbursements. Analysis of potential problems in domestic legislation and administrative procedure which could hinder the smoothness of the VAT refund or reimbursement process.
Task 2	Analysis of the experiences of businesses, particularly MSMEs, with the VAT refund process in place in EU Member States, highlighting potential problems and providing suggestions for improvement.
Task 3	Analysis of the experiences of businesses, particularly MSMEs, with the VAT reimbursement procedures in place in EU Member States, highlighting potential problems and providing suggestions for improvement.
Task 4	Analysis of tax administrations' experiences with VAT refund procedures in place in each EU Member State, highlighting potential problems and providing suggestions for improvement.
Task 5	Analysis of tax administrations' experiences with VAT reimbursement procedures in place in each EU Member State, highlighting potential problems and providing suggestions for improvement.

The methodological approach adopted to address each task is outlined below.

The International VAT Association (IVA) was requested to comment on any significant challenges or other matters concerning the VAT refund and reimbursement process in each Member State and across the EU-28 as a whole.

Responses from the IVA were used in the following ways:

1. Inform the content of interviews with tax administrations; and
2. Support the sampling of countries for the online business survey.

Task 1: Review of legal and administrative frameworks

The purpose of this task was to assist the Commission in understanding:

1. How relevant aspects of the EU VAT Directives have been implemented into domestic law;
2. The extent to which the domestic legislation in all Member States complies with the requirements of the EU VAT Directives concerning both refund and reimbursement procedures and how instances of non-compliance could generate potential problems; and,
3. The extent to which the administrative procedures put in place by Member State tax administrations to process refund and reimbursement claims complies with the relevant EU VAT Directives and how instances of non-compliance could generate potential problems.

In order to collect the data necessary for this analysis in a uniform format a standardised template to summarise the domestic legislative provisions and administrative procedures for both refunds and reimbursements was developed.

The format of the template was driven by the lifecycle of a refund or reimbursement claim in conjunction with the relevant provisions of the EU VAT Directives. Care was taken to ensure that the relevant information required to answer the specific questions could be gathered.

The VAT refund summary for each country mapped each separate article of Directive 2008/9/EC to the corresponding domestic legislation and administrative procedures and practices. The reimbursement summary, in contrast, posed a number of specific questions relating to Article 183 of the Council Directive 2006/112.

Using the templates, summaries of the corresponding provisions in the domestic legislation and administrative procedures in place in each Member State were prepared. These were based on data collected from a range of public domain sources. Priority was given to the relevant domestic legislation and, tax administration documents and manuals. Other reputable sources were used for further insight including, but not limited to, PwC's proprietary publications, the European Commission's detailed guides on certain VAT topics (Vademecums) and other third party material.

Completed summaries were then shared for review with PwC's VAT experts in each Member State. This review included checks for completeness, accuracy and correctness of English translations of relevant provisions in the domestic legislation and administrative procedures. Where instances of incomplete information with regards to administrative procedure were identified, PwC experts provided a description of administrative practice drawn from their technical knowledge and experience of preparing and submitting refund and reimbursement claims.

With regards refunds, the in-country experts were asked to provide commentary from the perspective of their Member State as the Member State of Refund, not the Member State of Establishment.

Following the review by PwC experts in each Member State, the summaries of the domestic legislation and administrative procedures and practices were then assessed to determine the extent to which the domestic legislation and administrative practice in all Member States complies with the requirements of the EU VAT Directives.

The compliance assessment of a Member State in relation to VAT refunds was carried out by considering each of the relevant refund provisions in turn, how these provisions have been implemented into domestic law, whether there is any published administrative procedure in place and, if so, whether this is also in compliance with the European legislation.

The assessment of a Member State in relation to reimbursements focused on the scope and conditions of the right to reimbursement as detailed by the CJEU in key decisions. These decisions, which are summarised in section 3.2 set out the conditions and scope of the right to reimbursement.

Task 2 and 3: Assessing experiences of businesses

The purpose of these tasks was to assist the Commission in understanding:

1. Business experiences of VAT refund and reimbursement claim procedures, highlighting potential problems and providing suggestions for improvement;
2. The range and nature of issues that can affect VAT refund and reimbursement claim procedures; and,
3. The broader financial consequences to businesses associated with delayed and refused VAT refund and reimbursement claims.

In order to generate a complete picture of the views and experiences of the EU-28 MSME community, it is important to recognise that, for the purpose of this study, there are two main groups of stakeholders involved in preparing and submitting the relevant VAT refund and reimbursement claims. These are businesses that prepare and submit their own VAT refund and reimbursement claims, and VAT refund agents that prepare and submit VAT refund claims on behalf of their clients.

Each of these stakeholder groups has different levels of knowledge and experience, which has been accounted for through the selection of appropriate research techniques.

Accordingly, an approach was developed using two research techniques designed to assess the experiences of these different stakeholder groups. Individual businesses in selected Member States were used as the primary source of data for VAT refund and reimbursement processes, while data collected from VAT refund agencies also complemented our analysis of the VAT refund process. These research techniques were as follows:

Online business survey

Responses to a 15-20 minute questionnaire were collected from 431 micro-, small- and medium-sized businesses in Cyprus, Germany, Greece, Poland, Romania, Spain and Sweden through an online platform. The questionnaire was designed to collect

responses across a wide breadth of real life experiences of VAT reimbursements and, to a lesser extent, VAT refunds.

In addition, the survey was shared with a number of representatives of large business. The purpose of this was to compare and contrast the views and experiences of MSMEs with those of large businesses.

The main country sample was selected based on the performance of Member States across both VAT refunds and reimbursements. Whereas, the sample of large businesses was selected on a convenience basis.

Performance of each Member State was assessed by developing a ranking across a number of indicators. Member States to be sampled were selected from across the quartiles to compare and contrast the experience of businesses across high, medium and poor performing Member States.

Table 14 presents the Member State ranking. Please note that the performance indicators used differ between VAT refunds and reimbursements due to the availability and completeness of tax administration data. The rationale for the performance indicators were as follows:

VAT refunds

- **Refund claim rejection rate in 2016:** This was calculated using data collected from the European Commission and national tax administrations. It was selected on the basis that it was an indicator of the awareness of the rules and requirements for refund, and the relative ease of complying with them. A high rejection rate could indicate the presence of problems either in the interpretation of the requirements by businesses or their application by tax administrations.
- **Refund claim query rate in 2016:** This was calculated using data collected from the European Commission and national tax administrations. It was selected on the basis that it was an indicator of the extent to which there are problems in the interpretation of refund requirements by claimants. A high query rate could indicate a lack of awareness of the refund requirements which could mean that insufficient information is contained within a claim.
- **Refund claim delay rate in 2016:** This was calculated using data collected from the European Commission and national tax administrations. It was selected on the basis that it was an indicator of the relative efficiency of tax administrations' processing capacity. A high delay rate could indicate the presence of inefficiencies that could generate financial risks for claimants.

VAT reimbursements

- **Number of VAT registered businesses in a reimbursement position in 2016:** This was calculated using data collected from national tax administrations by taking the number of VAT reimbursement claims in 2016 as a percentage of the number of VAT returns in 2016, and applying that to the number of VAT registered businesses in 2016. It was selected on the basis that

a small number of VAT registered businesses in a reimbursement position could be indicative of barriers to claiming or a lack of familiarity with the process.

- **Adherence of domestic legislation to EU Directive 2006/112/EC and principles of CJEU case law:** This was calculated using the results of the legislative analysis. A score of one was awarded to each instance of inconsistent legislative or administrative practice (as compared against the conditions, scope and principles of the right of reimbursement set out in case law). It was selected on the basis that a problems in the underpinning legislative and administrative frameworks could indicate the presence of inefficiencies in the process for claiming a VAT reimbursement.
- **Econometric indicator:** This was calculated using data collected from national tax administrations and Eurostat. Using the outputs of the econometric analysis described (shown below in Table 14), this indicator measured the difference between predicted and actual value of total VAT reimbursements in 2016. It was selected on the basis that a higher or lower than expected value of VAT reimbursements could be indicative of problems that could generate under- or over-claiming.

To calculate this average rank, the number of ranks for which data was available for the specific indicator was used. For example, for the econometric indicator for reimbursements, data was only available for 15 Member States. Therefore, the average ranking for this indicator was eight, and so all 13 Member States with missing values were awarded a rank of eight for this indicator.

Additionally, to accommodate the fact that each of the six indicators had a different number of Member States with data available, and so the average ranking for each indicator was different, an adjustment was made to ensure that each of the six indicators had an equal weighting in the overall ranking. This adjustment involved setting the average ranking per indicator at 14.5 (the average of the total number of rankings available for all EU Member States, thus, the average of 28).

The final ranking of Member States was obtained by producing an average of the six rankings for each Member State and ordering these values from lowest to highest. A lower average value indicated a worse performance, and was thus given a higher ranking, meaning a ranking of one indicates the worst performance.

Table 14: Country sample selection ranking

Member State	Final rank	VAT refunds			VAT reimbursements			Average rank
		Rejection rate	Query rate	Delay rate	Econometric indicator	Adherence of domestic legislation with EU Directive 2006/112/EC	Number of VAT registered businesses in a reimbursement position	
Austria	27	14.5	1.4	23.2	25.8	24.7	25.9	19.26
Belgium	11	9.1	4.3	18.6	15.0	17.2	15.3	13.23
Bulgaria	17	18.1	21.4	4.6	21.5	27.9	3.1	16.11
Croatia	6	25.4	21.4	5.8	2.1	7.5	4.6	11.14
Cyprus	4	14.5	21.4	14.5	6.4	3.2	1.5	10.27
Czech Republic	14	14.5	12.9	20.9	11.8	12.9	14.5	14.57
Denmark	23	3.6	21.4	16.2	20.4	25.8	22.9	18.40
Estonia	19	14.5	21.4	11.6	10.7	26.9	14.5	16.61
Finland	21	14.5	21.4	22.0	26.9	11.8	9.2	17.63
France	20	14.5	4.3	14.5	27.9	19.3	19.8	16.73
Germany	18	14.5	12.9	27.8	14.5	14.5	14.5	16.45
Greece	2	5.4	12.9	7.0	3.2	1.1	6.1	5.94
Hungary	12	23.6	4.3	3.5	24.7	15.0	10.7	13.63
Ireland	9	14.5	12.9	14.5	5.4	9.7	16.8	12.28
Italy	26	12.7	21.4	15.1	23.6	18.3	24.4	19.25
Latvia	13	14.5	21.4	12.8	8.6	10.7	14.5	13.76
Lithuania	3	1.8	12.9	1.2	12.9	5.4	21.4	9.24
Luxembourg	24	14.5	21.4	9.3	16.1	23.6	27.5	18.74
Malta	7	14.5	21.4	14.5	1.1	2.1	14.5	11.36
Netherlands	25	14.5	21.4	24.4	22.6	16.1	14.5	18.91
Poland	15	14.5	21.4	17.4	7.5	14.0	14.5	14.89

Member State	Final rank	VAT refunds			VAT reimbursements			Average rank
		Rejection rate	Query rate	Delay rate	Econometric indicator	Adherence of domestic legislation with EU Directive 2006/112/EC	Number of VAT registered businesses in a reimbursement position	
Portugal	10	21.8	1.4	8.1	9.7	21.5	13.7	12.70
Romania	1	7.3	4.3	2.3	4.3	4.3	12.2	5.78
Slovakia	8	16.3	4.3	13.9	14.0	8.6	14.5	11.93
Slovenia	22	19.9	21.4	10.4	19.3	22.6	14.5	18.04
Spain	5	10.9	4.3	19.7	17.2	6.4	7.6	11.02
Sweden	28	27.2	21.4	26.7	18.3	20.4	18.3	22.05
United Kingdom	16	14.5	12.9	25.5	14.5	14.5	14.5	16.06

Source: European Commission, tax administration data, Eurostat data, PwC analysis

Key:

	Member States from which MSMEs were included in the country sample for the online business survey
	Member States from which large businesses were included in the country sample for the online business survey

The econometric indicator was developed using a pooled ordinary least squares (OLS) regression. Two explanatory variables were used, namely birth of new enterprises and gross fixed capital formation, and four control variables were created to allow for regional variations in the value of VAT reimbursement claims. The control variable groupings are as follows:

1. Greece, Italy, Portugal and Spain (Group 1);
2. Bulgaria, Croatia, Romania and Slovenia (Group 2),
3. Hungary, Slovakia, Poland and Lithuania (Group 3); and,
4. Denmark, Belgium and Sweden (Group 4).

Birth of new enterprises, gross fixed capital formation and the value of VAT reimbursement claims were all transformed into logs to address non-symmetric distributions of the variables and provide more robust results. As a result, the coefficients shown in Table 15 below give the elasticity, or responsiveness, of VAT reimbursement claims to the two different explanatory variables.

The results show that at the 95% confidence level, gross fixed capital formation and birth of new enterprises are both significant, as are the three control variables included in the regression.

Table 15: Pooled OLS regression results

	Coefficient	Robust standard errors	t-value	P-value
Gross fixed capital formation	0.467	0.126	3.71	0.00
Birth of new enterprises	0.298	0.142	2.09	0.04
Group 1	-1.512	0.287	-5.26	0.00
Group 2	-1.266	0.286	-4.43	0.00
Group 3	-0.900	0.250	-3.60	0.00
Group 4	(omitted)	(omitted)	(omitted)	(omitted)

Number of observations	71
F (5, 65)	78.77
R-squared	0.7636
Root MSE	0.5521

Source: PwC analysis

The results of the regression analysis were used to construct the expected value of the log of the value of VAT reimbursement claims for each country within the sample. This is compared with the actual value of VAT reimbursement claims. The absolute difference between these two figures is calculated for each year and then an average is taken across all years for which there is data available for each country. Member States are then ranked according to the difference between the predicted and actual values and this forms the economic indicator.

Table 16 outlines the responses received to the business survey by size of business and Member State.

Table 16: Business survey responses

Member State	MSMEs	Large business
Cyprus	3	0
Czech Republic	0	1
Finland	0	1
Germany	99	0
Greece	28	0
Italy	0	1
Poland	79	0
Romania	74	0
Spain	115	0
Sweden	36	0
United Kingdom	0	1
Totals	**434**	**4**

VAT refund agents survey

The VAT refund agents survey was carried out in two phases. Phase 1 aimed to gather quantitative data to get a more detailed understanding of the profile of claims handled by VAT refund agents. To do so, a detailed questionnaire was developed. Information collected from VAT refund agents through this questionnaire was used to complement the data received from tax administrations across the EU Member States, and included the following metrics:

- Information on the number and value of VAT refund claims submitted;
- Processing times;
- The underlying expenditure to which the VAT related; and,
- The extent to which VAT refund claims were fully or partially refunded or rejected.

The structure of the phase 1 questionnaire was aligned to the structure and level of detail of data submitted by tax administrations to the European Commission's Standing Committee on the Administrative Cooperation to ensure comparability of data.

Phase 2 of the VAT refund agents survey focused on gathering qualitative information on the views and experiences of VAT refund agents in particular Member States of Refund and across the EU as a whole. A questionnaire including multiple choice and

open-ended questions was developed based on data collected in Phase 1 of the survey. The questionnaire aimed to provide information on a variety of aspects, including:

- The process of appointing a VAT refund agent;
- Eligibility of claims and the extent of supporting information required;
- Details on additional information requests and notifications from tax administrations;
- Specific issues encountered with VAT refund claims in certain Member States;
- Experiences with notification of decisions and VAT refund payments;
- Delays and reasons for delays in processing claims;
- The extent to which technology is used in preparing and submitting claim; and,
- Suggestions for improvements to the VAT refund process.

The questionnaires for both phases of the VAT refund agent survey were built using Microsoft Excel and were administered to participating VAT refund agents via email.

The participation of the six VAT refund agents in the survey was secured with the assistance of the International VAT Association. For phase 1, six VAT refund agents responded and provided data, and in phase 2 four VAT refund agents participated in the survey.

Tasks 4 and 5: Assessing experiences of tax administrations

The purpose of these tasks was to:

- Gain an understanding of the profile and distribution of VAT refund and reimbursement claims submitted and processed across the EU-28; and,
- Explore the views and experiences of tax administrations in the EU-28 across a range of topics related to VAT refund and reimbursement procedures, highlighting potential problems and providing suggestions for improvement.

To achieve these objectives, a questionnaire survey with tax administrations in the EU-28 was used. The survey was also complemented by face-to-face or telephone interviews with representatives of the tax administrations in Austria, Croatia, Czech Republic, Denmark, Greece, Latvia, Spain, Sweden and the United Kingdom.

The questionnaires were constructed using Microsoft Excel to facilitate responses to a combination of data requests, multiple choice and open-ended questions.

Two separate questionnaires were developed, one to collect responses on VAT refunds and one on VAT reimbursements from tax administrations in the EU-28.

The VAT refunds questionnaire was structured in a number of parts:

- Part 1 contained questions relating to the background and the structure of the department or unit in the tax administration responsible for processing claims for VAT refunds.
- Part 2 contained data requests on the number, size and average duration of VAT refund claims received by Member States of refund over the period 1st January to 31st December 2016. This built on the data on refunds already supplied to the Commission by EU-28 tax administrations.
- Part 3 contained data requests on the number of VAT refund claims submitted through the online portal operated by the Member States of Establishment.
- Part 4 contained questions relating to the views and experiences of EU-28 tax administrations on a range of topics related to the processing of claims for VAT refunds.

The VAT reimbursements questionnaire followed a similar structure:

- Part 1 contained questions relating to the background and the structure of the department or unit in the tax administration responsible for processing claims for VAT reimbursements.
- Part 2 contained data requests on the number and value of reimbursement claims submitted, rejected and settled over the period 1st January 2012 to 31st December 2016. It also contained requests for a more detailed breakdown of data for the period 1st January to 31st December 2016.
- Part 3 contained questions relating to the views and experiences of EU-28 tax administrations on a range of topics related to the processing of claims for VAT reimbursements.

To reduce the time commitment required by tax administrations to complete the questionnaires, and to ensure that data already provided by the Commission was not requested again, the following steps were taken:

- The data requests contained in Part 2 of the VAT refund questionnaire, were as far as possible, aligned with the structure of Member State data collected and shared by the Commission for the purposes of this study. To the extent possible, data requests for the VAT reimbursement questionnaire also mirrored the structure of VAT refund data shared with us by the Commission.
- The number of requests for data covering multiple years were kept to a minimum. As a result, trend analysis, particularly for VAT reimbursements, is limited.

Face-to-face or telephone interviews with the tax administrations in Austria, Croatia, Czech Republic, Denmark, Greece, Latvia, Spain, Sweden and the United Kingdom were conducted to follow up on the questionnaire and to collect more information in relation to any unexpected or unusual response patterns. Moreover, the interviews were used as an opportunity to follow up on any challenges or other matters reported for particular Member States by members 11of the IVA. Please see Appendix 4 of this report for more detail.

Appendix 2: VAT refund and reimbursement scenarios

VAT refunds

The mechanism for VAT refunds outlined in Directive 2008/09/EC will, as a matter of course, not apply to many routine transactions that businesses make across EU borders, such as:

- Businesses purchasing goods from suppliers based in other Member States will generally pay no VAT charge to the supplier on receipt of the goods in their own country, but will account for the VAT due on said goods in their own domestic VAT return as acquisition tax at the domestic VAT rate, as a debt owing to their domestic tax administrations.
- Businesses purchasing services from providers based in other Member States will generally be invoiced on a reverse charge basis, meaning they will account for the VAT due on said services in their own domestic VAT return at the domestic VAT rate, as a debt owing to their domestic tax administrations.
- Businesses with fixed establishments in other Member States will generally be VAT-registered in those Member States too, so can reclaim VAT expenses incurred within said Member States through a normal VAT return.

There are, therefore, a limited number of situations in which a business that is engaged in making taxable supplies will pay VAT in another Member State but not make taxable supplies in that Member State against which the VAT paid can be reclaimed.

Directive 2008/09/EC sets out the following classification of expenses that are eligible for refund providing the conditions for refund are met:

Table 17: Directive 2008/09/EC expense classification

Code	Description
1	Fuel
2	Hiring of means of transport
3	Expenditure relating to means of transport (other than goods and services referred to under codes 1 and 2)
4	Road tolls and road user charges
5	Travel expenses, such as taxi fares, public transport fares
6	Accommodation

Code	Description
7	Food, drink and restaurant services
8	Admissions to fairs and exhibitions
9	Expenditure on luxuries, amusements and entertainments
10	Other

Through discussions with VAT experts, the following non-exhaustive list outlines some transactions that could be classified as 'other' per the expense classification in Directive 2008/09/EC:

- Expenses associated with importation of goods from a non-EU country into a different Member State, where the business is not established for VAT purposes.
- Local sourcing of goods (e.g. spare parts and other consumables) by repair engineers undertaking work in a different Member State (where the service sold is accounted for via reverse charge, so the engineers do not collect VAT on the repair service provided, against which the VAT expense could be offset).
- Local sourcing of computer hardware to be used in delivering a software system solution for a customer in a different Member State.
- Repair services provided by subcontractors, where the manufacturer has to meet warranty obligations in respect of faulty immovable property or equipment located in a different Member State.
- Equipment installation services provided by sub-contractors in a different Member State.

National legislation implementing Directive 2008/09/EC contains provisions on the extent to which VAT incurred on certain categories of expenditure is refundable. This varies across Member States of Refund and is not uniform.

VAT reimbursements

In normal circumstances, most businesses will collect more VAT on their sales than they spend on purchases. Consequently, the situations in which businesses will be entitled to VAT reimbursement are relatively limited.

Situations where a net VAT credit position may arise include, but are not limited to, the following:

- Where the business makes reduced rate supplies but pays the standard rate of VAT on its inputs;

- Where the business has yet to commence trading, and is thus incurring VAT expenses without any VAT-able revenues to offset these outflows; and,
- Where the business makes a substantial investment in capital equipment, on which VAT is paid, that exceeds the input VAT collected by the business for the VAT return period in question.

Appendix 3: Data limitations

Limitations present in data collected from VAT refund agents

The following limitations are present in the data collected from the VAT refund agents surveyed as part of this study:

- **Claims processed**: Data on the number and value of claims brought forward from the previous period was received from two of the six agents surveyed. This limits the extent to which claims processed can be calculated for all agents. Accordingly, the agents' share of claims processed compared against the Commission's data on claims processed in the EU-27 appears to be relatively low, standing at 4% in 2016.
- **Number of invoices attached to claims:** Details about the total number of invoices submitted per claim was only provided by two of the six agents surveyed.
- **Expense types for which claims were submitted:** Only one agent submitted details about the breakdown of claims broken down by the expense classifications in Directive 2008/9/EC.
- **Claims submitted:** Due to limitations in the calculation of the number and value of claims processed for all VAT refund agents surveyed, analysis of the distribution of claims was based on the size of claims submitted rather than claims processed.
- **Claims approved and rejected:** Data on claims rejected was collected from three of the six agents surveyed. However, data on the number and value of approved claims was collected from two of the agents surveyed. Moreover, due to data limitations claims processes could not be calculated for those agents, it was not possible to calculate an approval and rejection rate that is comparable to the EU-27 rates derived from the Commission's data.
- **Claims queried:** 1Data with regards to the number and value of claims queried was received and analysed for three of the six agents surveyed. The calculation of the query rate experienced by these three agents is based on claims submitted rather than claims processed.
- **Claims paid outside the deadlines stipulated by Articles 19 and 21 of the Directive:** Data with regards to the number and value of claims queried was received and analysed for three of the six agents surveyed. The calculation of the rate of claims submitted outside the deadlines was based on claims submitted rather than claims processed.
- **Duration of claims:** Data on the average duration of a claim across all claim categories was collected from four of the six agents surveyed. However, only three of those agents also provided a breakdown of the duration of a claim by value category.

Limitations present in data collected from EU-28 tax administrations

The following limitations are present in the data collected from EU-28 tax administration.

VAT refund data

- **Claims received:** Data on the number of claims received was provided by 26 Member States. Germany is the only Member State that did not provide any data. Only 20 Member States provided data on the corresponding value of these claims for the period 2013-2016. However, 24 Member States provided data on value of claims received for the period 2016.
- **Expense type for which claims is submitted:** 17 Member States provided data on the most common expense types for which claims were submitted and 16 Member States provided data for the least common expense types for which claims were submitted.
- **Breakdown of composition of claims by category of value of claim:** 19 Member States provided data for the breakdown of the number and value of claims by different categories.
- **Claims that originated in the Member State of Establishment**: Data on the number of claims that originated in the Member State of Establishment was provided by 19 Member States. Data on the value of claims that originated in the Member State of Establishment was provided by 15 Member States.
- **Claims processed:** Data on claims processed is available for all Member States except Germany. However, data on claims processed per employee is only available for 21 Member States, as not all tax administrations provided data on the number of full time equivalent employees working with the department.
- **Processing duration of Member States of Refund:** 9 Member States provided the average time taken to process a claim that was not queried and paid within deadline.
- **Processing duration of Member State of Establishment:** 11 member States provided data on the processing duration of claims received in their role as a Member State of Establishment.
- **Claims queried:** Data on the volume and value of claims queried is only available for 26 Member States for the period 2014-2016. This is because, Malta has not provided any data for the year 2013 and Germany has not provided any data for the period 2013-2016.
- **Breakdown of claims queried by value of claims:** Only 11 Member States provided data on the breakdown of claims queried by different value categories.
- **Common expense types for which additional information requests are made:** 11 Member States provided data on the common expense types for which additional information requests are made.

- **Common types of additional information requested by Member States:** 21 Member States provided data on common types of additional information requested by each Member State.
- **Claims approved:** Data on the volume and value of claims approved is available for 26 Member States for the period 2013-2016. The United Kingdom and Germany did not provide any data.
- **Claims rejected:** Data on the volume and value of claims rejected is available for 25 Member States for the period 2013-2016. Similar to claims approved, the United Kingdom and Germany did not provide any data.
- **Common reasons for tax administrations to reject claims:** 18 Member States provided common grounds for rejecting claims.
- **Claims paid outside deadline:** With regards to delayed claims, 17 tax administrations only provided data on claims paid outside deadline for the period 2013-2016.
- **Procedures in place to prevent delays:** 18 Member States provided responses on whether or not specific procedures are in place to prevent delays in the VAT refund process.
- **Common expense types that are likely to be delayed:** 14 Member States provided data on common expense types that are likely to be delayed.
- **Common reasons for claims being delayed:** 14 Member States provided data on common reasons for claims to be delayed.
- **Appeals, disputes and litigation at the administrative level:** Data on the number and value of disputed claims received at the administrative level was only provided by five Member States. However, data with regards to decisions made on disputes at the administrative level was only received from three Member States.
- **Appeals, disputes and litigation at the judicial level:** Data on the number and value of disputed claims received at the judicial level was only provided by 5 Member States. Data with regards to decisions made on appeals at a judicial level was only received from 3 Member States.
- **Effectiveness in the exchange of information on pro-rata calculations between Member States:** Only 14 Member States commented on the effectiveness of the exchange of information on pro-rata calculations.
- **Common Member States of Establishment to request for assistance under Directive 2010/24/EU:** 19 Member States listed the common Member States of Establishment that request for assistance under Directive 2010/24/EU.
- **Member States that have experienced significant issues with the online portal of Member States of Establishment:** 20 Member States provided a response as to whether they have experienced significant issues with the online portal of Member States of Establishment.

Table 18: Summary of data limitations in the VAT refund data

Key metric	Member States with available data	Member States without available data
Claims received		
Number of VAT refund claims received over the 2013-2016 period	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Germany
Value of claims received over the 2013-2016 period	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Estonia, Finland, France, Germany, Hungary, Malta and Netherlands
Value of claim received by Member States in 2016	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Finland, Germany and Malta
Breakdown of composition of claims by category of value of claim		
Breakdown of composition of claims by category of value of claim	Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, France, Greece, Hungary, Ireland, Italy, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, and Spain	Czech Republic, Finland, Germany, Latvia, Luxembourg, Malta, Netherlands and Sweden
Expense types for which claims were submitted		

Key metric	Member States with available data	Member States without available data
Most common expense categories being claimed in 2016	Belgium, Bulgaria, Denmark, Estonia, Greece, Hungary, Italy, Ireland, Latvia, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and Spain	Austria, Croatia, Czech Republic, Cyprus, Finland, France, Germany, Lithuania, Malta and Sweden
Least common expense categories being claimed in 2016	Belgium, Bulgaria, Denmark, Estonia, Greece, Hungary, Italy, Ireland, Latvia, Luxembourg, Netherlands, Poland, Romania, Slovakia, Slovenia and Spain	Austria, Croatia, Czech Republic, Cyprus, Finland, France, Germany, Lithuania, Malta, Portugal and Sweden
Claims that originated in the Member State of Establishment		
Total number of VAT refund claims originated in the Member State of Establishment in 2016	Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Finland, Greece, Hungary, Italy, Latvia, Luxembourg, Lithuania, Poland, Portugal, Romania, Slovakia, Spain, Sweden and Slovenia	Austria, Cyprus, Estonia, France, Germany, Ireland, Malta and Netherlands
Average value of a claim originated in Member States of Establishment in 2016	Belgium, Bulgaria, Croatia, Denmark, Greece, Latvia, Lithuania, Luxembourg, Italy, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Austria, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Hungary, Ireland, Malta, Netherlands and Poland
Claims processed		
Claims processed over the period 2013-2016	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Germany

Key metric	Member States with available data	Member States without available data
Claims processed per employee in 2016	Bulgaria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Greece, Hungary, Ireland, Italy, Finland, Luxembourg, Lithuania, Latvia, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Austria, France, Germany, Malta, Netherlands and Poland
Processing duration of Member States of Refund		
Processing duration of Member States of Refund	Belgium, Bulgaria, Estonia, Finland, France, Hungary, Ireland, Portugal and Spain	Austria, Croatia, Cyprus, Czech Republic, Denmark, Germany, Greece, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Romania, Slovakia, Slovenia and Sweden
Processing duration for Member States of Establishment	Bulgaria, Greece, Hungary, Italy, Latvia, Poland, Portugal, Slovakia, Slovenia, Spain and Sweden	Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Germany, Lithuania, Luxembourg, Malta, Netherlands, Poland, Romania, Slovakia, Slovenia and Sweden
Claims queried		
Volume and value of claims queried for the period 2014-2016	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden	Germany
Breakdown of claims queried by value of claims		
Breakdown of claims queried	Bulgaria, Croatia,	Austria, Belgium, Cyprus,

Key metric	Member States with available data	Member States without available data
by value of claims	Denmark, Finland, France, Hungary, Ireland, Lithuania, Portugal, Slovakia and Slovenia	Czech Republic, Estonia, Germany, Greece, Italy, Latvia, Luxembourg, Malta, Netherlands, Poland, Romania, Spain and Sweden
Common expense types for which additional information requests are made		
Most common expense types for which additional information was requested in 2016	Austria, Bulgaria, Czech Republic, Finland, Greece, Hungary, Italy, Lithuania, Slovakia, Slovenia and Sweden	Belgium, Croatia, Cyprus, Denmark, Estonia, France, Germany, Ireland, Latvia, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania and Spain
Common type of additional information requested by Member States		
Common types of additional information requested by tax administrations in 2016	Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, Spain and Sweden	Belgium, Germany, Malta, Netherlands, Poland and Portugal
Claims approved		
Volume and value of claims approved for the period 2013-2016	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Germany
Claims rejected		
Value of claims rejected for the period 2013-2016	Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland,	Austria and Germany

Key metric	Member States with available data	Member States without available data
	France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	
Common reasons for tax administrations to reject claims		
Common reasons used by tax administrations to reject claims in 2016	Austria, Bulgaria, Croatia, Czech Republic, Denmark, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Slovakia, Slovenia, Spain and Sweden	Belgium, Cyprus, Estonia, Germany, Ireland, Malta, Poland, Portugal and Romania
Claims paid outside deadline		
Volume and value of claims paid outside deadline for the period 2013-2016	Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Finland, France, Greece, Hungary, Ireland, Italy, Luxembourg, Portugal, Romania, Spain and Sweden	Czech Republic, Estonia, Germany, Latvia, Lithuania, Malta, Netherlands, Poland, Slovenia and Slovakia
Procedures in place to prevent delays		
Procedure in place to prevent delays in 2016	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Luxembourg, Romania, Slovakia, Spain and Sweden	Cyprus, Germany, Ireland, Lithuania, Malta, Netherlands, Poland, Portugal and Slovenia
Common expenses types that are likely to be delayed		
Common expenses types that are likely to be delayed in 2016	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, Greece, Hungary, Italy, Latvia, Lithuania, Slovakia, Slovenia and Sweden	Croatia, Cyprus, Estonia, France, Germany, Ireland, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Spain and

Key metric	Member States with available data	Member States without available data
Common reasons for claims being delayed		
Common reasons for claims being delayed	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, Greece, Hungary, Italy, Latvia, Lithuania, Slovakia, Slovenia and Sweden	Croatia, Estonia, France, Germany, Ireland, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Spain and Slovakia
Appeals, disputes and litigation at the administrative level		
Number and value of disputed claims received in 2016	France, Greece, Hungary, Latvia and Lithuania	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden
Number of decisions made at the administrative level in 2016	Greece, Hungary and Lithuania	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden
Appeals, disputes and litigation at the judicial level		
Number and value of disputed claims received in 2016	France, Greece, Hungary, Latvia and Lithuania	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain

Key metric	Member States with available data	Member States without available data
		and Sweden
Number of decisions made at the judicial level in 2016	Greece, Hungary and Lithuania	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden
Effectiveness of the exchange of information on pro-rata calculations between Member State		
Effectiveness in the exchange of information on pro-rata calculations between Member States in 2016	Austria, Belgium, Bulgaria, Cyprus, Denmark, Estonia, Finland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Spain and Sweden	Croatia, Czech Republic, France, Germany, Greece, Hungary, Ireland, Malta, Poland, Portugal, Romania, Slovakia and Slovenia
Common Member States of Establishment to request for assistance under Directive 2010/24/EU		
Common Member States of Establishment to request for assistance under Directive 2010/24/EU in 2016	Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, Spain and Sweden	Belgium, Finland, France, Germany, Ireland, Malta, Poland and Portugal
Member States that have experienced significant issues with the online portal of Member States of Establishment		
Member States that have experienced significant issues with the online portal of Member States of Establishment in 2016	Austria, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Romania, Slovakia, Slovenia, Spain and	Belgium, Cyprus, Germany, Ireland, Malta, Poland and Portugal

Key metric	Member States with available data	Member States without available data
	Sweden	

VAT reimbursement data

- **Claims received:** Data on the number and value of claims received over the period 2013-2016 is only available for 16 Member States. However, for 2016, 18 Member States provided data on the number and value of claims. This is because two Member States only provided this data for 2016.
- **Claims processed:** Data on the number and value of claims processed over the period 2013-2016 is only available for six Member States. However, for 2016, data on claims processed is available for nine Member States. This is because, three Member States only provided this data for 2016. Data on claims processed per employee is only available for seven Member States as not all tax administrations provided data on full time equivalent employees working within the relevant department.
- **Fraudulent claims:** Six Member States provided data on the number of claims received in 2016 that were deemed to be fraudulent. Of this, only four Member States provided data on the value of claims.
- **Claims approved:** Data on the number and value of claims approved over the period 2013-2016 is only available for eight Member States. However, with regards to 2016, data is available for 11 countries as three Member States only provided the data for 2016.
- **Claims rejected:** Similar to claims approved, data on the number and value of claims rejected is only available for eight Member States. In addition, with regards to 2016, data is available for 10 countries as two Member States only provided the data for 2016. Furthermore, it is worth noting that data on the average value of claims does not include Slovenia, as the tax administrations in these countries recorded that it rejected no claims in 2016.
- **Common reasons for claims being rejected:** 17 Member States provided common reasons for claims being rejected.
- **Claims paid outside deadline:** Similar to VAT refunds data, eight tax administrations provided data on claims paid outside deadline for the period 2013-2016. However, for 2016, data is available for nine Member States as one Member States only provided data for 2016. five Member States provided data on late interest paid on claims paid outside deadline.
- **Appeals, disputes and litigation at the administrative level:** Data on the number and value of disputed claims received at the administrative level was provided by four Member States. However, data with regards to decision made on disputes at the administrative level was received from five Member States.

- **Appeals, disputes and litigation at the judicial level:** Data on the number and value of disputed claims received at the judicial level was provided by 4 Member States. Data with regards to decisions made on appeals at a judicial level was received from five Member States.
- **Most widely used forms of communication:** 21 Member States listed the most widely used forms of communication.
- **Most widely available sources of support:** 22 Member States listed the most widely available sources of support.
- **Use of technology in processing claims:** 22 Member States provided responses on the use of technology to process claims.

Table 19: Summary of data limitations in the VAT reimbursement data

Key Metric	Member States with available data	Member States without available data
Claims received		
Volume and value of Reimbursement claims received over the period 2013-2016	Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Greece, Hungary, Italy, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden and Spain	Austria, Cyprus, Estonia, Finland, France, Germany, Ireland, Luxembourg, Latvia, Malta and Netherlands
Volume and value of claims received in 2016	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Spain and Sweden	Cyprus, Finland, France, Germany, Ireland, Malta, Netherlands, Slovakia and Slovenia
Claims processed		
Volume and value of claims processed over the period 2013-2016	Lithuania, Poland, Portugal, Romania, Slovakia and Slovenia	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Latvia, Malta, Netherlands, Spain and Sweden
Volume and Value of claims processed in 2016	Estonia, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany,

Key Metric	Member States with available data	Member States without available data
	Slovenia	Greece, Hungary, Ireland, Luxembourg, Malta, Netherlands, Spain and Sweden
Claims processed per employee in 2016	Estonia, Italy, Latvia, Lithuania, Romania, Slovakia and Slovenia	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Luxembourg, Malta, Netherlands, Poland, Portugal, Spain and Sweden
Fraudulent claims		
Volume of fraudulent claims in 2016	Estonia, Latvia, Lithuania, Portugal, Slovakia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Romania, Slovenia and Sweden
Value of fraudulent claims in 2016	Portugal, Lithuania, Slovakia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands, Poland, Romania, Slovenia and Sweden
Claims approved		
Volume and value of claims approved over the period 2013-2016	Greece, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Latvia, Malta, Netherlands

Key Metric	Member States with available data	Member States without available data
		and Sweden
Volume and value of claims approved in 2016	Estonia, Greece, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Luxembourg, Malta, Netherlands and Sweden
Claims rejected		
Volume and value of claims rejected over the period 2013-2016	Greece, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Latvia, Malta, Netherlands and Sweden
Volume and value of claims rejected in 2016	Estonia, Greece, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Luxembourg, Malta, Netherlands, Slovenia and Sweden
Common reasons for claims being rejected		
Common reasons for claims being rejected	Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Austria, Croatia, Cyprus, Finland, France, Germany, Greece, Ireland, Malta and Poland
Claims paid outside deadline		
Volume and value of claims paid outside deadline over the period 2013-2016	Greece, Lithuania, Poland, Portugal, Romania, Slovakia, Slovenia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia,

Key Metric	Member States with available data	Member States without available data
		Luxembourg, Malta, Netherlands and Sweden
Volume and value of claims paid outside deadline in 2016	Estonia, Greece, Italy, Poland, Portugal, Romania, Slovakia, Slovenia and Spain	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands and Sweden
Appeals, disputes and litigation at the administrative level		
Number and value of disputed claims received in 2016	Bulgaria, Estonia, Latvia and Spain	Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and Sweden
Number of decisions made at the administrative level in 2016	Bulgaria, Estonia, Latvia, Poland and Spain	Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Romania, Slovakia, Slovenia and Sweden
Appeals, disputes and litigation at the judicial level		
Number and value of disputed claims received in 2016	Bulgaria, Estonia, Latvia and Spain	Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia and

Key Metric	Member States with available data	Member States without available data
		Sweden
Number of decisions made at the judicial level in 2016	Bulgaria, Estonia, Latvia, Poland and Spain	Austria, Belgium, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Romania, Slovakia, Slovenia and Sweden
Most widely used forms of communication		
Most widely used forms of communication in 2016	Austria, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Belgium, Cyprus, France, Ireland, Malta and Poland
Most widely available sources of support		
Most widely available sources of support in 2016 Perceived most effective sources of support by tax administrations in 2016	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden	Cyprus, France, Ireland, Malta and Poland
Use of technology in processing claims		
Use of technology in processing claims	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia,	Cyprus, France, Ireland, Malta and Poland

Key Metric	Member States with available data	Member States without available data
	Slovenia, Spain and Sweden	

Limitations present in data collected through the business surveys

The sample size used for the business survey is too small to yield results that can be generalised to the rest of the population. As such, the data yielded by this survey is indicative, providing useful insights into the views and experience of businesses.

Appendix 4: Issues with the VAT refund and reimbursement process identified by the IVA

This appendix summarises anecdotal evidence collected from the IVA on issues encountered by businesses with VAT refund and reimbursement systems.

Engagement with the International VAT Association

The IVA was requested to comment on any significant challenges or other matters concerning the VAT refund and reimbursement processes both in specific Member States and across the EU-28 as a whole.

A review of the responses received from IVA members provided anecdotal evidence on known issues with the VAT refund process in 25 Member States and issues with the VAT reimbursement process in three Member States.

Issues with VAT refund processes

Responses collected from IVA members highlighted the existence of a number of issues faced by businesses with the implementation of VAT refund systems across the EU-28. These issues can be grouped into the following common themes:

- **Conditions and restrictions**: Businesses may face challenges in identifying conditions and restrictions placed on refunds of VAT incurred in respect of certain categories of expenditure by different Member States of Refund.
- **Language problems**: Businesses cited language problems in three Member States of Refund (Poland, the Czech Republic and Romania). Businesses mentioned that these Member States of Refund did not communicate in widely used business languages, such as English, French or German, preferring to communicate in their national language. In the case of the Czech Republic, it was noted that the initial refund application must be submitted in Czech despite local suppliers providing invoices in English for the convenience of clients. Moreover, it was noted that there are occasions where businesses eligible for a VAT refund from Poland choose not to pursue the claim as the translation costs involved could exceed the value of the claim. Tax administrations in certain Member States of Refund, such as Slovakia, do not have dedicated English speaking telephone lines. As a result, it is difficult for taxpayers and agents to communicate with tax administrations.
- **Claims in respect of travel expenses**: Businesses cited challenges with submitting VAT refund claims in respect of business travel expenditure incurred in Austria, Bulgaria, the Czech Republic, Ireland and the United Kingdom. In these Member States of Refund, it was observed that the tax administrations often deem expenditure on business travel and accommodation to be for the purposes of entertainment or marketing. As such refund claims for VAT incurred on expenditure of this nature are regularly disallowed in these Member States of Refund.

- **Communication with tax administrations**: Businesses noted problems relating to communication with tax administrations in a number of Member States of Refund (France, Italy, Poland, Netherlands, Slovakia and Spain).

  In some cases, where a VAT refund agent submits a claim on behalf of their client, the tax administrations communicates directly with the client rather than the agent.

  In other instances, the method of communication employed by tax administrations in Member States of Refund can create problems. In Poland, the tax administrations often makes additional information requests over the phone instead of sending out official requests via email. In France and the Netherlands, tax administrations have failed to notify VAT refund agents that a claim has been approved.

- **Documentary evidence**: Businesses cited instances of onerous levels of formality relating to documentary evidence. These issues have been experienced in a number of Member States of Refund (Austria, Belgium, Bulgaria, Croatia, the Czech Republic, Germany, Romania, Spain, Sweden, Italy, Poland, Portugal, and the United Kingdom). The issues cited include excessive requests for information, the rejection of claims due to inaccuracies in invoices, requirements to explain the business purpose of the underlying expenditure, requests for additional information which are difficult to obtain within tight timeframes and requests for proof of payment of the underlying expenditure.

  In some cases, the number of requests for additional information in respect of low value claims is such that it is not commercially viable for the claimant to provide the information requested.

  Businesses also observed that in Italy, Poland, Spain and Portugal, claims were rejected when the claimant's VAT registration number is not provided in the invoices. As low value invoices, such as those from restaurants, might not include this information they are automatically invalid.

- **Penalty regimes**: It was also noted that two Member States (Sweden and the United Kingdom) apply penalties on claims that were rejected due to involuntary mistakes and errors made in good faith.

- **Payment:** VAT refunds from Poland can only be paid into accounts held at a bank with a registered office in Poland. As such, businesses not established in Poland may, therefore, need to open a bank account in Poland to receive payment in respect of a VAT refund.

- **Delays**: Businesses observed that they often experience long delays in receiving payment for VAT refund claims from Portugal and Romania.

- **Technology:** Businesses noted that the United Kingdom and Italy's online claim submission portals do not have the functionality for claimants to upload invoices in xml or csv format. In Austria, only local VAT advisers are allowed to upload to the online claim submission portal. In Spain, Hungary and Greece

external systems are used for uploading claims which require all invoices to be listed manually.

Issues with VAT reimbursement processes

- **Documentary evidence**: Businesses cited instances of onerous levels of formality relating to documentary evidence. These issues have been experienced in a number of Member States (Germany, Italy, France, Poland and Austria).
- **Delays:** It was reported that VAT registered businesses in the United Kingdom often experience delays in resolving enquiries into repayment returns.

  In Spain, it is only possible to reclaim VAT when filing an annual VAT return, which means companies sometimes have to wait over 12 months to get their VAT back. Businesses also reported long delays in Romania where it has been known for the VAT reimbursement process to take up to 16 months. In addition, the Belgian tax administration often fails to complete the VAT reimbursement process in time, taking up to six months to complete it in some instances.
- **Requirements:** Businesses have expressed concern over the introduction of new VAT reporting requirements in Spain, which has created unintended consequences in respect of VAT reimbursements. Spanish businesses, particularly SMEs, claiming a VAT reimbursement reported several instances of significant delays due to the introduction of the Immediate Supply of Information on VAT (SII) reporting system. Prior to the introduction of SII, businesses in a regular VAT repayment position (such as businesses making zero-rated supplies) were able to participate in a monthly VAT reimbursement scheme. The introduction of SII, however, forced those businesses to come out of this scheme while at the same time not being able to afford to participate in the SII system, meaning that they may have to wait 12-15 months for a reimbursement.

  Furthermore, requirements within the United Kingdom have also caused difficulties. HMRC freezes online filing accounts if the taxpayer has failed to notify every department within HMRC of a change in address and as a result unopened post is returned back to them. In the past, HMRC has also frozen an account when the taxpayer tried to change the address to a "care of" address of a professional service firm. Once the filing account is frozen, it takes up to a year before the taxpayer is reimbursed.

Appendix 5: Detailed summary of insights into the VAT refund process in Germany

Data on businesses surveyed that made claims to the German tax administration as a Member State of Refund was not identifiable from the business survey results.

The German tax administration does not provide data on VAT refunds to the Standing Committee on Administrative Cooperation. In addition, they declined to participate in the part of survey dealing with VAT refunds administered to tax administrations as part of this study. As such, the European Commission recommended the preparation of a detailed summary of the results relating to Germany as a Member State of Refund gathered from other components of the study.

Accordingly, this summary of the insights into the VAT refund process in Germany draws on:

- **Legislative analysis:** The analysis of domestic legislation implementing Directive 2008/9/EC yielded a number of findings on the degree of compliance of German legislation and administrative practice with the provisions of the Directive.
- **VAT refund agent survey:** Phase 1 of the VAT refund agent collected quantitative data on the duration of a VAT refund claim in specific Member States of Refund. Phase 2 of the VAT refund agent survey gave agents the option to answer in respect of a specific Member State of Refund or on a pan-EU basis. One VAT refund agent answered specifically in respect of Germany and a number provided comments relating to the process in Germany compared to other Member States of Refund.
- **Business survey:** The business survey asked businesses to indicate issues they experienced with particular Member States of Refund. Although the business survey collected much more detailed responses from businesses, it was administered on a Member State of Establishment basis and did not require businesses to respond in respect of a specific Member State of Refund.

Overview of domestic legislation implementing Directive 2008/9/EC

The analysis of domestic legislation and administrative practice highlighted that Germany is non-compliant with Directive 2008/9/EC. The following issues have been identified:

- **Article 13:** Article 13 has not been implemented in domestic legislation. This article concerns the process to allowing claimants to make a correction to the amount in a refund application. However, there is a general provision in the German Fiscal Code that allows applicants to correct errors in their application.
- **Article 25:** Article 25 has not been implemented in domestic legislation. This article concerns the requirement for the Member State of refund to take into account as a decrease or increase of the amount of the refund any correction made concerning a previous refund application in accordance to Article 13. However, in practice, the authorities take into account a decrease or increase of the amount of the refund when any corrections are made to the application.

- **Article 16:** Article 16 has not been implemented in domestic legislation. This article concerns the duration of the refund period. However, the tax administration practice is in line with Article 16.
- **Article 19:** Article 19 has not been implemented in domestic legislation. This article concerns the requirement for the Member State of Refund to notify the applicant of the decision. However, in practice, the German tax administration does provide electronic confirmation of receipt of an application.
- **Article 20:** Article 20 has not been completely implemented in German domestic legislation. This article concerns how the Member State of Refund can request additional information. The tax administration practice is also non-compliant, as some refund claims are automatically rejected by the tax administration if they are considered not to have adequate information, without a request for supporting information being made.
- **Article 21:** Article 21 has not been implemented in domestic law. This article concerns deadlines for the Member State of Refund to process claims where additional information is requested. However, the requirements under Article 21 can be implied from the VAT Implementing Regulation regarding when interest is payable.
- **Article 22:** Similarly, Article 22(1) has not been implemented in domestic legislation. This article concerns the deadline for the Member State of refund to pay when an application has been approved. However, this is implied from VAT Implementing Regulation. Article 22(2) has not been implemented in domestic legislation. This article concerns the requirement for the refund to be paid in the Member State of refund, or upon the applicant's request, in any other Member State.
- **Article 23:** Article 23 has not been implemented in domestic legislation. This concerns the requirement for Member State of refund to provide the grounds of refusal to applicants. However, according to General Fiscal Rules, every administrative act/official decision of the tax administration with respect to tax matters should be substantiated to ensure that the taxpayer can properly understand it.
- **Article 24:** Article 24 has not been implemented in domestic legislation. This article concerns the recovery of amounts refunded incorrectly or through claims that were deemed to be fraudulent.

In addition, it is noted that the European Commission has commenced infringement proceedings against Germany in respect of its non-compliance with Article 20 (see the press release dated 24 January 2019: IP/19/472).

Claim preparation and submission

Data on businesses that specifically made claims to the German tax administration is not identifiable from the business survey results.

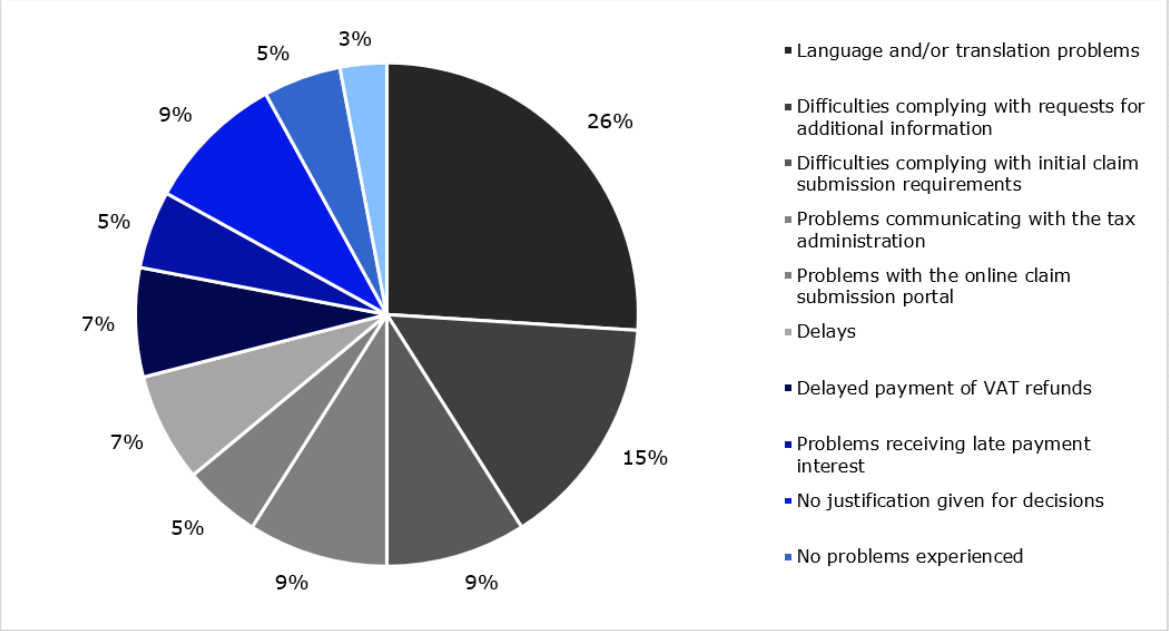
However, where businesses make use of the service of a VAT refund agent, it was found that the process of appointing an agent appears to be particularly quick in Germany. This was highlighted by two agents: one in a response covering the whole of the EU and the other in a Germany specific response. The fact that an electronic copy of a Power of Attorney (PoA) can be used may explain this.

Issues encountered when submitting a VAT refund claim to the German tax administration

Out of 217 businesses surveyed that process claims in-house, 129 businesses provided a response on the most common issues faced when submitting a VAT refunds claims and the Member State of Refund with which they faced these issues. Germany (17%) was ranked as the most common Member State of Refund where businesses had experienced issues. Belgium (9%), Bulgaria (9%) and France (7%) were other Member States of Refund where businesses recorded that they had encountered difficulties. The fact that most businesses face problems in Germany, Belgium and France may be due to high volume of claims businesses submit to these Member States of Refund.

In particular, where the business surveyed encountered problems with VAT refund claims to the German tax administration language issues and difficulties complying with additional information requests were among the most common.

Figure 127: Issues encountered by businesses when claiming VAT refunds from the German tax administration



Source: PwC analysis

Responses from two of the four VAT refund agents surveyed (one in a response covering all Member State and one in a Germany specific response) highlighted Germany as having particularly significant issues with additional information.

They reported that the German tax administration is no longer making requests for additional information, but is instead completely rejecting applications, even in cases where there are missing scans of invoices or low resolution scans (information which it is likely the taxpayer could provide if it were requested).

Given the approach followed by the German tax administration, in practice, the only way for the agents or taxpayers to pursue a claim after it has been rejected is to file an appeal. This, in turn, delays the refund process and makes it harder for taxpayers to comply with the rules, in what could have been a much simpler process if the tax administration had issued additional information requests as foreseen by the paragraph 1 of Article 20 of Directive 2008/9/EC.

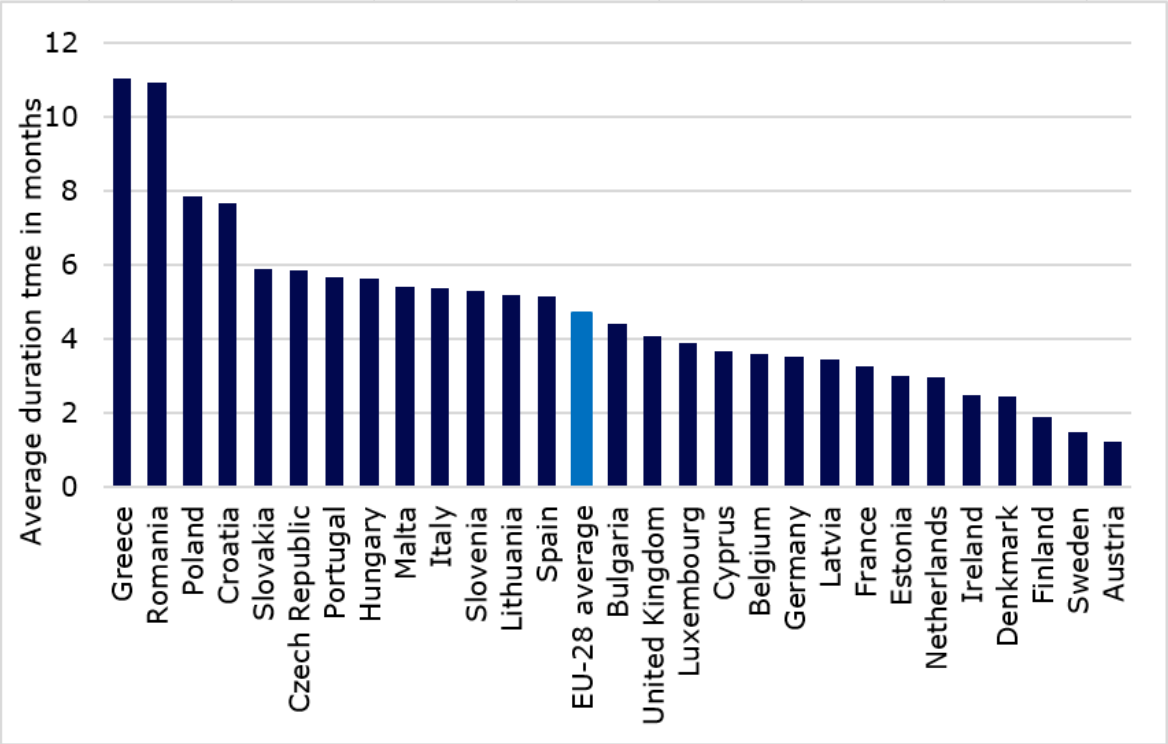
The experience of VAT refund agents in respect of complying with additional information requests is consistent with that of the businesses surveyed and is borne out by the European Commission's recent decision to commence infringement proceedings against Germany in respect of its non-compliance with Article 20 (see the press release dated 24 January 2019: IP/19/472).

Claim duration

Based on data collected from two of the six VAT refund agents surveyed, it was possible to analyse the average duration (i.e. length of time taken from submission of a claim until receipt of a decision) of a VAT refund claim in the EU-28.

On average, EU-28 tax administrations took just over 4.7 months to process VAT refund claims submitted by agents. Claims submitted to the German tax administration took slightly shorter to process than the EU-28 average (approximately 3.5 months). It should also be noted that tax administrations in other Member States of Refund took significantly longer to process a claim than the EU-28 average (e.g. Greece and Romania).

Figure 128: Average claim duration in months across the EU-28 Member States



Source: VAT refund agent data

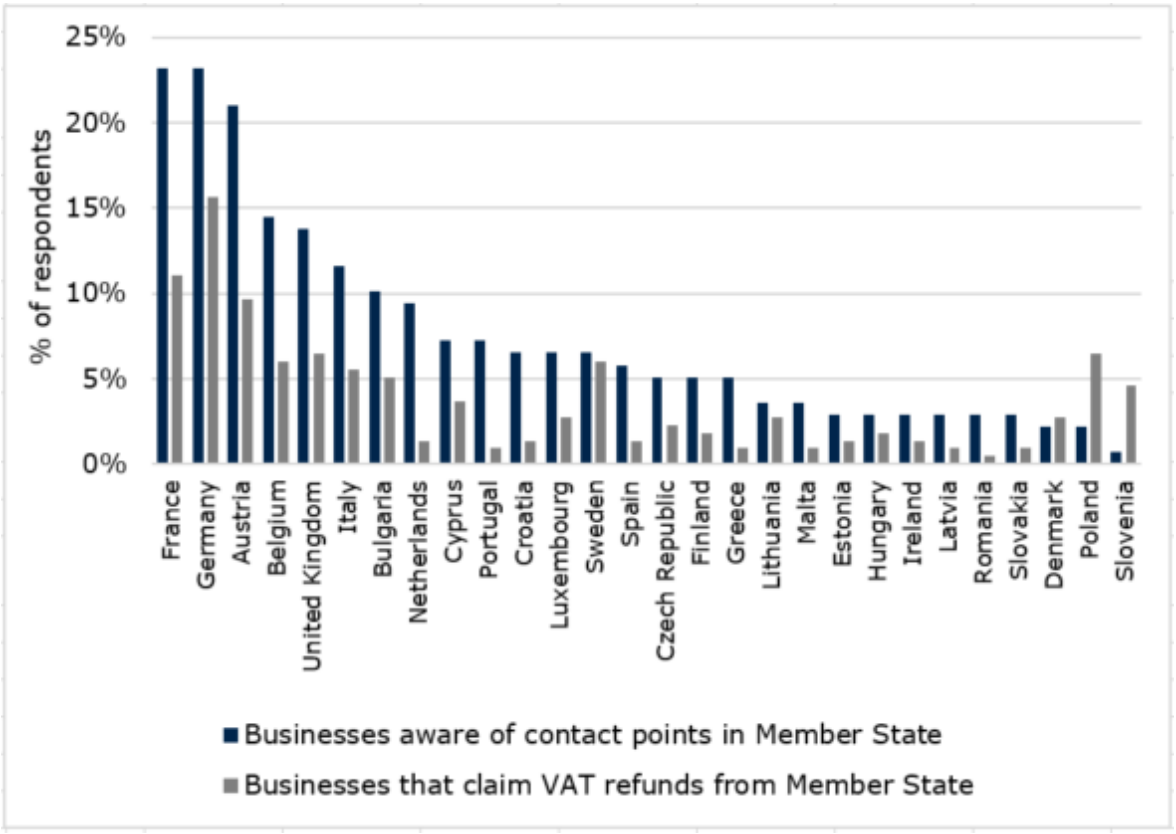
Effectiveness of tax administration communication and support

As can be seen from Figure 129, overall a significant proportion of the businesses surveyed are aware of the contact points established by the German tax administration.

Moreover, all of the businesses surveyed that submit VAT refund claims to the German tax administration are aware of the specific contact point. This compares against outliers, such as Poland and Slovenia, where only a proportion of the businesses surveyed that make VAT refund claims to these Member States were aware of the contact points established by the tax administration in question.

On average, the businesses surveyed aware of the specific contact point established by the German tax administration ranked it as highly effective.

Figure 129: Awareness of contact points established by tax administrations in Member State of Refund



Source: PwC analysis

Appendix 6: Acknowledgments

EU-28 tax administration contacts

The authors of this report would like to recognise the contribution of the following Member State representatives.

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Austria	Federal Ministry of Finance, European Tax Policy Department
Belgium	Federal Public Service Finance, Fiscal Department
Bulgaria	National Revenue Agency, Central Liaison Office
Croatia	Ministry of Finance, Tax administrations
Cyprus	Ministry of Finance, Tax Department
Czech Republic	General Financial Directorate, International Cooperation Unit - Indirect Taxes
Denmark	Ministry of Taxation, Management Secretariat Business
Estonia	Estonian Ministry of Finance, Tax Audit Department
Finland	Ministry of Finance, Finnish Tax administrations
France	French Tax administrations, Exchange of Information Unit
Germany	Federal Ministry of Finance
Greece	Independent Administration for Public Revenue, General Directorate of Tax administrations
Hungary	National Tax and Customs Administration, Central Management Inspection Department
Ireland	Irish Tax and Customs, Mini One-Stop-Shop Team
Italy	Ministry of Economy and Finance, Finance Department

Country	Affiliation(s)
Latvia	State Revenue Service, NP Data Validation
Lithuania	State Tax Inspectorate, Tax Deductible Department
Luxembourg	Directorate of Registration Administration and Domains, Inspection Service of Taxation and Control Offices
Malta	Commissioner for Revenue
Netherlands	Ministry of Finance, Administrative Affairs and Communication Taxes
Poland	Ministry of Finance, Department of Tax Collection
Portugal	Tributary and customs administration, Primary Tax
Romania	National Agency for Tax administrations, Strategy and International Relation
Slovakia	Financial Directorate of the Slovak Republic, Risk Management and Operational Activities Department
Slovenia	Financial Administration of the Republic of Slovenia, Department of Value Added Tax
Spain	Tax Agency, International Relations Coordination Unit
Sweden	Swedish Tax Agency, Direct Taxes and VAT
United Kingdom	Her Majesty's Revenue and Customs, Business tax

PwC network

The authors of this report would also like to recognise the contribution of the following members of the PricewaterhouseCoopers global network.

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- EU VAT Forum
- International VAT Association

VAT refund agents:

- Nebu Transport Services
- Nikosax
- Negometal
- VATIT
- EuroVAT
- Quipsound