VAT refunds and reimbursements: A quantitative and qualitative study

Final report on VAT reimbursements

TAXUD/2017/DE/328

FWC No. TAXUD/2015/CC/131

PwC PricewaterhouseCoopers LLP (Project Leader)

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.

The information and views set out in this report are those of the authors and do not necessarily reflect the official opinion of the Commission. The Commission does not guarantee the accuracy of the data included in this study. Neither the Commission nor any person acting on the Commission's behalf may be held responsible for the use which may be made of the information contained therein.

Table of contents

List of tables

List of figures

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 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.

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 excess input VAT repayable to the taxpayer is offset against VAT payable in the next VAT period.

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.

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 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
OLS	Ordinary Least Squares
PoA	Power of Attorney
PwC	PricewaterhouseCoopers LLP
SCAC	Standing Committee on Administrative Cooperation
UK	United Kingdom
VAT	Value Added Tax

Abstract

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 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 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 Background

The timely receipt of VAT reimbursements is important to European businesses. Delays and refusals could generate adverse financial consequences, which are likely to be felt more keenly by micro-, small- and medium-sized enterprises (MSMEs).

VAT reimbursements are defined as a repayment of deductible input VAT incurred in excess of output VAT due in the Member State in which the taxpayer is registered for VAT. Article 183 of Council Directive 2006/112/EC establishes the right of taxpayers in EU law to receive reimbursements of excess input VAT. This right has been consistently reinforced and clarified through rulings of the Court of Justice of the European Union (CJEU).

Typically, businesses may incur excess input VAT by virtue of their business models (e.g. exporters or zero-rated traders) or as a result of events in their lifecycle (e.g. significant capital expenditure). However, a number of ongoing structural changes may mean that more businesses could be in a VAT reimbursement position in the future. 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 split payment mechanisms.

The purpose of this study is to thoroughly evaluate the current VAT reimbursement regimes across the EU. This evaluation is based on a mix of desk research, discussions with local tax practitioners, as well as surveys of businesses and tax administrations. It undertakes a broad assessment encompassing analysis of legal and administrative frameworks, the experiences of businesses, particularly MSMEs, and the experience of EU-28 tax administrations.

1.2 Key findings

In 2016, tax administrations in 16 Member States received approximately 5.5 million reimbursement claims amounting to a total value of EUR 153.5 billion. The total number and value of claims grew over the period 2013-2016, increasing by 6.4% and 2.3% respectively. Accordingly, the average value of a claim has declined from just under EUR 29,000 in 2013 to around EUR 28,000 in 2016.

Although data on the number and value of VAT reimbursement claims was available from just 16 Member States, it is clear to see that administering reimbursement procedures is a significant task for tax administrations across the EU. Indeed, research on the rejection of VAT refund claims made under Directive 2008/9/EC suggests that this data may not capture the full extent of businesses in a reimbursement position. Businesses and tax administrations indicated that a common justification for the rejection of such claims was that the business in question should be registered for VAT in the Member State of Refund.

Tax administrations processed approximately 91.7% of the VAT reimbursement claims submitted in 2016, down from 93% in 2013. Different processes are used by tax administrations to verify claims but these are usually based on a combination of

business-specific and claim-specific risk factors. Where one or more of these risk factors is met, tax administrations may request additional information from the claimant.

Interestingly, a large proportion of the businesses surveyed reported that they incur the same time and monetary costs to prepare and submit a claim regardless of whether additional information is requested. Indeed, 60% of the businesses surveyed reported that they take four hours or less to prepare and submit a VAT reimbursement claim and 42% stated that they incur costs of less than EUR 5,000.[1] In addition, some Member States do not allow businesses to claim VAT reimbursements with the same frequency with which they submit their periodic VAT return, which can generate a mismatch in the timing of VAT-related cash flows.

In 2016, tax administrations across the EU approved 99.5% of claims processed. The three most common reasons for claims being rejected were claims being deemed fraudulent, taxpayers having not submitted sufficient or valid additional information or claims not meeting the legal requirements of local VAT systems.[2] Respondents to the business survey stated that rejected claims generated adverse impacts on cash flow, deferred investment and hiring, as well as reduced profits in some instances.

Although just 4.7% of reimbursement claims received in 2016 were paid outside the deadlines contained in domestic legislation these claims equated to 10% of the total value of claims. Delayed reimbursement claims resulted in adverse impacts on cash flow was reported by 33% of respondents to the businesses survey, deferred investment for 40% of respondents and deferred hiring for 25%. These impacts can be compounded by difficulties in recovering late payment interest from tax administrations, which were reported by 33% of respondents to the business survey, and the costs of maintaining financial guarantees where required.

Disputes of decisions are infrequent, occurring in 0.12% with VAT reimbursement claims received in 2016. Most (94.3%) of these disputes occurred at an administrative level and 95% of respondents to the business survey stated that disputes are usually settled in less than nine months. Most businesses incur average costs of EUR 10,000 or less to dispute claim and the average value of a disputed claim is approximately EUR 39,000. Disputes are often decided in favour of the tax administration, which is consistent with the fact that the most common grounds for rejecting a claim centre on the underlying validity of the claim and supporting evidence.

Taxpayers were generally satisfied with the support received from tax administrations during the VAT reimbursement process. Indeed, 50% of respondents to the business

[1] 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).

[2] 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.

survey described the support they received from tax administrations as very friendly or friendly

1.3 Suggestions for improvement

On the whole, VAT reimbursement procedures operate relatively smoothly across the EU despite some variation between Member States. However, it is clear that businesses and tax administrations face a number of challenges.

If left unchecked, these could become a growing driver of inefficiency in the way claims are prepared and processed which could threaten the fundamental right to deduct input tax which sits at the heart of the EU VAT system. As such, the suggestions for improvement below present specific considerations for Member States and the European Commission to improve existing VAT reimbursement procedures.[3]

Suggestion 1: *Develop frameworks for the systematic collection and analysis of data on VAT reimbursements.* It became apparent that EU-28 tax administrations do not collect data on VAT reimbursements on a systematic basis. This increases the risk of anomalies being left undetected and limits the extent to which data can be used to drive process improvements.

Suggestion 2: *Improve procedures to ensure foreign traders register for VAT.* Tax administrations should put in place procedures to routinely to check that foreign traders denied a VAT refund register for VAT in the Member State in question.

Suggestion 3: *Conduct further research into the challenges faced by businesses when recovering late payment interest*. A significant proportion of the businesses surveyed encountered challenges in receiving late payment interest despite clear provisions included in VAT law that establish their rights in this area (Case C-431/12 EU:C:2013:686).

Suggestion 4: *Address features of VAT reimbursement procedures that generate financial risks for taxpayers.* Businesses should be able to claim a VAT reimbursement with the same frequency with they are permitted to file VAT returns. Consideration should also be given to raising the value threshold for claims requiring financial guarantees, as well as compensation for the costs of maintaining such guarantees.

Suggestion 5: *Alleviate the burden of increasingly formalistic requests for additional information.* VAT reimbursement claims could be processed more efficiently by embedding routine requests for originals and/or copies of invoices in the claim submission process.

[3] 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, it may be sufficient to implement changes through best practice circulars or changes to administrative guidance and practice. However, it is conceivable that some of the suggestions could only be realised through changes to Directive 2006/112/EC and/or the corresponding domestic legislation.

2. Synthèse

2.1 Contextes

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 micros, 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 au niveau national (VAT reimbursement) est défini comme étant le remboursement 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. L'article 183 de la directive 2006/112/CE du Conseil établit le droit des contribuables à recevoir des remboursements de l'excès de TVA payée. Ce droit au remboursement a toujours été renforcé et clarifié par les décisions de la Cour de justice de l'Union européenne (CJUE).

Habituellement, les entreprises se retrouvent avec des excès de TVA du fait de leur modèle d'entreprise (avec par exemple des exportateurs ou des échanges à taux zéro) ou résultant d'évènements dans leur cycle de vie, tels qu'une dépense en capital importante. Cependant, un certain nombre de changements structurels actuels peuvent indiquer que de plus en plus d'entreprises pourraient se retrouver dans une position de remboursement de TVA au niveau national dans le futur. Ceux-ci incluent la croissance du commerce mondial au sein d'une transition vers un système basé plutôt sur la destination, l'introduction de systèmes d'auto-liquidation domestiques et la préférence croissante de la part des gouvernements pour des mécanismes de paiement fractionnés.

L'objectif de cette étude est d'évaluer de manière approfondie les régimes actuels de récupération de la TVA dans l'Union européenne. 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 fournit 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.

2.2 Principales constatations

En 2016, les administrations fiscales de 16 Etats Membres 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. Le nombre total et la valeur des demandes ont augmenté durant la période entre 2013 et 2016, de 6,4% et de 2,3% respectivement. En conséquence, la valeur moyenne

d'une demande a diminué de presque 29,000 euros en 2013 à environ 28,000 euros en 2016.

Bien que les données sur le nombre et la valeur des demandes de remboursement de la TVA ne soient disponibles seulement pour 16 Etats Membres, il est clair qu'administrer les procédures de remboursement est une tâche importante pour les administrations fiscales dans toute l'Union européenne. En effet, les recherches sur le rejet des demandes de remboursement de la TVA effectuées sous la Directive 2008/9/EC suggèrent que ces données ne sont pas en mesure de capturer toutes les entreprises dans cette position de remboursement au niveau national. Les entreprises et administrations fiscales ont indiqué qu'une justification courante pour le rejet de ces demandes est que l'entreprise en question devrait être enregistrée pour la TVA dans l'Etat Membre de remboursement.

En 2016, les administrations fiscales ont traité environ 91.7% des demandes de remboursement de la TVA soumises, une baisse relativement à 93% en 2013. Différents processus sont utilisés par les administrations fiscales afin de vérifier les demandes; ils se fondent généralement sur une combinaison de facteurs de risques spécifiques à l'entreprise et à la demande.

Quand un ou plusieurs de ces facteurs de risques sont repérés, les administrations fiscales peuvent demander des informations complémentaires au demandeur du remboursement.

Il est intéressant de noter qu'une grande partie des entreprises questionnées ont déclaré qu'elles dépensaient autant de temps et d'argent pour préparer et soumettre ces demandes, indépendamment des potentielles demandes d'informations complémentaires. En effet, 60% des entreprises questionnées ont indiqué qu'il leur faut 4 heures ou moins pour préparer et soumettre une demande de remboursement de la TVA, et 42% déclarent que cela leur coute moins de 5000 euros.[4] De plus, certains Etats Membres n'autorisent pas les demandes de remboursement à la même fréquence que la soumission de leur déclaration de TVA périodique, ce qui génère un décalage en termes de flux de trésorerie lies à la TVA.

En 2016, les administrations fiscales dans l'Union européenne ont accepté 99.5% des demandes traitées. 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.[5] 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.

[4] Bien que le coût de préparation d'une demande de remboursement de la TVA semble élevé par rapport à la valeur moyenne d'une demande de remboursement en 2016 (28 000 euros), cette moyenne cache le fait que les répondants à l'enquête auprès des entreprises étaient établis dans des Etats Membres dans lesquels les demandes avaient des valeurs très variées (d'un minimum de 1 600 euros à un maximum de 158 000 euros).

[5] 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.

Bien que seulement 4,7% des demandes de remboursement aient été réglées en dehors des délais prescrits par la législation domestique en 2016, ces demandes représentaient 10% de la valeur totale de toutes les demandes. Pour les entreprises, ces remboursements tardifs ont pour des impacts négatifs sur leurs flux de trésorerie (33% des répondants), leurs investissements (40%) et leur recrutements (25%). Ces effets sont accentués par les difficultés à obtenir les intérêts dus à cause du retard de la part de l'administration fiscale, signalées par 33% des entreprises interrogées, et quand des garanties financières sont nécessaires.

Les litiges concernant les décisions des administrations fiscales sont peu fréquents, et sont arrivés dans 0,12% des cas pour les demandes de remboursement de la TVA reçues en 2016. La grande majorité (94,3%) de ces litiges ont eu lieu au niveau administratif et 95% des répondants ont déclaré les différends étaient généralement réglés en moins de neuf mois. Les entreprises dépensent en moyenne 10 000 euros ou moins pour contester une réclamation et la valeur moyenne d'une réclamation contestée était d'environ 39 000 euros. Les litiges sont plus souvent réglés en faveur des administrations fiscales qu'en faveur des contribuables, ce qui n'est pas surprenant puisque les raisons de rejet principales se concentrent sur la validité de la demande et de ses justificatifs.

2.3 Suggestions d'amélioration

Dans l'ensemble, les procédures de remboursement au niveau national fonctionnent relativement bien dans l'Union européenne, malgré certaines variations entre les États membres.

Cependant, il est clair que les entreprises et les administrations fiscales font face à un certain nombre de défis.

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 compromettre le droit fondamental de récupérer la taxe sur les intrants, fondamental au système de TVA de l'UE. Ainsi, les suggestions d'amélioration ci-dessous présentent des considérations spécifiques pour les Etats Membres et la Commission Européenne pour améliorer les procédures de remboursements de la TVA telle qu'elle est actuellement.

Suggestion 1: Développer des cadres pour une collection et analyse de données systématiques des remboursements de la TVA. Il est devenu clair que les administrations fiscales des pays EU-28 ne collectent pas les données sur les remboursements de la TVA systématiquement. Cela augmente le risque d'anomalies qui restent cachées et limite l'utilisation des données dans le but d'améliorer les processus.

Suggestion 2: Améliorer les procédures pour s'assurer que les commerçants étrangers s'enregistrent pour la TVA. Les administrations fiscales pourraient mettre en place des procédures pour vérifier régulièrement que les commerçants étrangers qui se voient refuser leur demande de remboursement s'enregistrent pour la TVA dans l'Etat Membre en question.

Suggestion 3: Conduire davantage de recherches sur les défis auxquels les entreprises doivent faire face pour récupérer les intérêts dus à des remboursements tardifs. Une proportion importante des entreprises interrogées ont rencontré des défis

pour recevoir ces intérêts malgré la clarté de la loi sur la TVA, qui établit ce droit (Case C-431/12 EU:C:2013:686).

Suggestion 4: Adresser les éléments de la procédure de remboursement de la TVA qui génèrent des risques financiers pour les contribuables. Les entreprises devraient être en mesure de réclamer un remboursement de la TVA à la même fréquence qu'elles sont autorisées à déclarer leur TVA. Augmenter la valeur du seuil pour les demandes qui nécessitent des garanties financières devrait également être considéré, ainsi qu'une compensation des coûts de maintien de telles garanties.

Suggestion 5: Alléger le poids des demandes d'informations complémentaires qui se font de plus en plus formelles. Les demandes de remboursement de la TVA au niveau national pourraient être traitées de manière plus efficiente si les versions originales et/ou des copies des factures étaient requises au moment de la soumission de la demande plutôt qu'après un premier traitement.

3. Introduction

3.1 About this study

The timely receipt of VAT reimbursements is of importance to European businesses.6 Delays and refusals can have adverse financial consequences, which are felt more keenly by micro-, small- and medium-sized enterprises (MSMEs). As such, the issue of VAT reimbursements is a topic of importance for the European Commission ("the Commission") efforts to develop the internal market and reduce of unnecessary administrative burdens and costs for businesses.

Accordingly, this study evaluates the current regime and highlights areas of difficulty encountered by taxable persons in making VAT reimbursement claims, as well as by the tax administrations of EU Member States in handling such claims. The outputs of the study will enable the Commission to ensure compliance with VAT legislation and improve the efficiency of the internal market.

3.2 Background

Businesses can pay more VAT on their purchases than they collect on their sales, especially 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.[7]

In the European Union, the rights of taxpayers to reimbursements are established in European VAT law. Council Directive 2006/112/EC contains a number of provisions governing the right of a taxable person to deduct input VAT incurred 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;

[6] 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).
[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].

- 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.

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 detailed and specific legal framework, the Court of Justice of the European Union ("CJEU") has given rulings that set out 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.[8]

The CJEU cases that have set out the key principles in respect of reimbursements are as outlined in Appendix 1. Despite the fact that EU VAT law does not provide for significant harmonisation in this specific context, the Commission have received complaints about VAT reimbursement procedures. Issues reported are 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.

[8] 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.*

- Difficulties tackling fraudulent activity within the EU VAT system and advancements in technology have led to the introduction of split payment mechanisms, 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.[9] By eliminating the need for the supplier to collect output VAT, the mechanism mitigates the prospect of VAT fraud.[10] However, while a split payment mechanism may be useful to safeguard VAT collection, it increases the incidence of developing excess input VAT over output VAT.

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.

3.3 Objectives

Given the importance of ensuring the smoothness of the VAT reimbursement process, the main objectives of the study are to:

- Provide an overview of the functioning of 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 reimbursement process;
- Provide an overview of the administrative procedures governing the processing of VAT reimbursement claims in each Member State, highlighting potential problems which could hinder the smooth functioning of the 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 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 gives a review of the findings with respect to VAT reimbursements.

Section 6 presents the conclusions of the study, including suggestions for improving the procedure for claiming VAT reimbursements.

Appendix 1 summarises the key principles arising from CJEU case law on VAT reimbursements.

[9] 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.

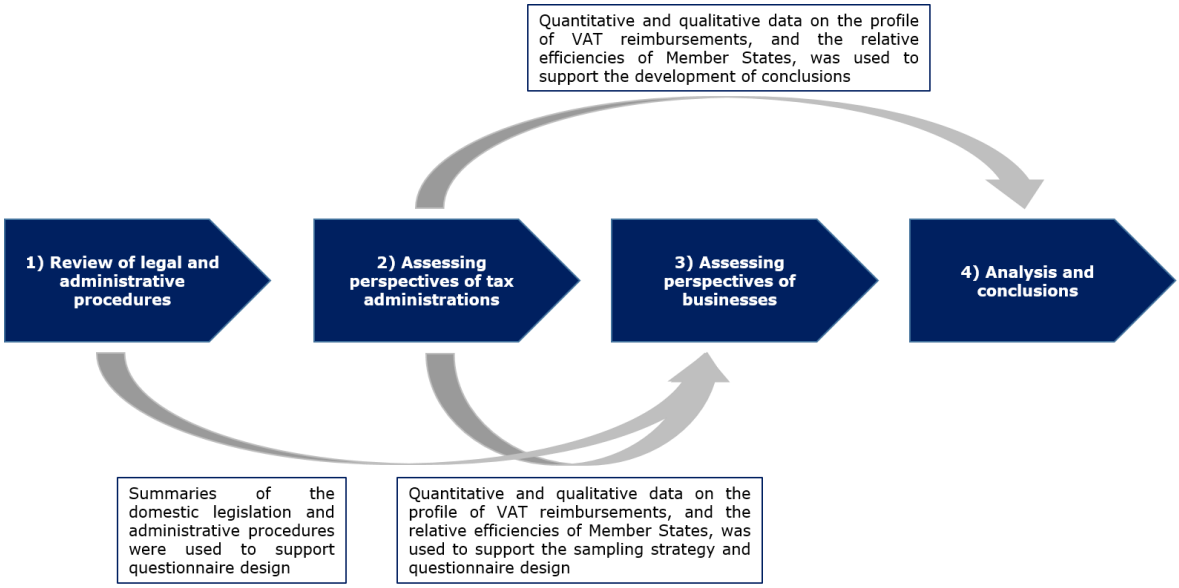
[10] Italy, for example, has already implemented a limited split payment system and recently Romania introduced a similar mechanism. More Member States, for example Poland and the UK, are currently considering the introduction of such a system.

4. Research strategy and data limitations

4.1 Research strategy

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. The technical annex to this report contains a more detailed overview of the research techniques employed throughout this study.

Figure 1: Overview of research approach



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 Article 183 of Directive 2006/112/EC and relevant aspects of CJEU case law concerning VAT reimbursements 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 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.

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.

The technical annex to this report documents the full extent of the data limitations. A number of the key data limitations are set out below:

- The Maltese tax administration did not provide quantitative or qualitative data for either VAT reimbursements.
- Only a few Member States provided data on claims disputed and appealed at an administrative and judicial level. 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 technical annex to the report.
- No substantive data on the number and value of VAT reimbursement claims queried was received from any Member State.
- Although the sample sizes used for the businesses survey is too small to yield results that can be generalised to the rest of their respective populations, the data yielded by this survey 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 Key drivers of VAT reimbursement claims across the EU-28

This section of the report explores possible drivers of the distribution of VAT reimbursements claims across the EU-28. Understanding the potential drivers of the distribution of VAT reimbursement claims will help to contextualise subsequent analysis.

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

5.1.1 Identifying potential drivers of VAT reimbursement claims

As outlined in the Technical Annex to this report, VAT-registered businesses may be entitled to a VAT reimbursement for a number of reasons. 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 (also known as repayment traders);
- 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 basis for exploring macroeconomic variables that could be used as proxies.

It is difficult to identify a macroeconomic variable as a proxy for the first situation outlined above. This is because VAT rates typically do not vary much over time within any given Member State. However, corresponding macroeconomic variables were identified for the other two situations:

- **Birth of new enterprises**: This measures the number of new enterprises established annually. It does not cover dormant enterprise or a new corporate entity created from mergers, break-ups or a restructuring. This metric was used as a proxy for businesses that have yet to commence trading, but incur VAT on expenditure without any VAT-able revenues.
- **Gross fixed capital formation**: This measures the value of investment in fixed assets by businesses, less disposal of fixed assets. This acts as a proxy for capital expenditure on which could generate excess input VAT.

5.1.2 Analysis of potential drivers

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

As well as the two macroeconomic variables discussed above, the analysis included a number of additional variables as controls. These included gross domestic product (GDP) to control for the differences in the size of economics across the EU. Including GDP allows for more accurate measurement of the impact the other proxies have on the distribution of VAT reimbursement claims. Similarly, three other variables are used to account for country or regional variations in VAT reimbursement claims.

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 gross fixed capital formation (GFCF) is associated with a 0.467% increase in the value of VAT reimbursement claims.

The analysis also shows that GDP has a positive impact on the value of VAT reimbursement claims and that there is regional variation. The 15 Member States in this sample were divided into four regions:

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.

5.1.3 Summary

The pooled OLS regression results showed that the birth of new enterprises and GFCF have a positive relationship with the value of VAT reimbursement claims. However, it should be noted that GFCF is statistically insignificant although 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 the Technical Annex to this report.

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

5.2 Composition of VAT reimbursement claims across the EU-28

This section of the report outlines the composition of VAT reimbursement claims across the EU-28 and how this has changed over time. This highlights cross-country differences and provides a basis for subsequent research.

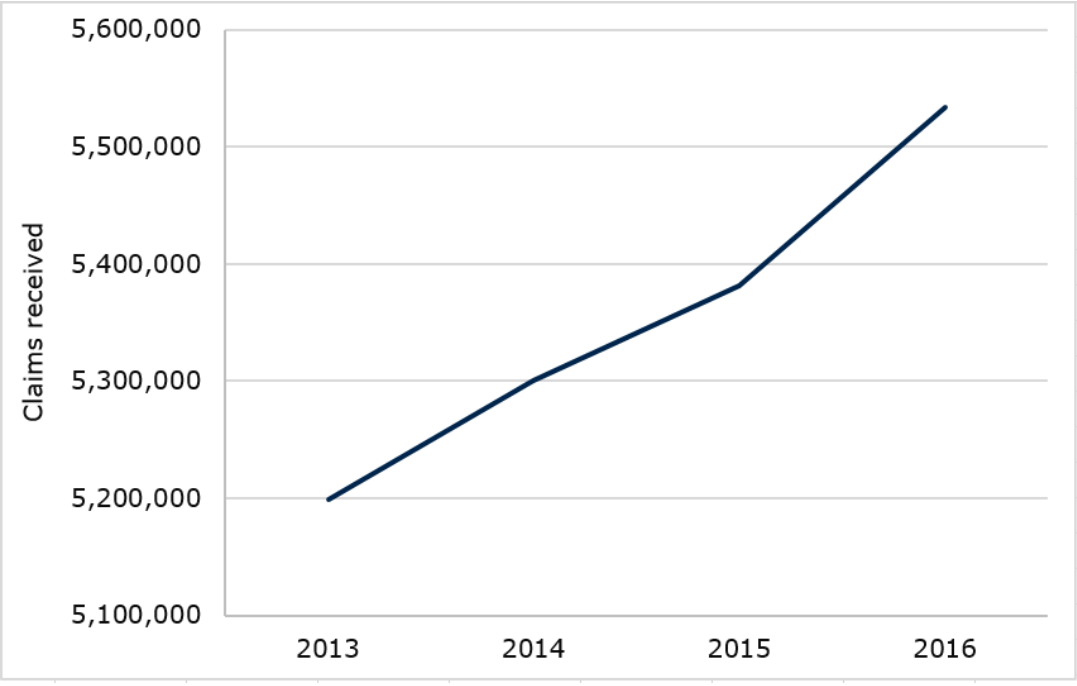
Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- 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.

5.2.1 Number of claims received

The EU-16 received 5.5 million VAT reimbursement claims in 2016, up from around 5.4 million in 2015 and representing a 2.8% increase over the period 2013-2016.

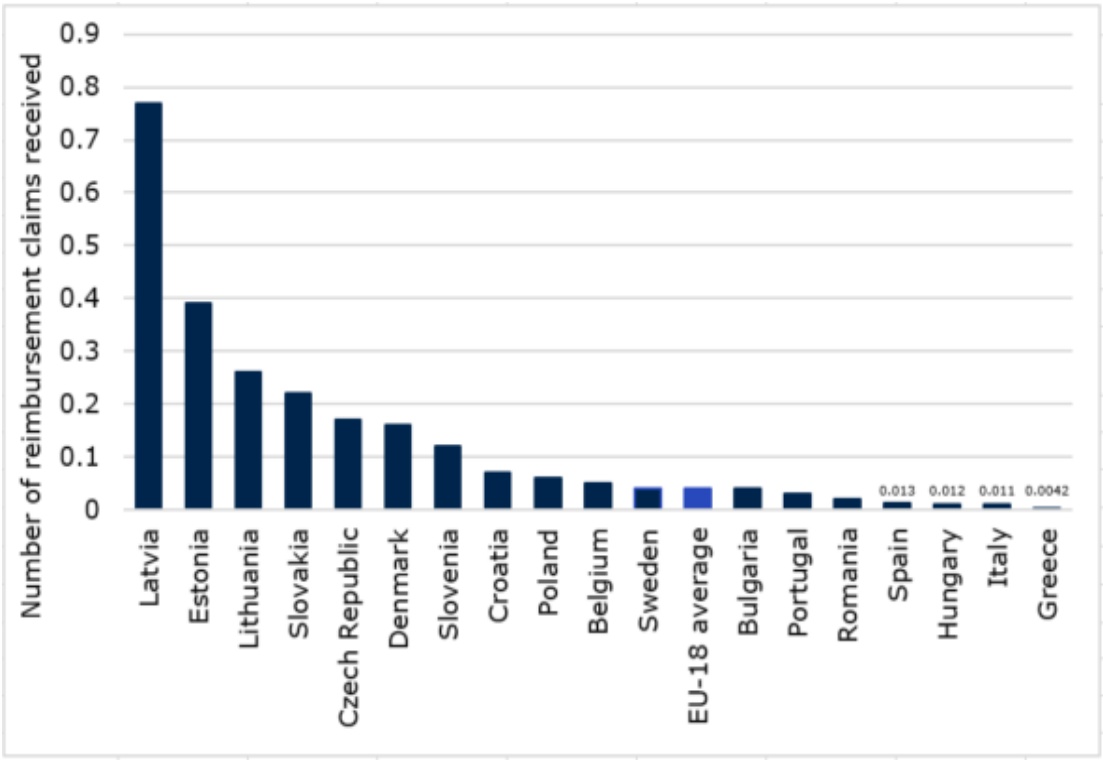
Figure 2: VAT reimbursement claims received across the EU-16



Source: Tax administration data, PwC analysis

In 2016, approximately 0.04 reimbursement claims were submitted per VAT-registered business each VAT reporting period across the EU. Most Member States received less than 0.1 claims per registered business. However, 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.[11]

Figure 3: 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

5.2.2 Value of claims received

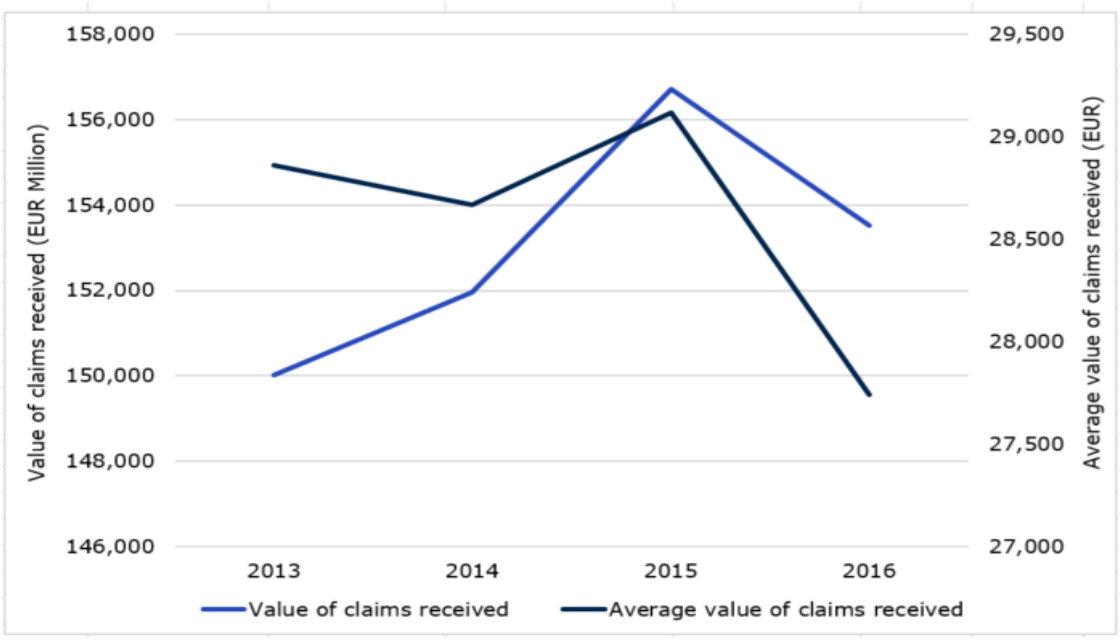
In contrast with the sharp increase in the number of claims received, both the total and average value of claims received fell in 2016. The total value of claims fell from a four-year high of EUR 156.7 billion in 2015 to EUR 153.5 billion in 2016, which was still above 2013 and 2014 levels.

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. This suggests that businesses are submitting more claims, but for small amounts of excess input VAT.

Figure 5 shows the average value of claims received per VAT-registered business in each Member state in 2016. The average value of a VAT reimbursement claim ranged from EUR 1,600 in Greece to EUR 304,000 in Hungary.

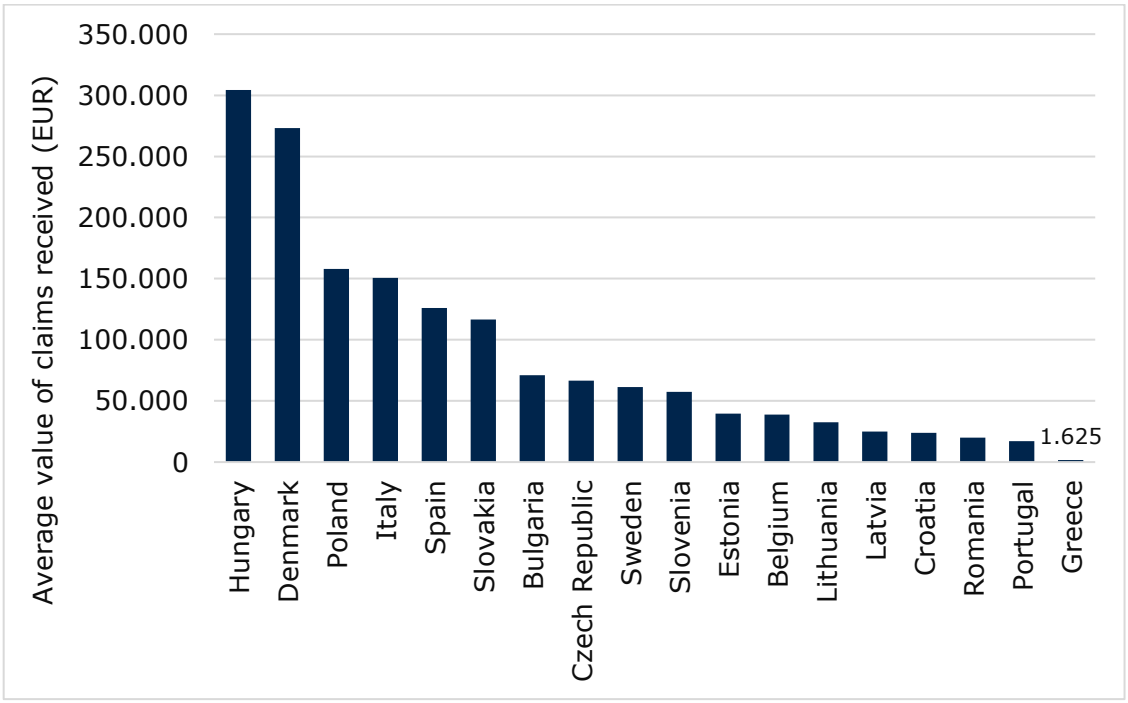
[11] These figures are based on the total population of VAT-registered businesses in each Member State.

Figure 4: Total and average value of claims received across the EU-16



Source: Tax administration data, PwC analysis

Figure 5: Average value of claims received in 2016



Source: Tax administration data, PwC analysis

5.2.3 Reasons for submitting a VAT reimbursement claim

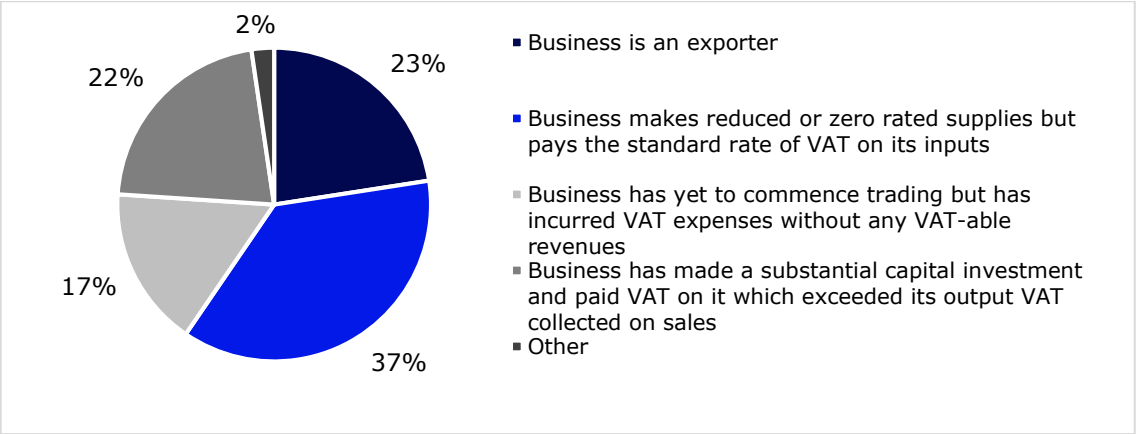
As outlined in Figure 6, the most common reason for a business to be in a reimbursement position is that they make reduced or zero-rated supplies but pay the standard rate of VAT on inputs. This was followed by 23% of respondents stating that they had incurred excess input VAT because their business is an exporter. In addition,

a similar amount stating that their business had made substantial capital investment and paid VAT on it which exceeded output VAT collected on sales.

Based on the results of the business survey, the least common reason for submitting a VAT reimbursement claim was for new businesses that had yet to commence trading but had incurred VAT on expenditure.

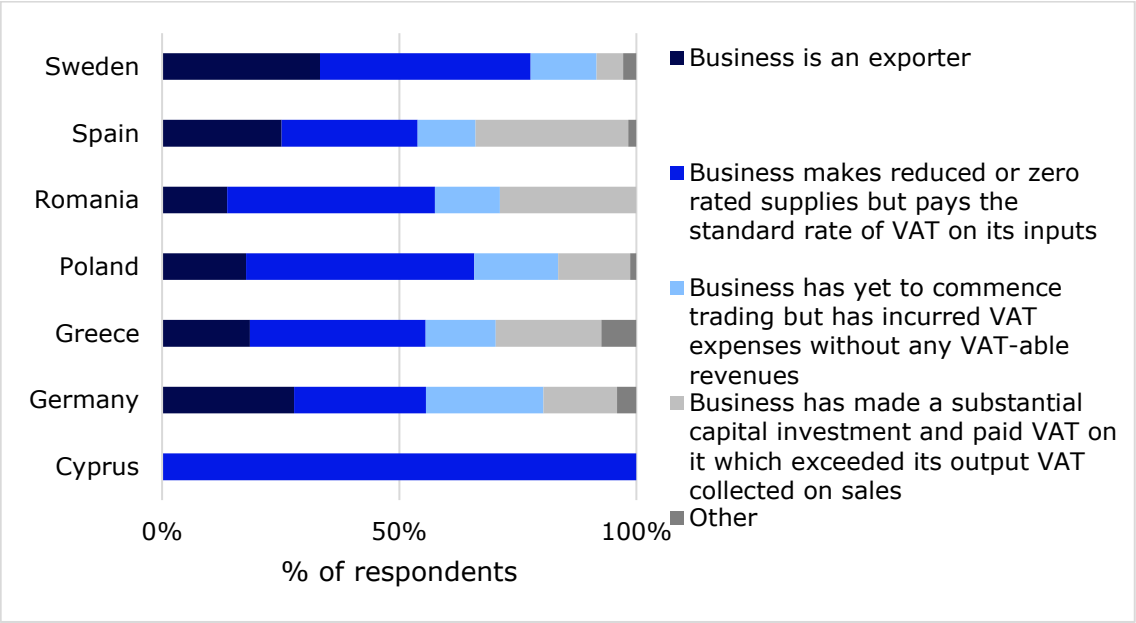
There was a certain amount of variation at a Member State-level as shown in Figure 7. However, the main reasons for incurring excess input VAT in each Member State in the business survey was being an exporter or a repayment trader.

Figure 6: Reasons for businesses being in a VAT reimbursement position



Source: PwC analysis

Figure 7: Main reasons for businesses being in a VAT reimbursement position by Member State



Source: PwC analysis

5.2.4 Summary

The number and value of VAT reimbursement claims received by Member States increased year-on-year over the period 20013-2016. However, the average value per claim fell during the same period suggesting that businesses are submitting a higher number of lower-value claims.

Indeed, the results of the business survey suggest that most businesses are in a reimbursement position because they are either an exporter of a repayment trader. This may have driven decreases in the average value of claims, as businesses in a frequent reimbursement position may make large numbers of smaller claims.

5.3 VAT reimbursement claim preparation and submission

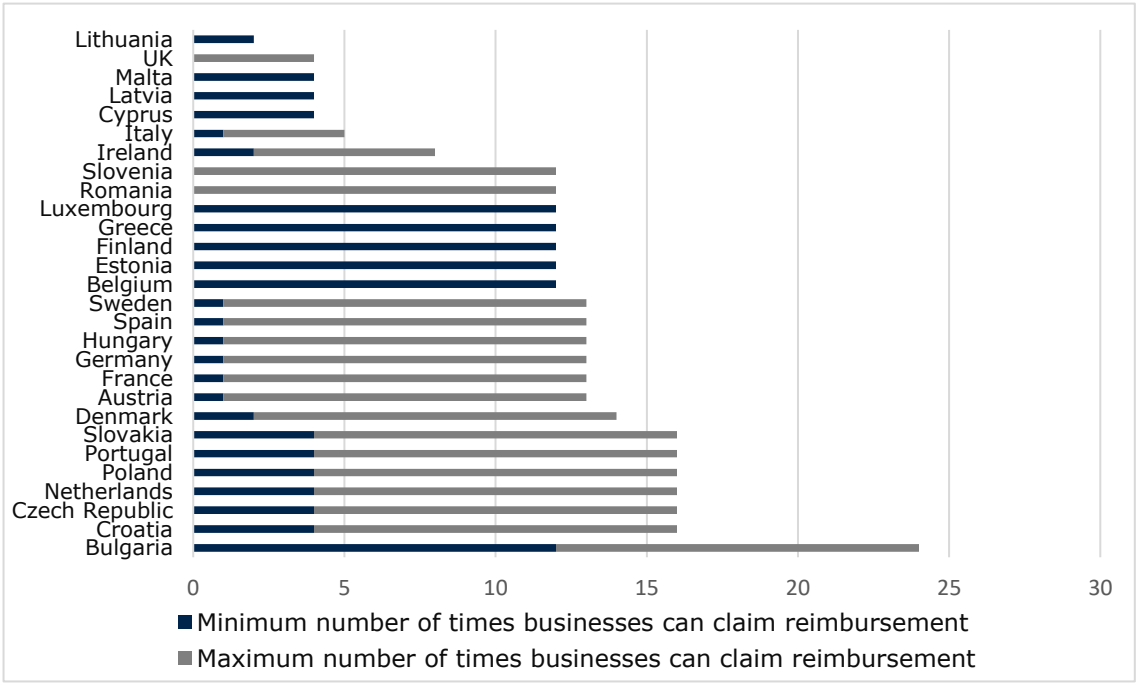
This section analysis how businesses prepare and submit VAT reimbursement claims and common issues experienced during the process. Understanding the claim preparation and submission process will not only help to identify potential areas to improve efficiency, but also highlight differences in the perceptions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

5.3.1 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 8 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 8: Frequency with which VAT reimbursements can be claimed across the EU-28



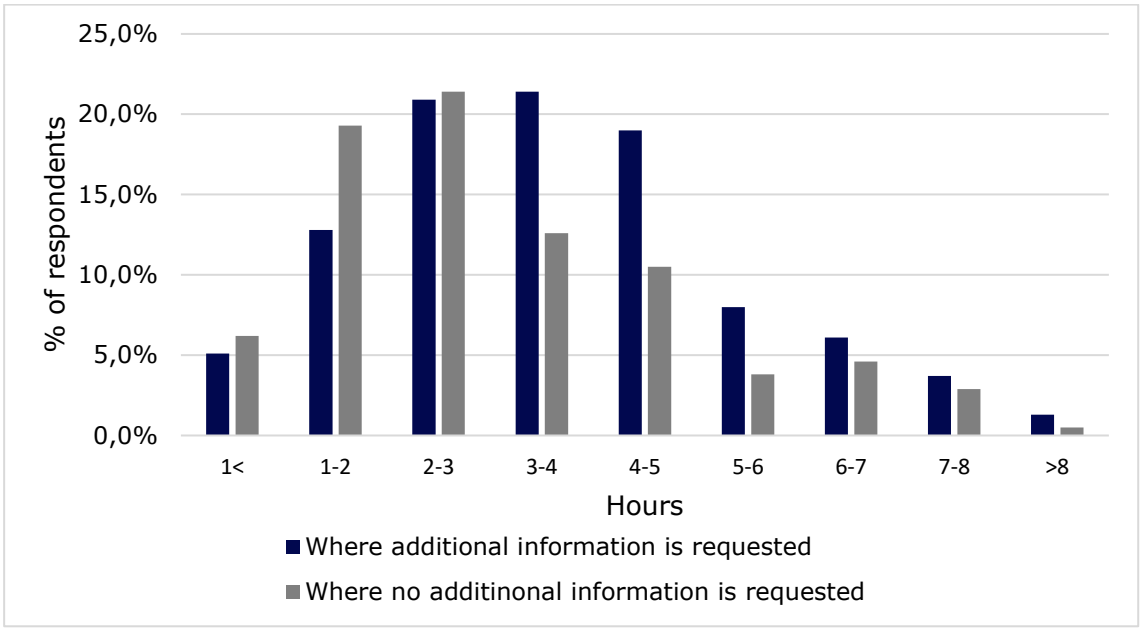
Source: Tax administration data, PwC analysis

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. repayment traders).

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

Figure 9 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 60% of respondents can 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 respondents stated that they can prepare and submit a claim in under three hours.

Figure 9: Time taken by businesses to prepare and submit a claims



Source: PwC analysis

The findings of the business survey are broadly consistent with VAT post-filing data from the *Paying Taxes* report.[12]

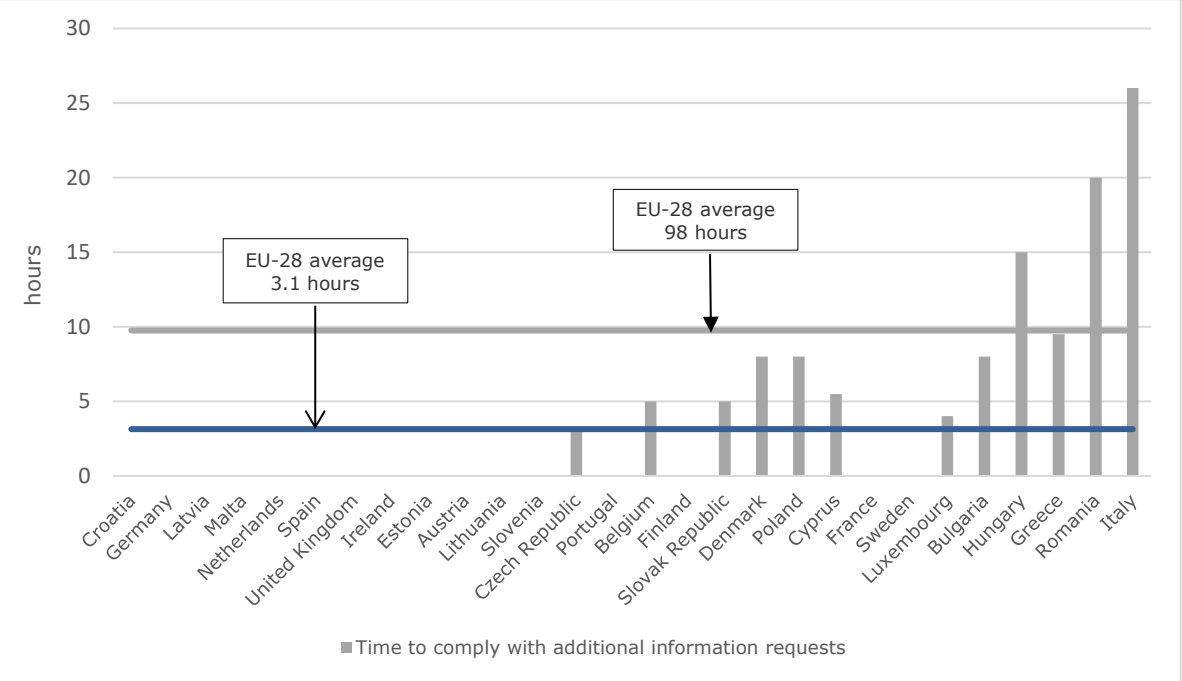
Paying Taxes considers VAT reimbursements from the perspective of a hypothetical case study company in order to provide robust like for like comparisons. The specific VAT reimbursement scenario used is that the case study company buys new

[12] *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.

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 time to comply with a VAT reimbursement from *Paying Taxes 2019* for the EU-28 is shown in Figure 10 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 10: Time to comply with a VAT reimbursement claim



Source: Paying Taxes data

Figure 10 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.

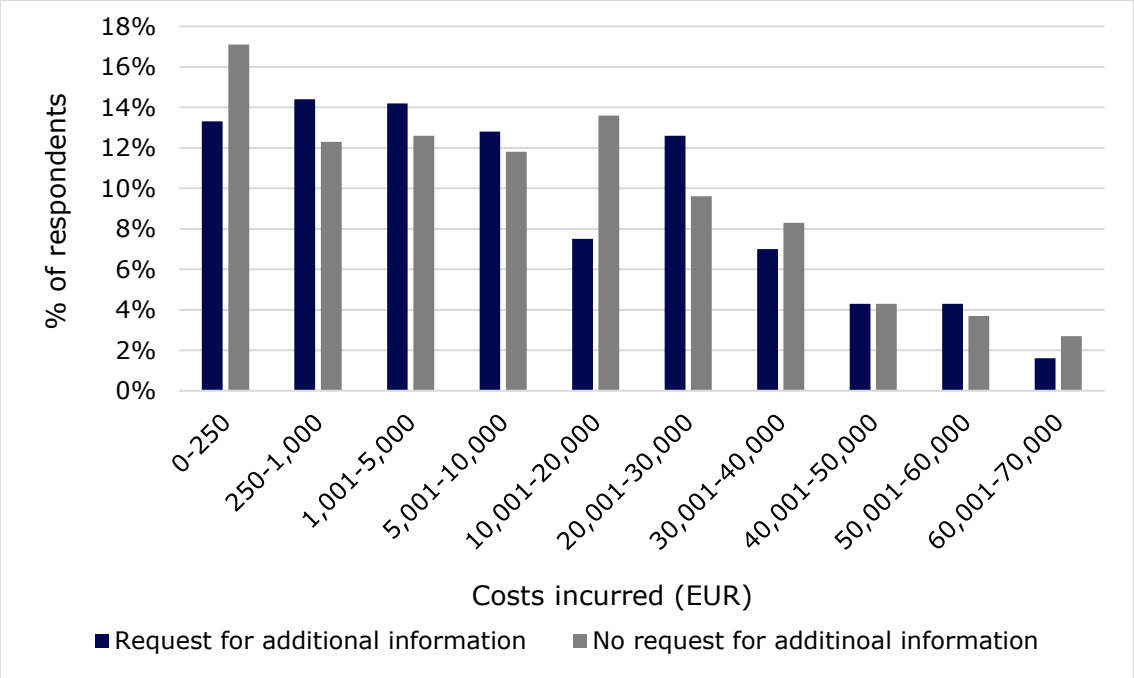
5.3.3 How much does it cost a business to prepare and submit a VAT reimbursement claim?

As illustrated inFigure 11, approximately 54% of the businesses surveyed stated that they incurred costs of under EUR 10,000 where no additional information was requested by tax administrations. Interestingly, a similar number (55%) of respondents incurred costs of under EUR 10,000 in cases where additional information was requested.

This may be due to the fact the same information is required to prepare a claim, regardless of whether it is submitted with the initial claim. Thus, limited additional costs would be incurred in cases of additional information requests.

None of the respondents to the business survey incurred costs of over EUR 70,000, regardless of whether additional information was requested.

Figure 11: Cost incurred by businesses when preparing and submitting claims

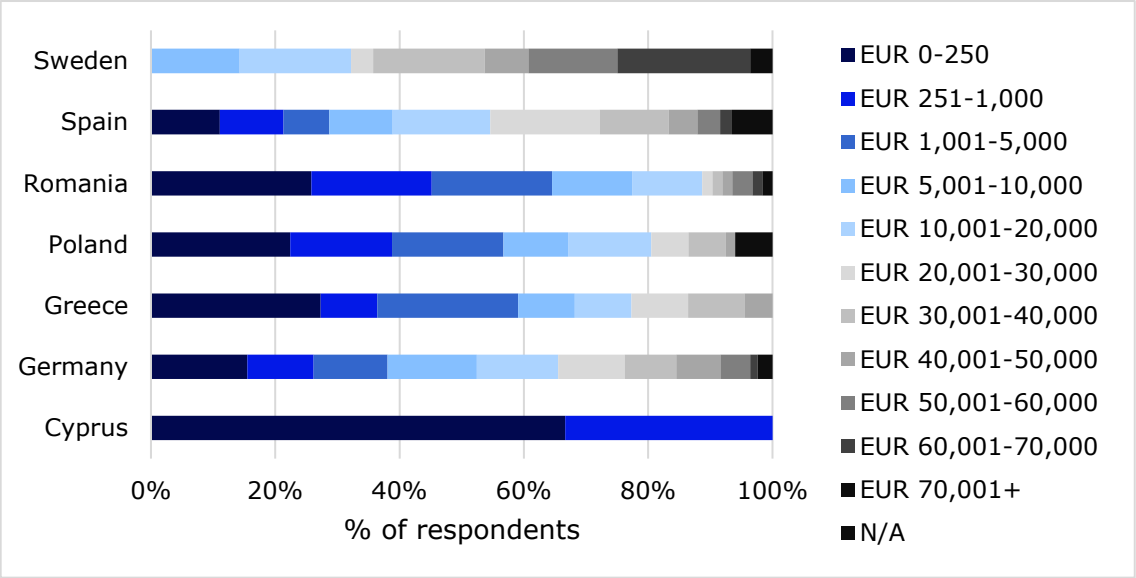


Source: PwC analysis

Looking at specific Member States, as illustrated in

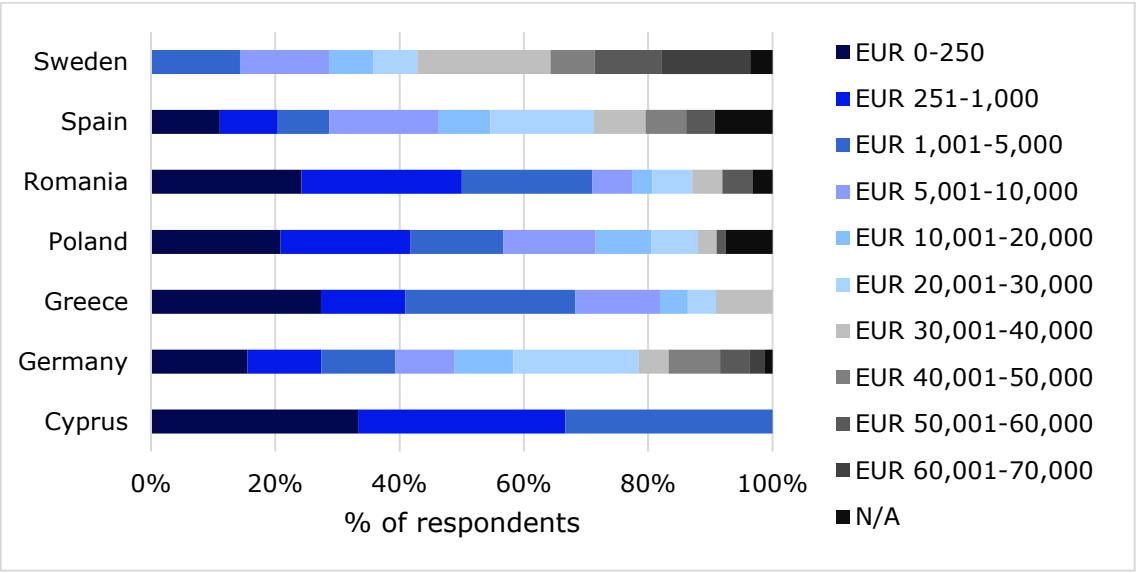
Figure 12 and Figure 13, costs to prepare and submit a claim appear to be a lot higher for Swedish businesses. Even without additional information requests, 64% of the businesses surveyed estimated that the cost of submitting a claim is more than EUR 20,000. However, this may be partly due to the relatively low minimum annual filing frequency in Sweden compared to other Member States in the country sample.

Figure 12: Costs incurred by businesses when preparing and submitting claims by Member State



Source: PwC analysis

Figure 13: Cost incurred by businesses when preparing and submitting claims that are then queried by Member State



Source: PwC analysis

5.3.4 The use of financial guarantees

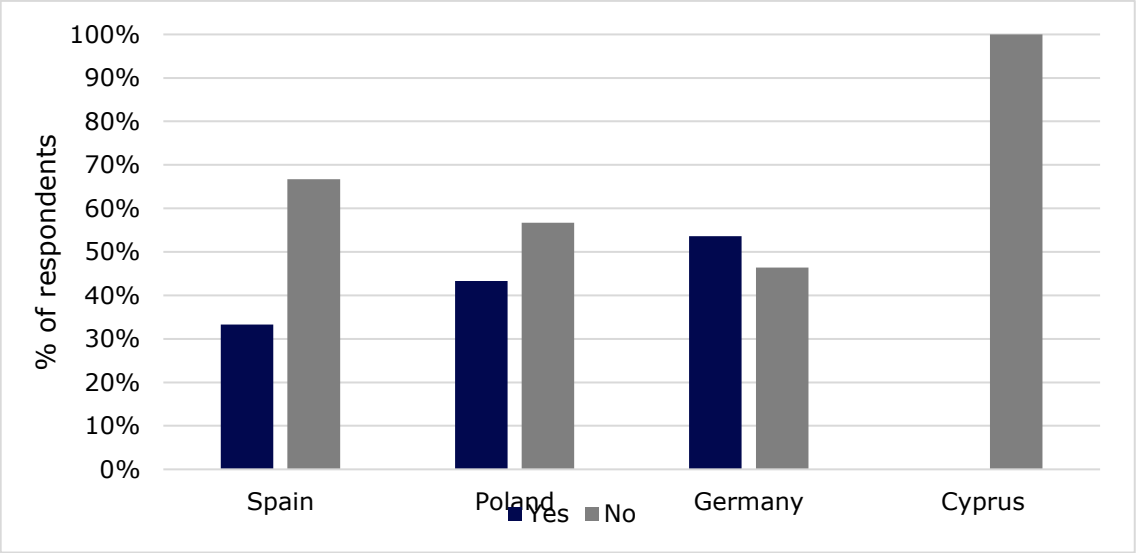
National legislation implementing Article 183 of Directive 2006/112/EC may require a business to obtain a financial guarantee to receive a VAT reimbursement. At the time of writing, this requirement was present in the national legislation of 13 Member

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 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 one-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 14: Experience of businesses with the use of financial guarantees

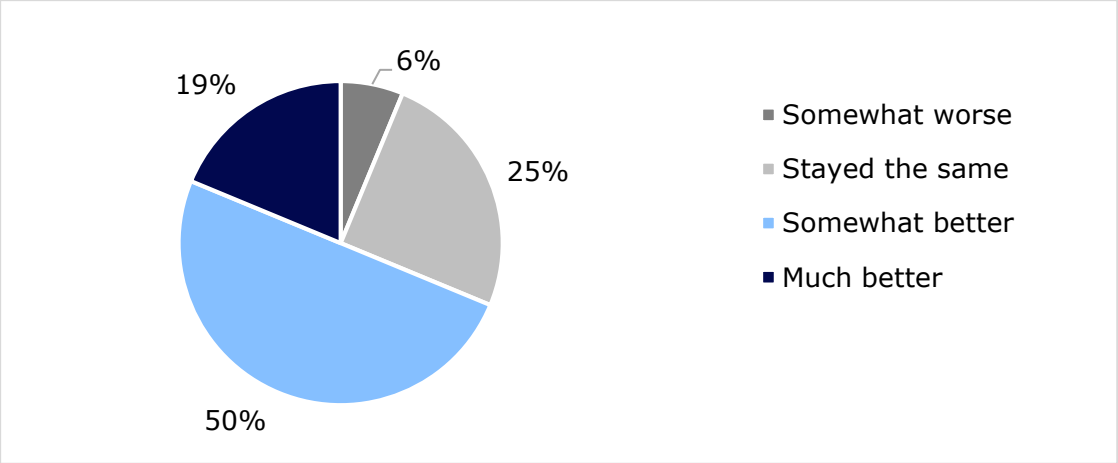


Source: PwC analysis

5.3.5 Has the VAT reimbursement claim process improved?

Data from the business survey suggests that a large proportion (69%) of respondents believe the process for claiming a VAT reimbursement has improved over the last five years. 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 15: Business perception of how the process of claiming a VAT reimbursement has changed over the last five years



Source: PwC analysis

5.3.6 Why a business might not submit a VAT reimbursement claim?

The results of the business survey show that, aside from the respondent not handling claims (33%), common reasons for not submitting a VAT reimbursement claims were:

- The business did not incur excess input VAT - 17% of respondent;
- The process being too complicated - 17% of respondents; and,
- Perceived increased risks of audit or investigation - 17% of respondents.

5.3.8 Summary

The results of the business survey suggest that the reimbursement process improved slightly over the last five years. Most businesses take just under four hours to prepare and submit a reimbursement claim regardless of whether additional information is requested. This findings is consistent with *Paying Taxes* data, which shows that the case study company takes an average of just over three hours to prepare and submit a reimbursement claim where additional information is not requested.

Reimbursement claims mainly seem to be submitted by exporters and repayment traders. However, it is interesting to note that a significant share of respondents to the business survey indicated that they are reluctant to submit a reimbursement claim due to perceptions that the process is too complicated or that it increases the risk of audit or investigation.

5.4 Tax administration processing efficiency

This section examines the relative efficiency of tax administrations in processing VAT reimbursement claims. Comparing the efficiency of tax administrations will help identify those Member States with problems of administrative capacity and resource mobilisation.

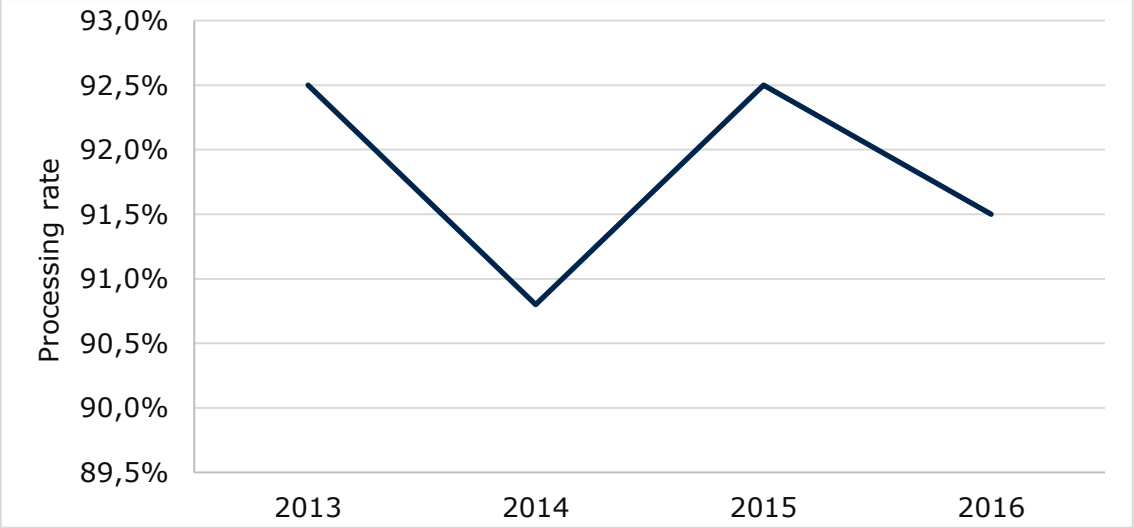
Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- 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.

5.4.1 Processing rates

Across the EU-6, the processing rate varied significantly over the period 2013-2016. In comparison to 2015, the processing rate dropped by one percentage point in 2016 to 91.5%. The EU-6 processing rate in 2016 was the second lowest in the four-year period, with the lowest rate being in 90.8% in 2014.

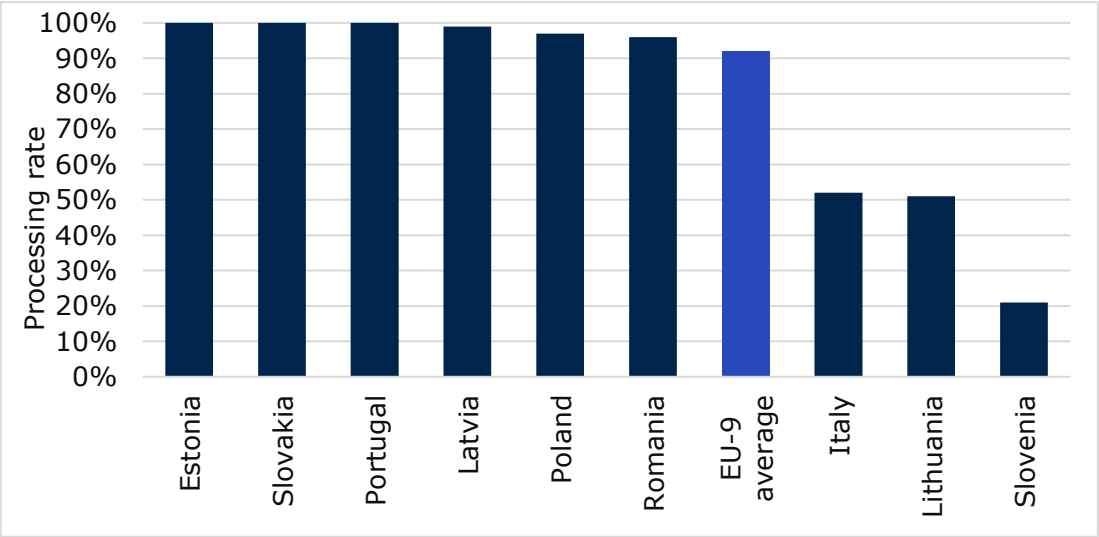
Figure 16: Processing rate across the EU-6



Source: Tax administration data, PwC analysis

At a Member State-level across the EU-9, processing rates ranged from 21% in Slovenia to 100% in Estonia, Slovakia and Portugal in 2016. Six out of nine Member States recorded a rate above the EU average.

Figure 17: Processing rate of the EU-9 in 2016

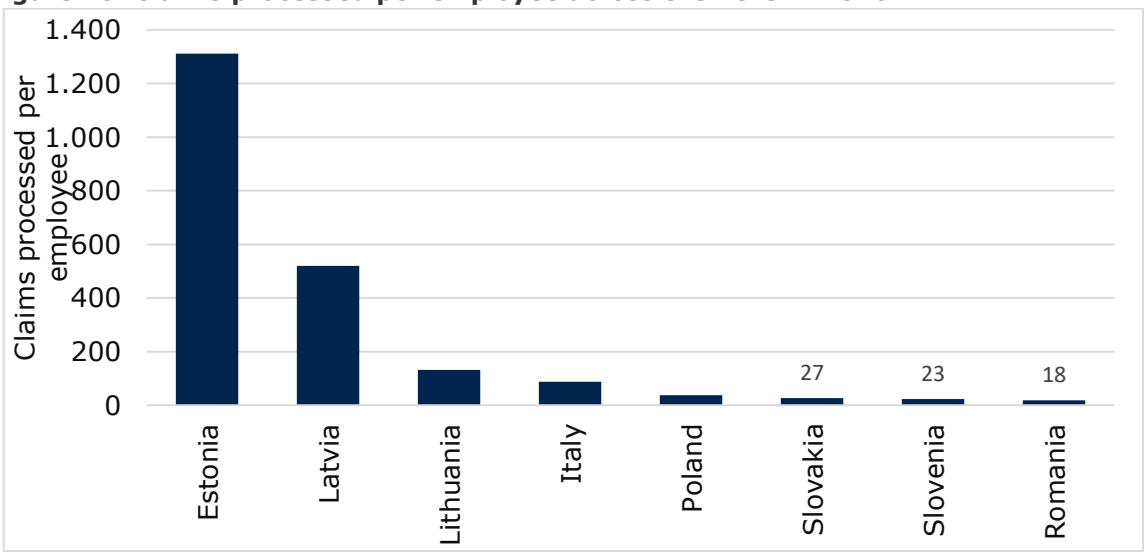


Source: Tax administration data, PwC analysis

5.4.2 Claims processed per employee

The number of claims processed per employee in 2016 varied significantly across the EU-8, ranging from 18 claims per employee in Romania to 88 in Italy, 520 claims in Latvia and 1,312 in Estonia.[13]

Figure 18: Claims processed per employee across the EU-8 in 2016



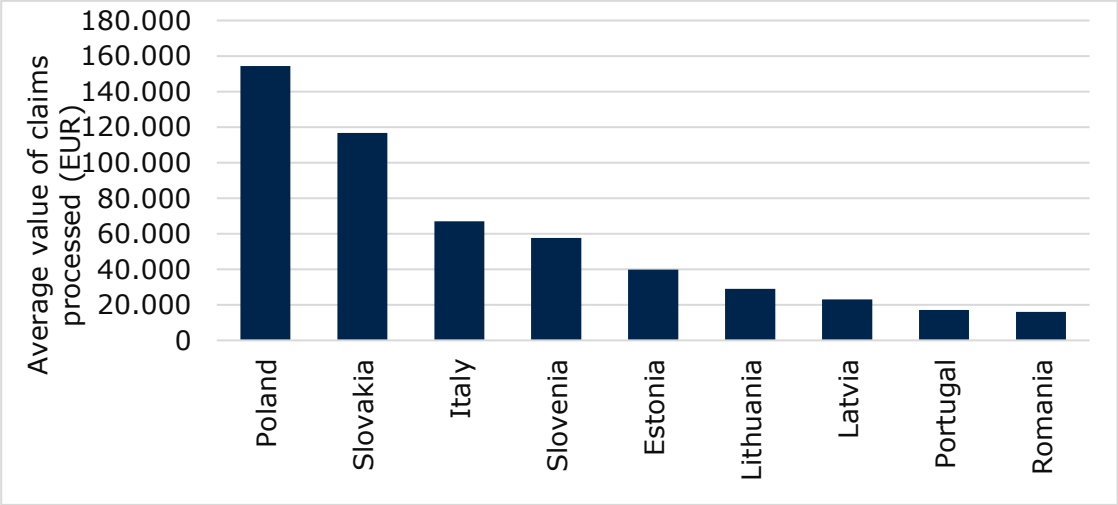
Source: Tax administration data, PwC analysis

[13] 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.

5.4.3 Value of claims processed

Figure 19 shows the average value of claims processed per VAT-registered business across the EU-9 in 2016. This metric is used to account for discrepancies in filing frequencies between Member States. The average value per claim processed ranged from a low of EUR 16,100 in Romania to an upper value of EUR 154,300 in Poland.

Figure 19: Average value of claims processed per VAT-registered business in 2016



Source: Tax administration data, PwC analysis

5.4.4 Summary

The rate at which VAT reimbursement claims were processed decreased between 2013 and 2016. The processing rate remains near to or at 100% for most Member States, but it appears that a small number of Member States (Slovenia, Lithuania and Italy) skewed the EU average. This is supported by analysis of the number of claims processed per employee which found that Slovenia and Lithuania remain less efficient in comparison to better-performing Member States, such as Estonia and Latvia.

However, it is interesting to note that Slovenia and Lithuania have an average value of claims processed close to the EU-9 average for 2016. This could suggest procedural features, rather than the value of claims, as the driver of processing rates in these Member States.

5.5 Queried claims

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.

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.

5.5.1 How are claims verified?

All respondents to the tax administration survey 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 that appear when a VAT return is being filed in the MyTax service.

Most respondents noted that verification of claims takes place using a combination of automated and manual methods. Typically, reimbursement claims go through automated risk analysis when 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 1 provides a summary of common risk factors identified across all Member States. Risk factors can either be business-specific or claim-specific.

Table 1: 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 responses to the tax administration survey. For example, in Finland it was identified that businesses in the health care sector often applied the VAT Act incorrectly, possibly due to the partial exemption of healthcare services in Directive 2006/112/EC. The tax administration

chose to focus on this sector and carried out extensive audits on many businesses. Alongside this, they also provided guidelines to business in the sector to improve their understanding of the VAT Act. There has been a notable improvement in the submission of VAT reimbursement claims by businesses in the sector as a result. Finland is now carrying out a similar exercise in the financial services sector.

In interview, the Croatian tax administration stated that, among 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 they take into 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 MSMEs. 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 regard to claim-specific risks, most tax administrations observed that large value claims were automatically subject to greater levels of stringency during the verification process. In addition to this, some tax administrations, such as Portugal, also identified the timing of claims as a potential risk factor.

Following risk-based analysis, tax administrations categorise 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. 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 to help them better identify VAT fraud in the future.

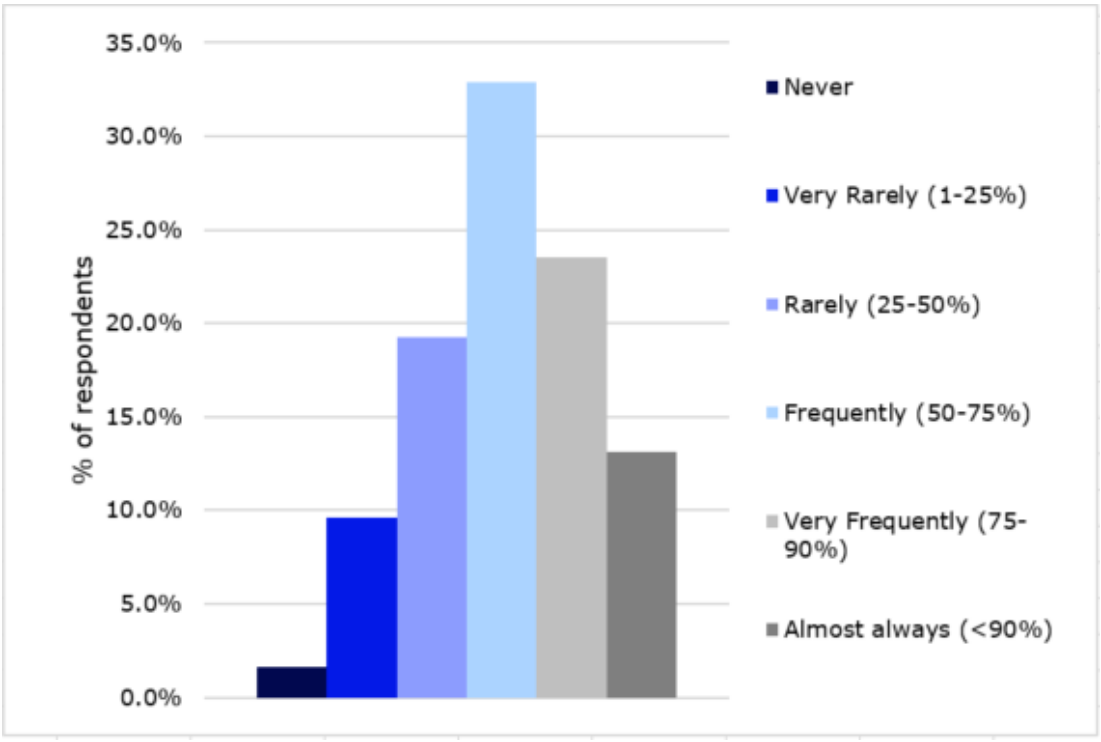
If a business or claim is identified as high risk, tax administrations carry out further verification, requests for additional information and even audits in certain instances.

5.5.2 Type of additional information requested

Response to 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 finding was broadly consistent at the Member State-level.

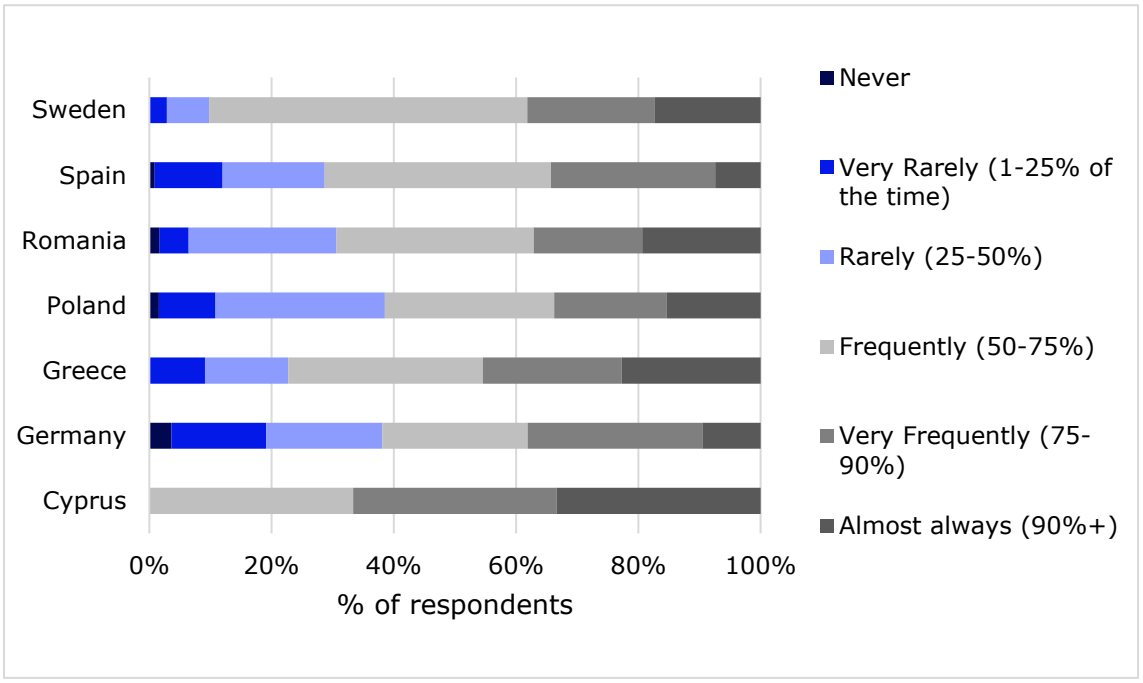
However, Sweden and Cyprus were outliers where 93% and 100% of businesses surveyed reported received additional information requests more often than not. In the case of Sweden, one possible reason for this is the relatively low minimum annual filing frequency compared to other Member States in the country sample. This might result in a smaller number of larger claims and increase the chance of a request for additional information.

Figure 20: Frequency with which businesses receive requests for additional information



Source: PwC analysis

Figure 21: Frequency with which businesses receive requests for additional information by Member State

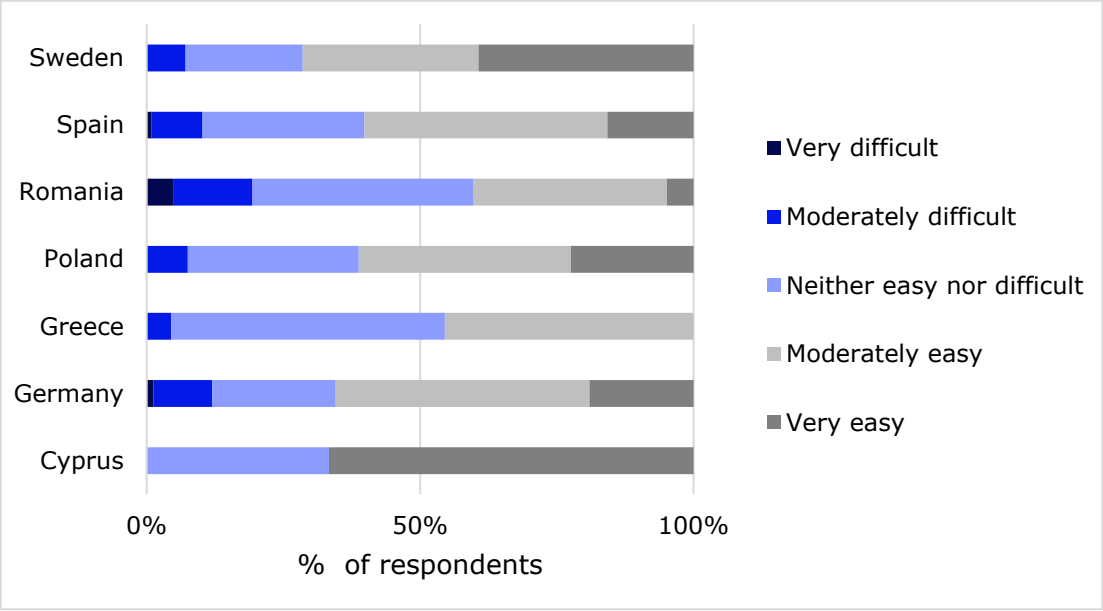


Source: PwC analysis

Nevertheless, the businesses surveyed do not seem to find meeting the requirements of requests for additional information particularly difficult. The process of collecting

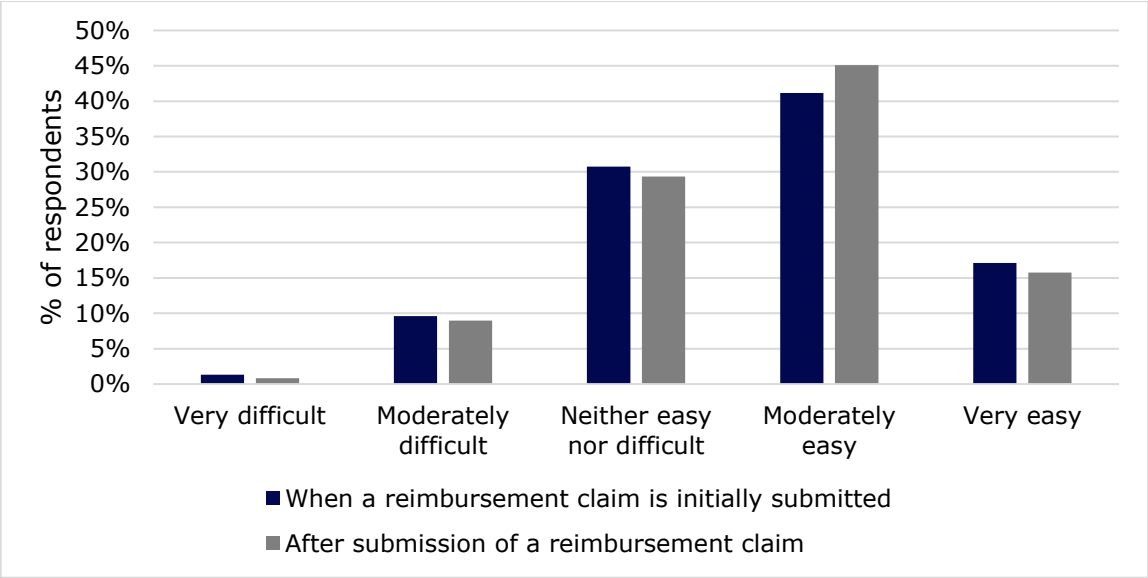
and preparing information when a claim is initially submitted was rated as either fairly easy or very easy for 58% of businesses and for 61% of businesses after a claim has been submitted. This is complemented by the findings noted above, namely that most businesses can prepare and submit a claim in under four hours and incur costs of under EUR 10,000.

Figure 22: Ease of collecting and preparing additional information



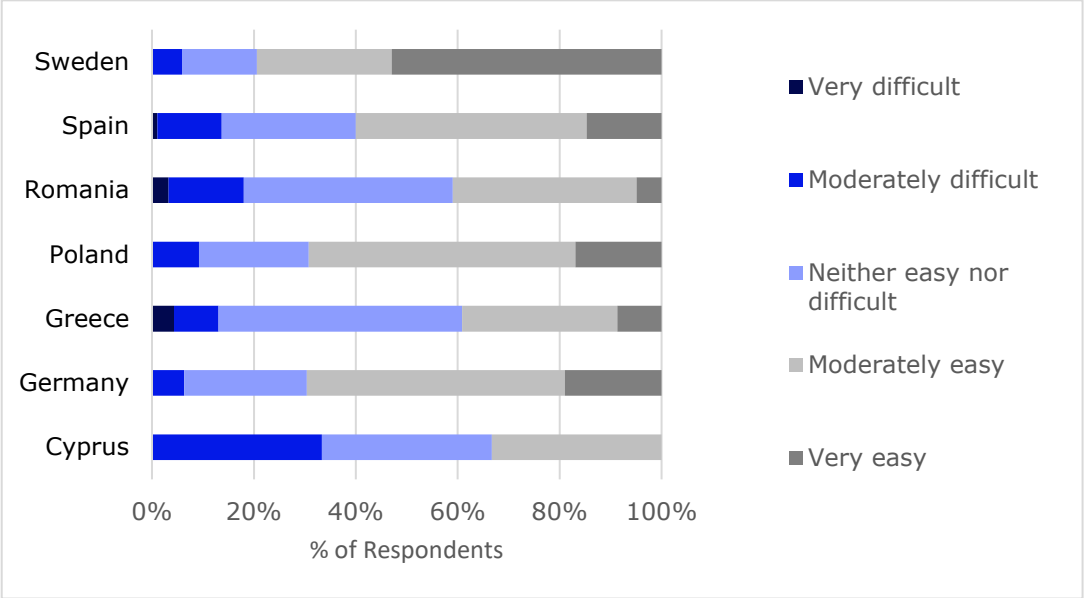
Source: PwC analysis

Figure 23: Ease of collecting and preparing information at initial submission by Member State



Source: PwC analysis

Figure 24: Ease of responding to additional information requests by Member State

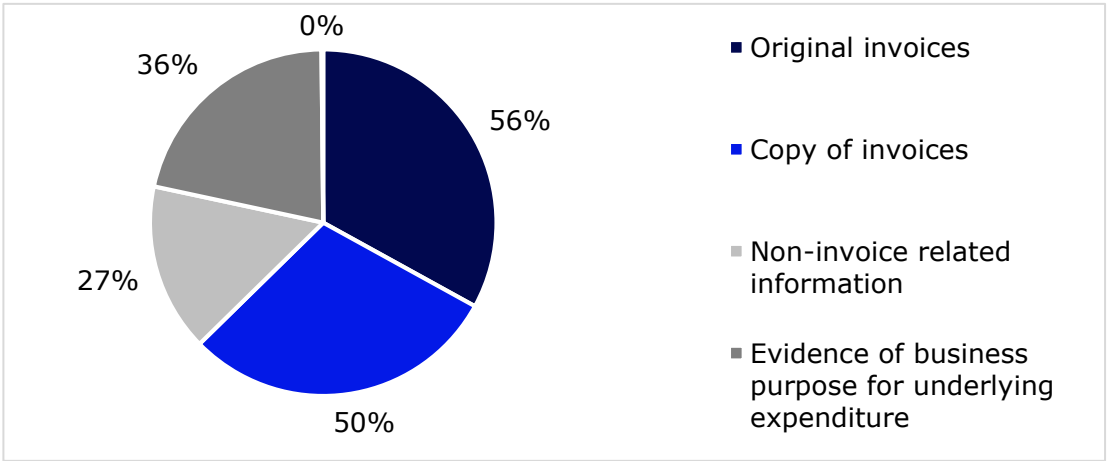


Source: PwC analysis

Invoices are the most common piece of information requested by tax administrations according to the businesses surveyed. Original invoices are among the most common pieces of information requested followed by copies of invoices. This seems to reflect the common claim-specific risk factors used by 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 25: Most common additional information requests



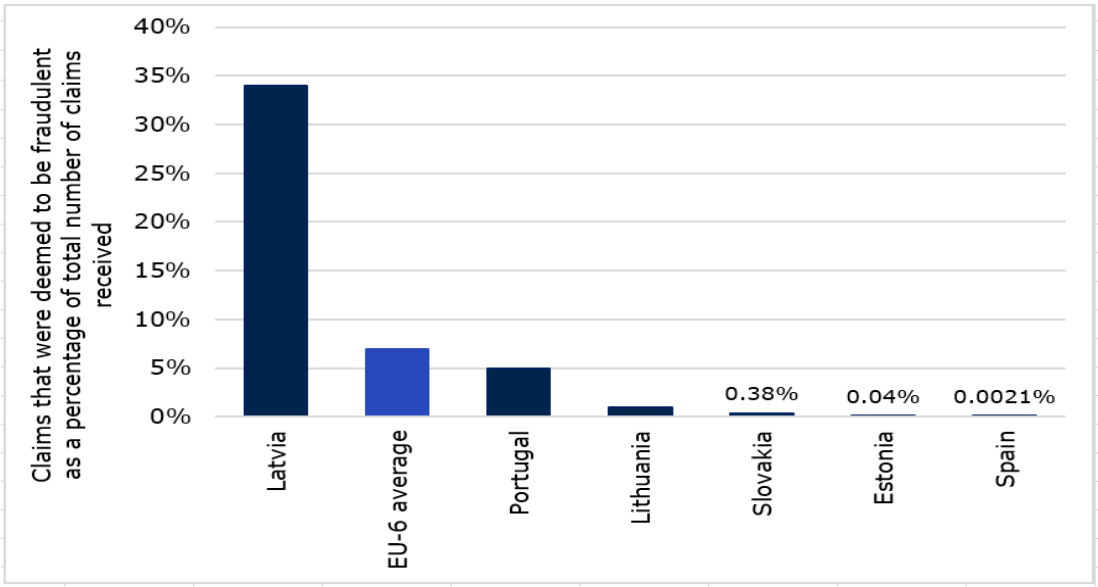
Source: PwC analysis

5.5.3 Fraudulent claims

The average value of claims that were deemed to be fraudulent in 2016 was EUR 240,000 across Lithuania, Portugal, Slovakia and Spain.

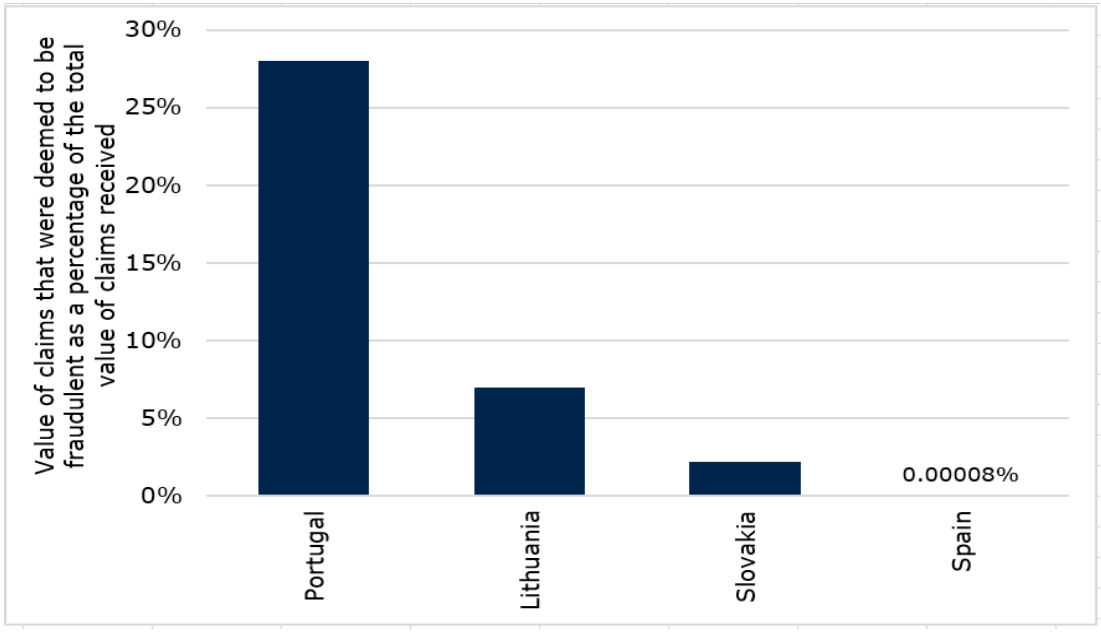
Figure 26 shows the number of claims received that were deemed to be fraudulent by six tax administrations as a percentage of the total number of claims received. Interestingly, Latvia has the highest number of fraudulent claims, equating to 34% of the total number of claims received in 2016. In comparison, the remaining five Member States receive substantially fewer fraudulent claims. In fact, claims that were deemed to be fraudulent equated to less than 10% of total number of claims received in these Member States in 2016.

Figure 26: Proportion of claims deemed to be fraudulent across the EU-6 in 2016



Source: Tax administration data, PwC analysis

Figure 27: Value of claims 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

As shown in Figure 27, 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 fraudulent claims are likely to be of a higher value. This is consistent with how tax administrations indicated that higher value claims are automatically subject to greater levels of scrutiny during the verification process.

5.5.4 Summary

All tax administrations indicated that they have some form of process in place to verify claims. While most tax administrations carry out checks once reimbursement claims are submitted, some also carry out additional checks prior to submission.

Tax administrations typically use a combination of automated and manual methods to verify claims. When verifying claims, tax administrations take into consideration a combination of business-specific and claim-specific risk factors. Most tax administrations stated that higher value claims were automatically considered to be high risk and are then subject to further information requests and audit.

Fraudulent reimbursement claims account for a larger proportion of the total claims received by value than by number. This suggests that claims that are deemed to be fraudulent are likely to be of a higher value.

The business survey found that more than two-thirds of businesses received requests for additional information on most of the claims they submit. Requests were particularly common in Cyprus and Sweden, but less so in Poland and Germany. Despite this, 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.

5.6 Approval rates and VAT reimbursement claim rejection

This section of the report explores how many reimbursement claims are approved and rejected, common grounds for rejection and how a rejected claim may affect a business.

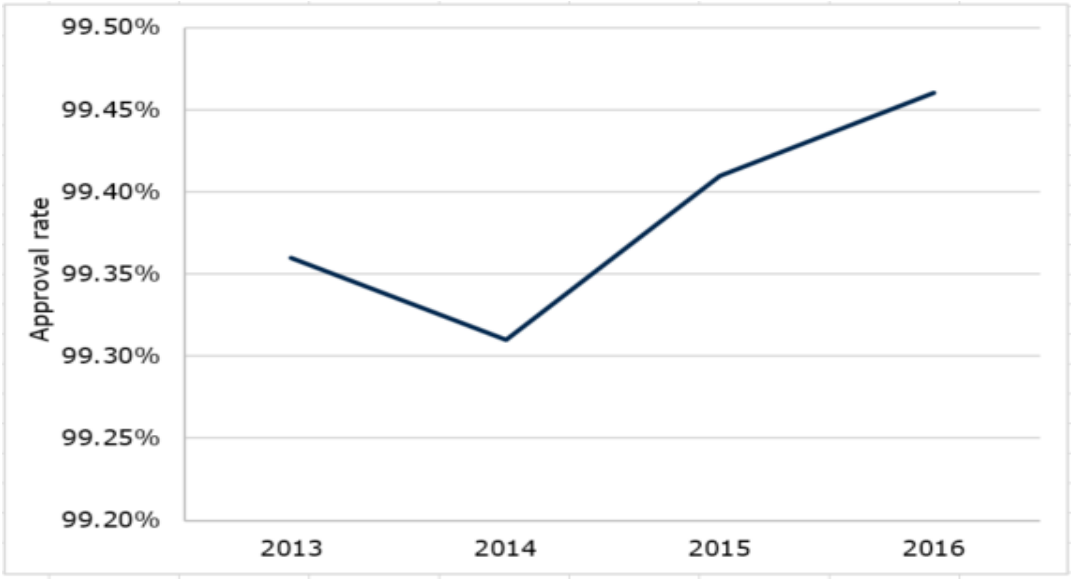
Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- 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.

5.6.1 Number of reimbursement claims approved

A total of 2.5 million claims were approved in 2016 across the EU-8, equating to an approval rate of 99.5%. Over the period 2013-2016, the absolute number of claims approved increased by 7.1% from 2.4 million claims in 2013. However, the development of the approval rate over this period remained largely consistent, increasing from 99.4% in 2013 to 99.5% in 2016.

Figure 28: Rates of approval across the EU-8

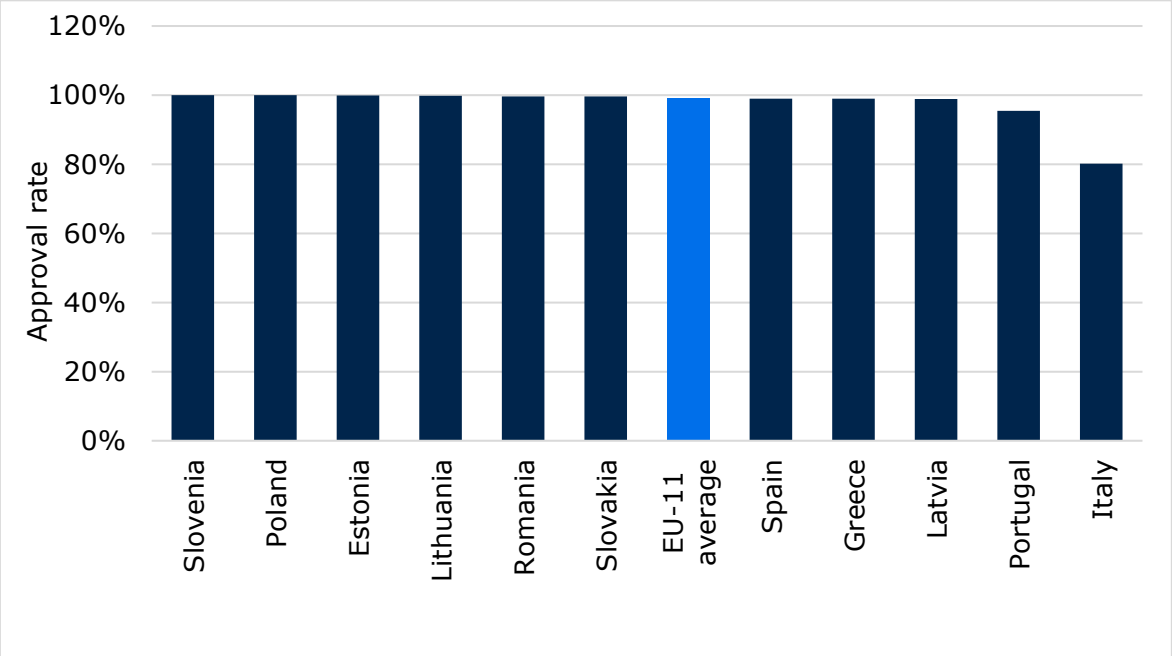


Source: Tax administration data, PwC analysis

As illustrated in

Figure 29, six Member States had an approval rate above the EU-11 average of 99% in 2016. Slovenia, Poland, Estonia, Lithuania, Romania and Slovakia approved the highest number of claims. On the other hand, the Member State with the lowest approval rate was Italy which approved 80% of claims received, followed by Portugal which approved 96%.

Figure 29: Approval rates across the EU-11

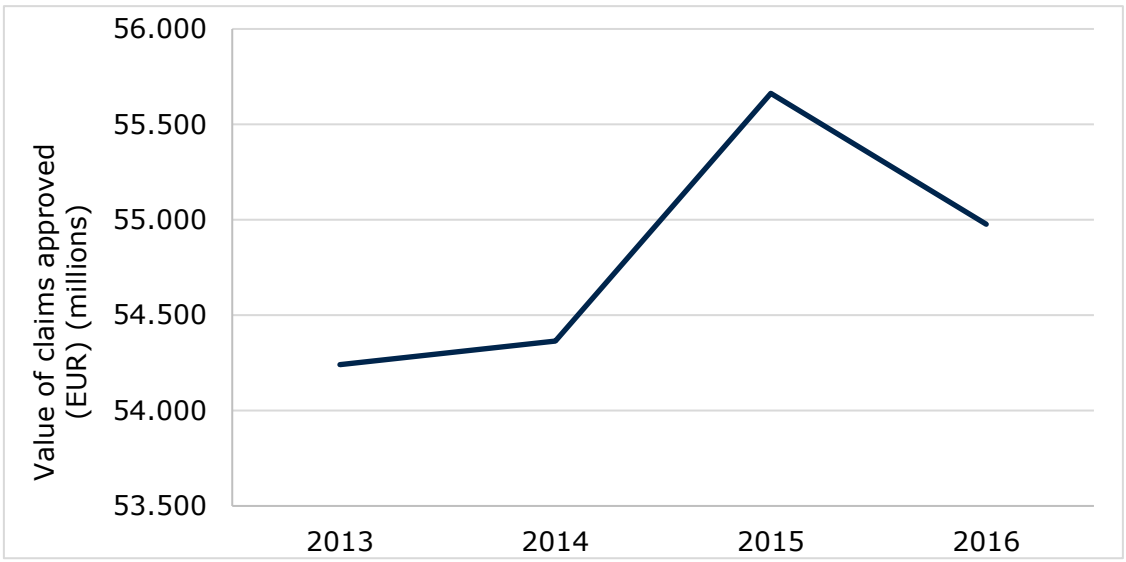


Source: Tax administration data, PwC analysis

5.6.2 Value of reimbursement claims approved and rejected

In 2016, tax administrations in the EU-8 approved claims with a total value of EUR 55 billion, which equated to 98.5% of the total value of all claims processed. Over the period 2013-2016 the total value claims approved increased by 1.4%, from EUR 54.2 billion in 2013.

Figure 30: Total value of approved claims across the EU-8

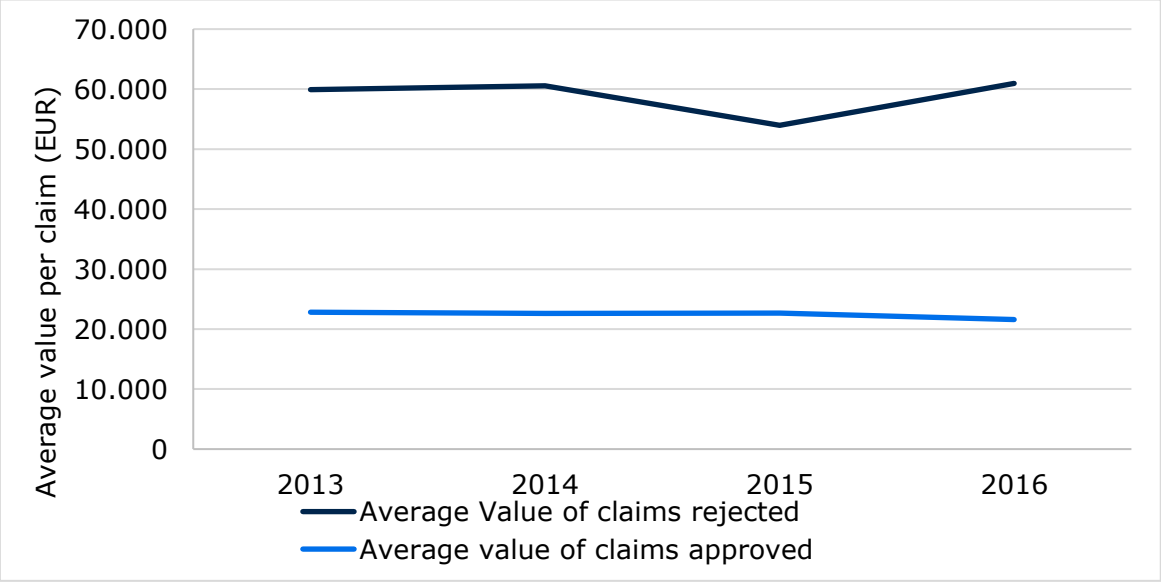


Source: Tax administration data, PwC analysis

Compared to the growth in the total value of approved claims, the average value per approved claim across the EU-8 Member States decreased slightly over the period 2013-2016. In 2016, the average value of an approved claim across the EU-8 was EUR 21,600, which was 5.4% lower than in 2013.

In comparison, the average value of a rejected claim fluctuated more significantly over the period 2013-2016. The average value for a rejected claim increased by 1.8% from 2013 to EUR 61,000 in 2016. However, the average value of a rejected claim dropped to approximately EUR 54,000 in 2015.

Figure 31: Comparison of the average value of approved and rejected claims across the EU-8



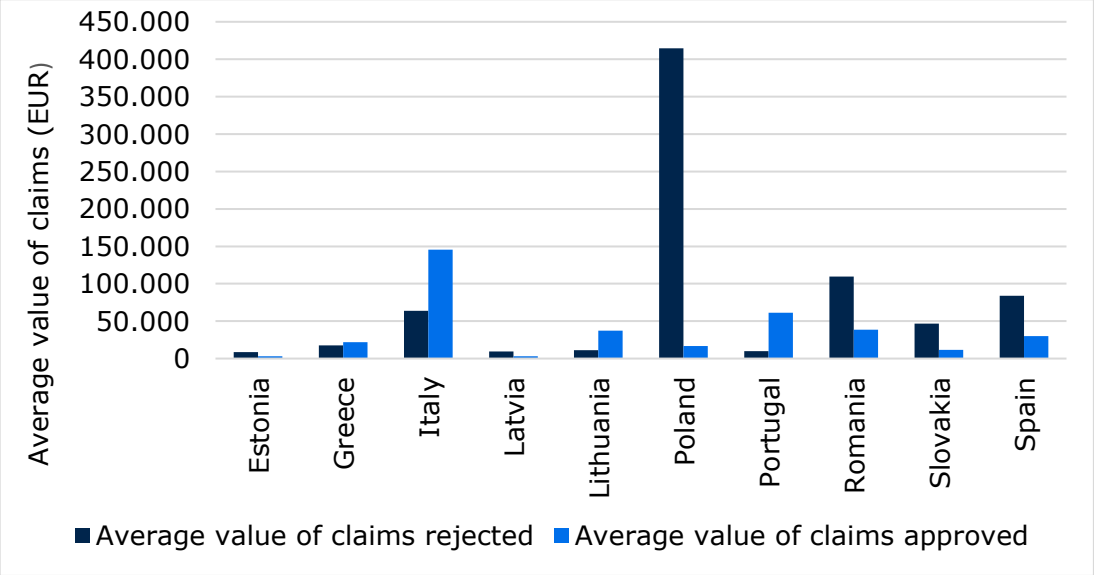
Source: Tax administration, PwC analysis

As illustrated in

Figure 32, Italy and Portugal approved claims of the highest average value across the EU-10, with average values of EUR 145,600 and EUR 61,200 respectively. On the other hand, Estonia and Latvia had the lowest average value per claim approved were, with average values of 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 the finding that the average value of rejected claims is higher than the average value approved claims.

Figure 32: Average value of approved claims and rejected claims across the EU-10 in 2016



Source: Tax administration data, PwC analysis

5.6.3 Reasons for claims being rejected

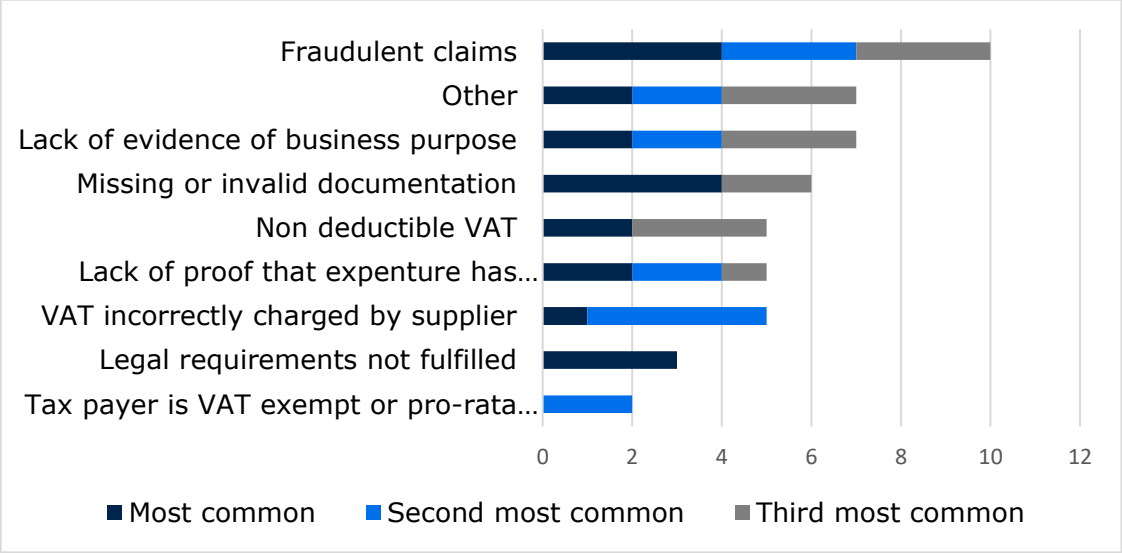
As shown in Similarly, the results of the business survey suggest that there was no single overriding reason for VAT reimbursement claims being rejected. Invoice discrepancies (31% of respondents), VAT incorrectly charged by a supplier (28%), lack of documentary evidence to provide to tax administrator (26%), and a tax administration challenging the business purpose of the underlying expenditure (23%) were all listed among the most common reasons for rejection.

Figure 33, 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. 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.

Moreover, 27% of tax administrations stated that the second most common reason for claim 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 to reject a reimbursement claim.

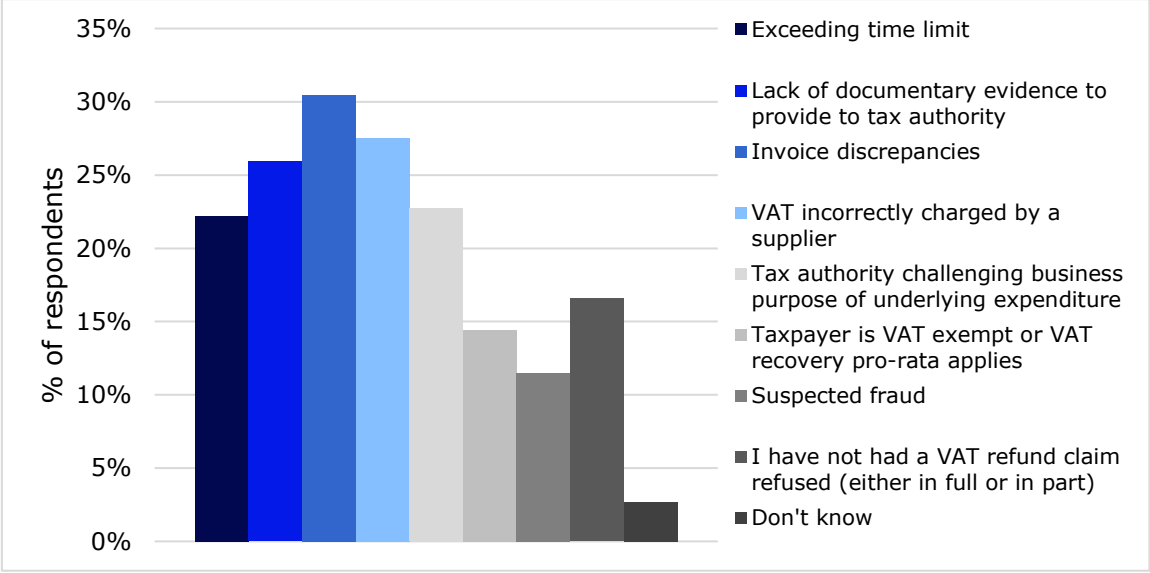
Similarly, the results of the business survey suggest that there was no single overriding reason for VAT reimbursement claims being rejected. Invoice discrepancies (31% of respondents), VAT incorrectly charged by a supplier (28%), lack of documentary evidence to provide to tax administrator (26%), and a tax administration challenging the business purpose of the underlying expenditure (23%) were all listed among the most common reasons for rejection.

Figure 33: Common grounds for rejection according to EU-17 tax administrations



Source: Tax administration data, PwC analysis

Figure 34: Common grounds for rejection experienced by businesses



Source: PwC analysis

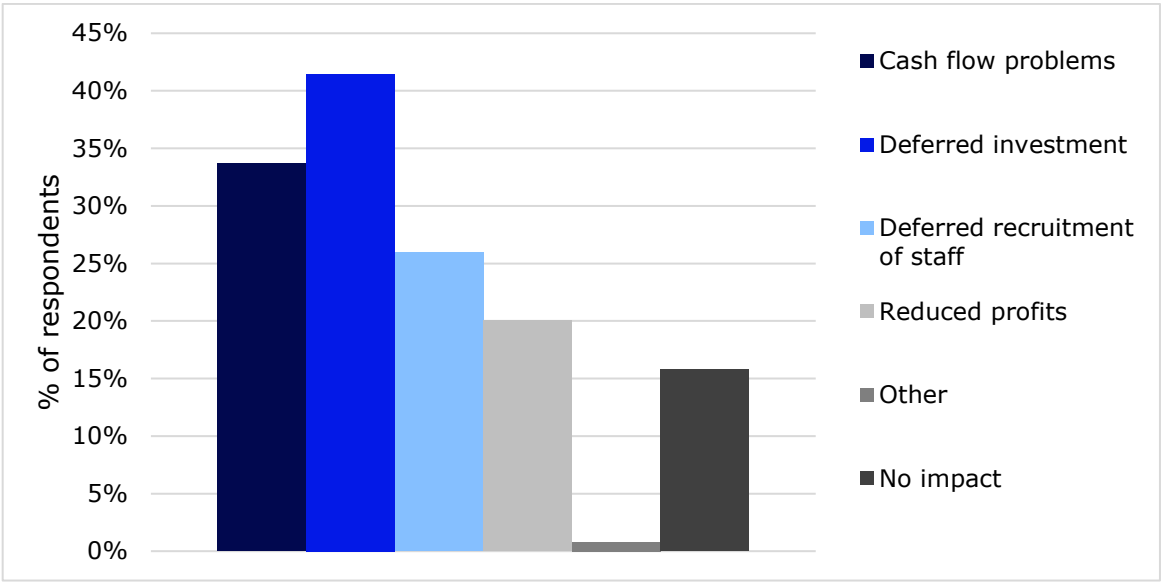
5.6.4 How can a rejected VAT reimbursement claim affect a business?

Responses to the business survey suggests that deferred investment is the most common impact of a rejected VAT reimbursement claim. 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. All respondents in Cyprus and 54% in Sweden reported cash flow impacts due to a rejected claim. On the other hand, businesses in Germany and Romania were more likely to be concerned

with deferred investment. 50% of respondents in Germany and 55% in Romania listed this as a way in which they were affected by a rejected claim.

Figure 35: Impact on businesses of rejected claims



Source: PwC analysis

5.6.5 Summary

Over the period 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%. 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 decreased by 5.4% over the same period, reaching EUR 21,600 in 2016. However, the average value of a rejected claim was much higher in 2016 and has increased over the period 2013-2016 by 1.8%.

The most common reasons 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 impacts of a rejected reimbursement claim.

5.7 Prevalence of delays and impacts on businesses

This section of the report outlines the prevalence of delays in processing VAT reimbursement claims, how perceptions of delays differ between taxpayers and tax administrations and how a delayed reimbursement may affect a business.

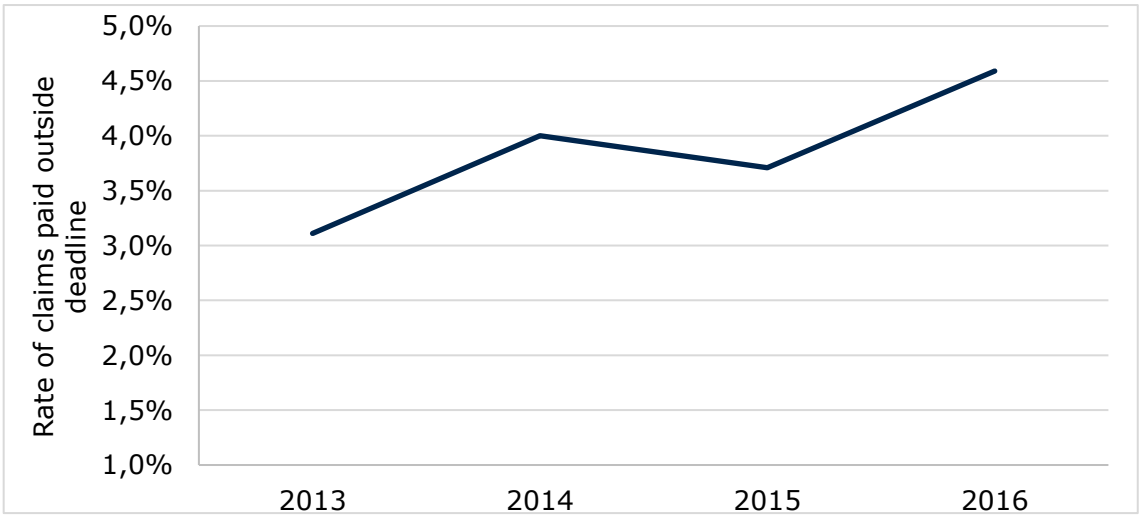
Due to limitations in the data collected during the course of the study, different combinations of Member States have been used to generate the statistics discussed in this section. The different combinations are as follows:

- 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.

5.7.1 How prevalent are delays?

As Figure 36 shows, approximately 4.6% of the VAT reimbursement claims received across the EU-8 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 36: Proportion of VAT reimbursement claims paid outside deadlines

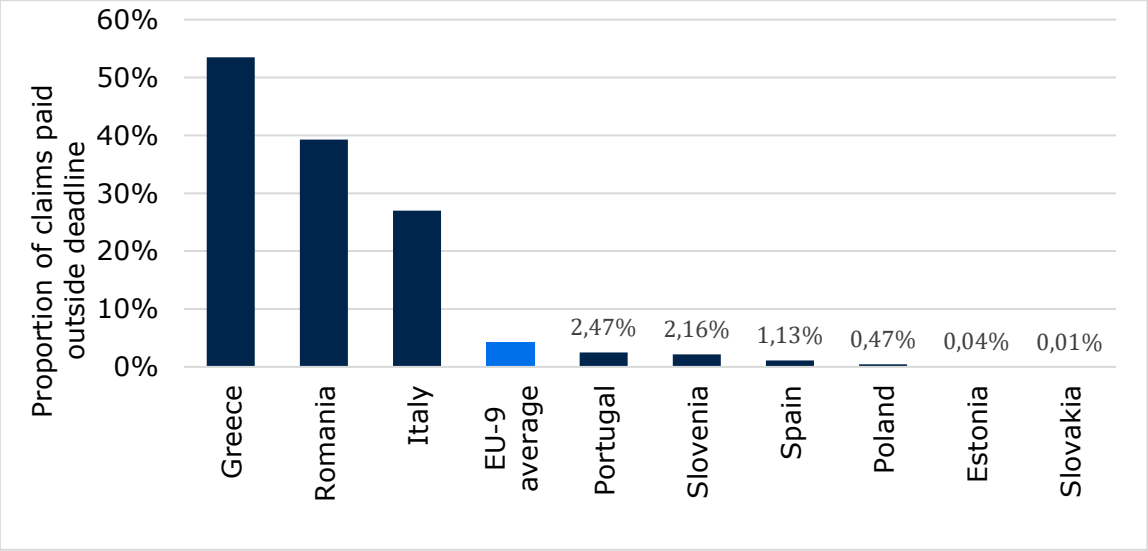


Source: Tax administration data, PwC analysis

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

Approximately EUR 5 billion in VAT reimbursements were paid outside deadlines in 2016 by the EU-8. This equates to 10% of the value of VAT reimbursement claims received across the EU-8 in 2016. 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.

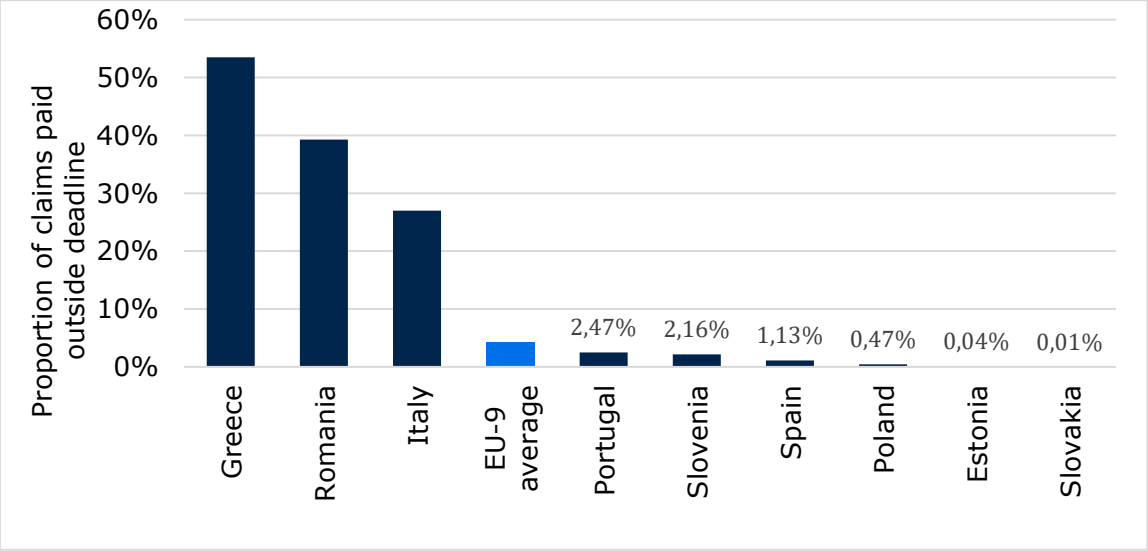
Figure 37: Proportion of VAT reimbursement claims paid outside deadlines by Member States in 2016



shows, Greece, Romania and Italy paid significantly more VAT reimbursement claims outside statutory deadlines.

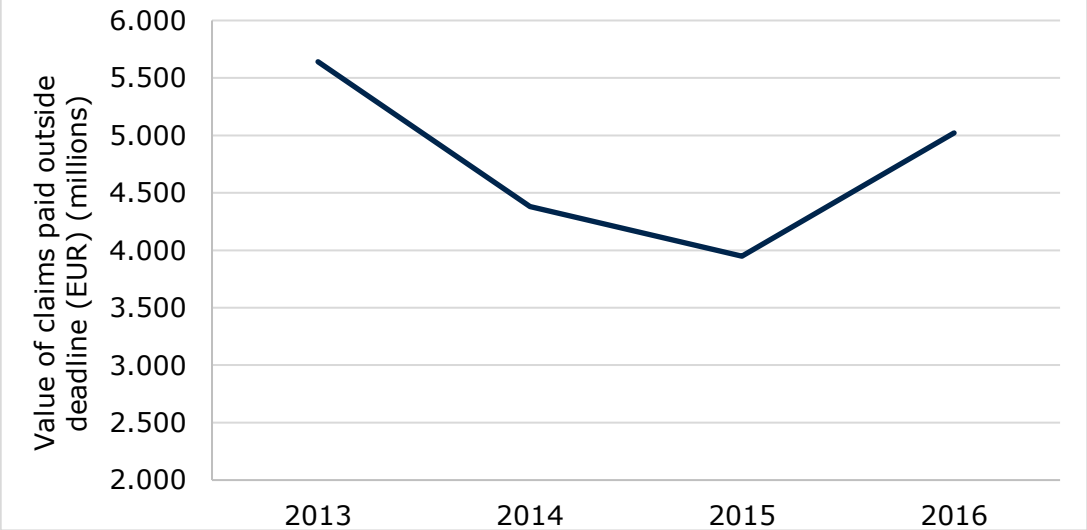
Approximately EUR 5 billion in VAT reimbursements were paid outside deadlines in 2016 by the EU-8. This equates to 10% of the value of VAT reimbursement claims received across the EU-8 in 2016. Prior to 2016, the value of VAT reimbursements paid outside deadlines had been declining, having fallen from just over EUR 5.6 billion in 2013 to EUR 3.9 billion in 2015.

Figure 37: Proportion of VAT reimbursement claims paid outside deadlines by Member States in 2016



Source: Tax administration data, PwC analysis

Figure 38: Value of VAT reimbursement claims paid outside deadlines in the EU-8



Source: Tax administration data, PwC analysis

5.7.2 Time to obtain a VAT reimbursement claim

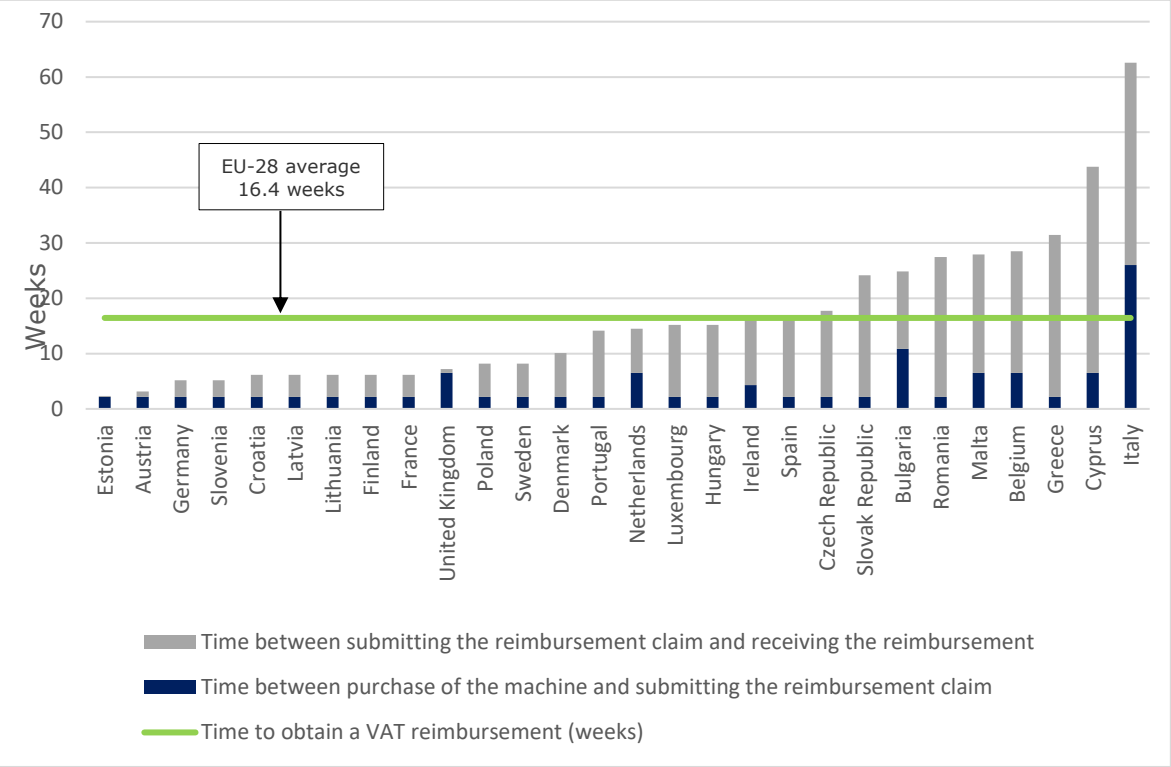
The time to obtain a VAT reimbursement is one of the VAT components of the post-filing index of the *Paying Taxes* report and is measured in weeks. [14]

Figure 39 shows the time the hypothetical case study company takes to obtain a VAT reimbursement from EU-28 tax administrations according to *Paying Taxes 2019*, split

[14] The full explanation of the *Paying Taxes* methodology can be found at the *Doing Business* website: http://www.doingbusiness.org/en/methodology/paying-taxes.

into the period between incurring the underlying expenditure and submitting the claim and the time between submitting the claim and receiving the reimbursement.

Figure 39: Time to obtain a VAT reimbursement claim broken down by components



Source: Paying Taxes data - calendar year 2017

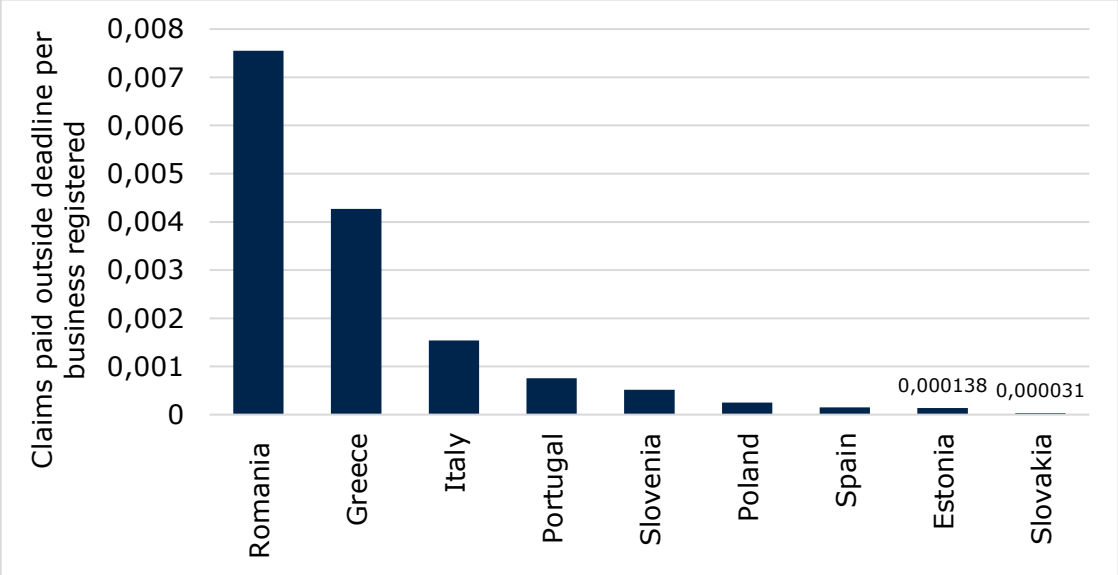
Similar to the findings from the tax administration data, the *Paying Taxes* data suggests that the time to obtain a reimbursement is the longest in Italy. This is due, in part, to the fact that reimbursements can only be requested once a year in Italy. While on average across the EU-28 it takes the case study company 16.4 weeks to obtain a VAT reimbursement, in Italy this takes 62.6 weeks.[15]

Greece and Romania were also highlighted by the tax administration data as having 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 40 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 among other countries where businesses are more likely to experience delays.

[15] 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.

Figure 40: Number of claims paid outside deadlines per VAT-registered business in 2016

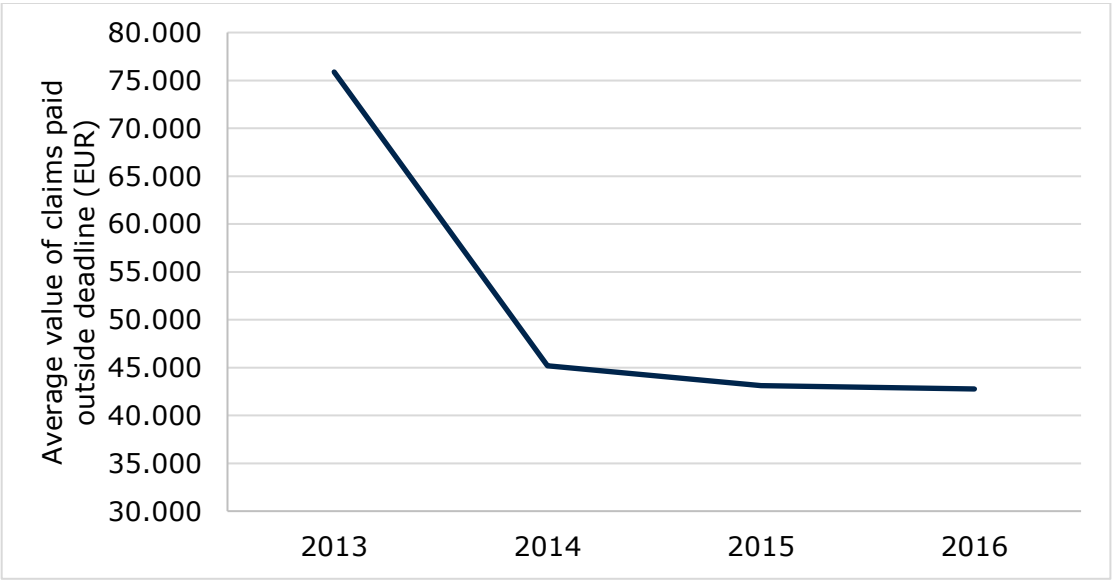


Source: Tax administration data, PwC analysis

5.7.3 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 EU-8. 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.

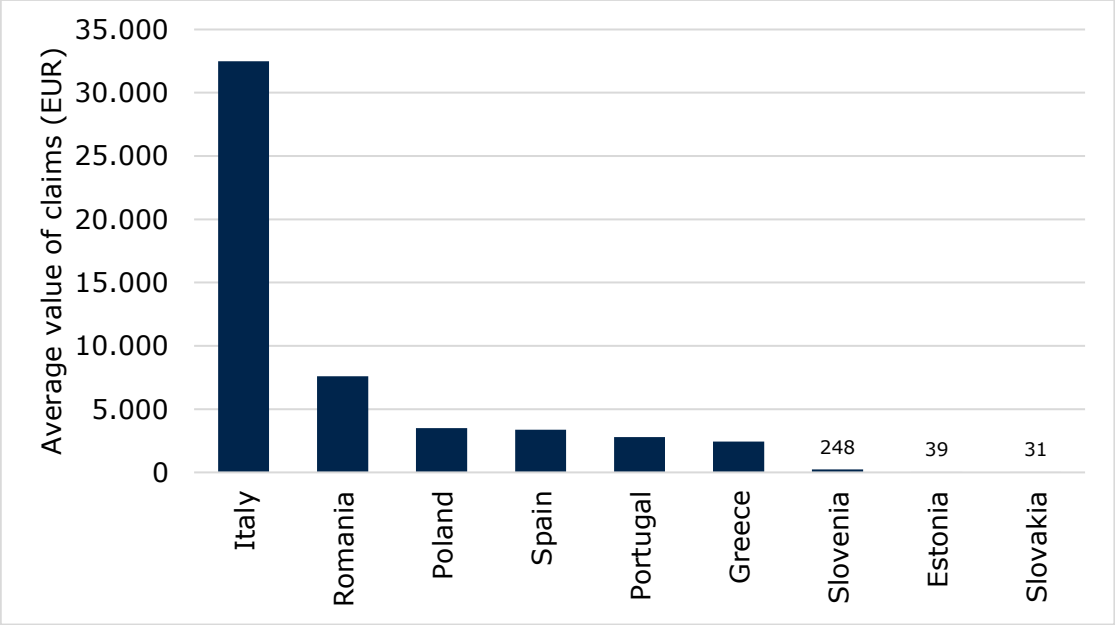
Figure 41: Average value of VAT reimbursement claims paid outside deadlines



Source: Tax administration data, PwC analysis

Figure 42 shows the average value of claims paid outside deadlines per business in a reimbursement position across the EU-9 in 2016. The values ranged from a low of EUR 31 in Slovakia to an upper value of EUR 32,500 in Italy.

Figure 42: Average value of VAT reimbursement claims paid outside deadlines by Member State in 2016



Source: Tax administration data, PwC analysis

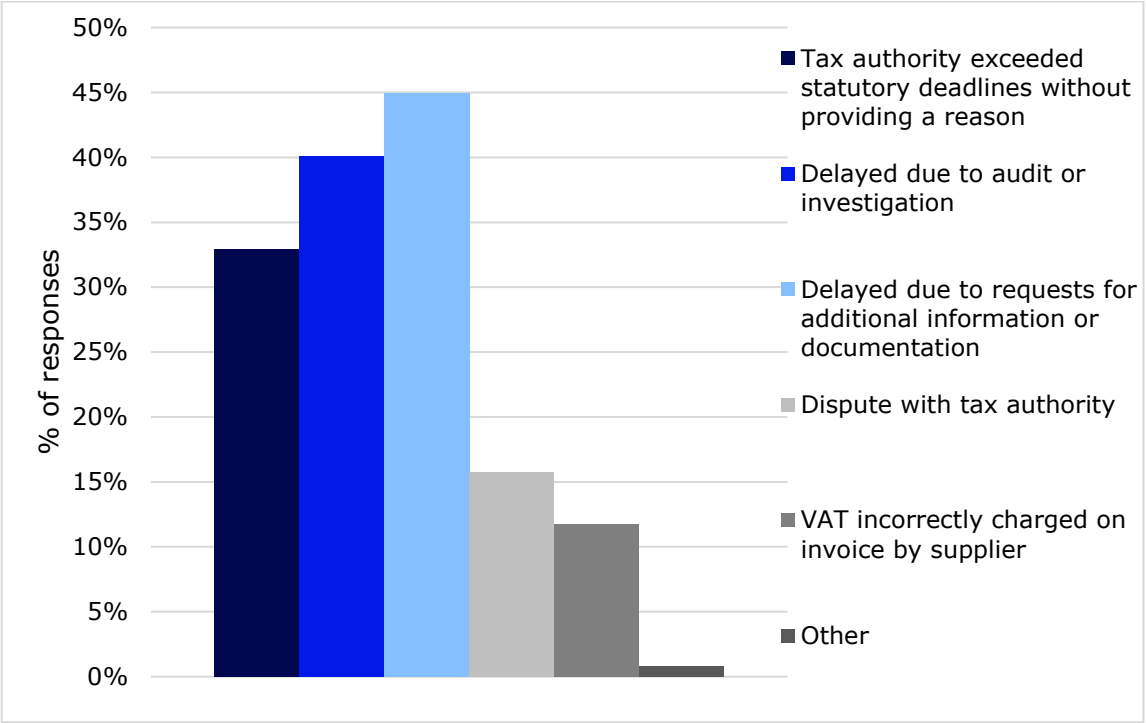
5.7.4 What are common justifications for delays?

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 that requests for additional information are the most common justification for delays in processing VAT reimbursement claims. 45% of respondents to the business survey noted this as one of the most common reasons. Another frequent justification for delays was an audit or investigation (40% of respondents).

One-third of respondents 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 43: Most common reasons for delayed reimbursement claims according to businesses



Source: PwC analysis

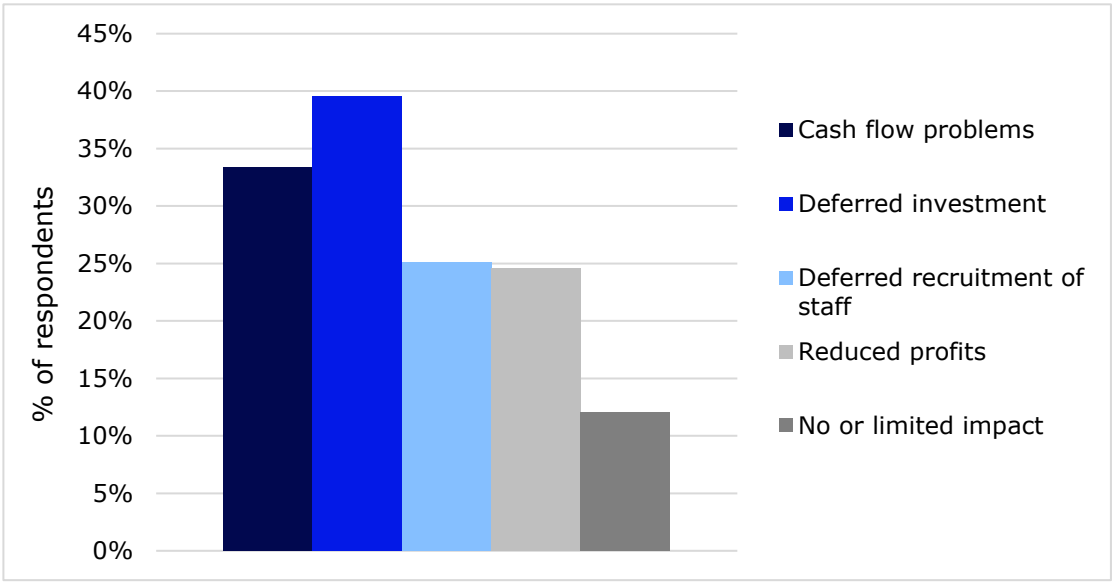
5.7.5 How can a delayed VAT reimbursement claim affect a business?

Delayed VAT reimbursement claims can create financial impacts for businesses. Given that the average value of a VAT reimbursement claim paid outside deadlines across the EU-9 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 one-third of respondents claimed a delay resulted in cash flow problems. Deferred recruitment of staff and reduced profits were also cited by approximately one-quarter of businesses 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.

Only 12% of respondents reported not having experienced any impact. However, this was somewhat higher in Germany and Greece, with 17% and 18% respectively.

Figure 44: Impact of delayed VAT reimbursement claims on businesses



Source: PwC analysis

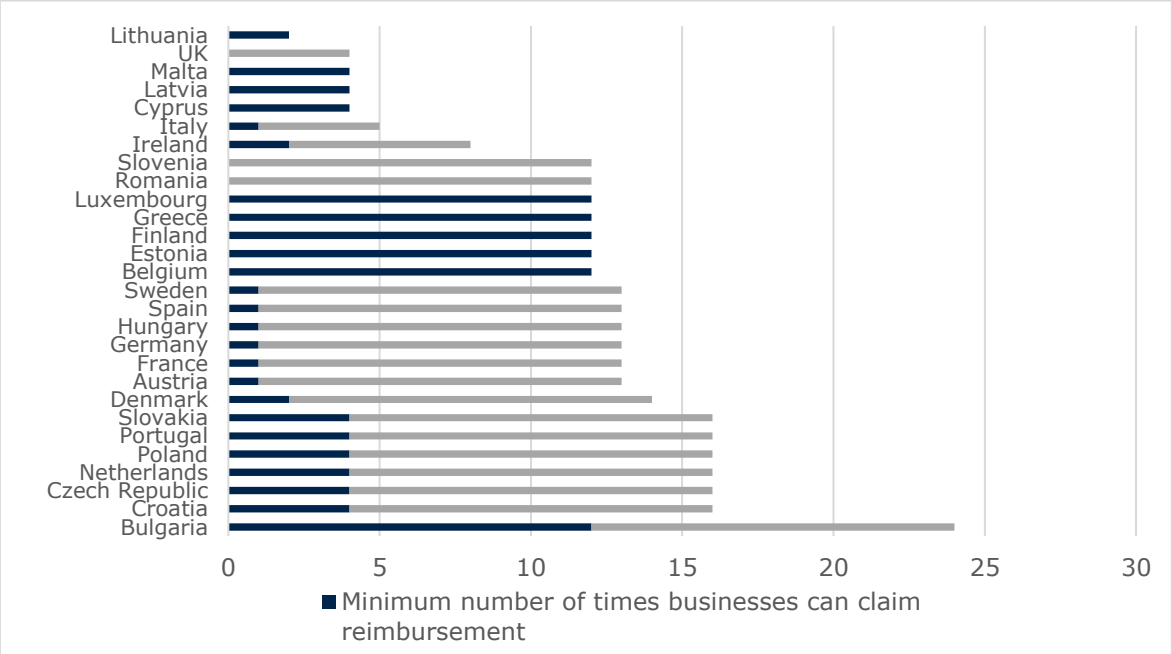
The precise quantum and timing of the impact will be largely dependent on the timing of the delay and whether the claim is eventually approved or rejected. However, it is also important to recognise that the magnitude of the impact can be driven by the frequency with which VAT registered businesses are permitted to claim a reimbursement.

As 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).

Figure 455 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).

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).

Figure 45: Filling frequency for making reimbursement claims across the EU-28



Source: Tax administration data, PwC analysis

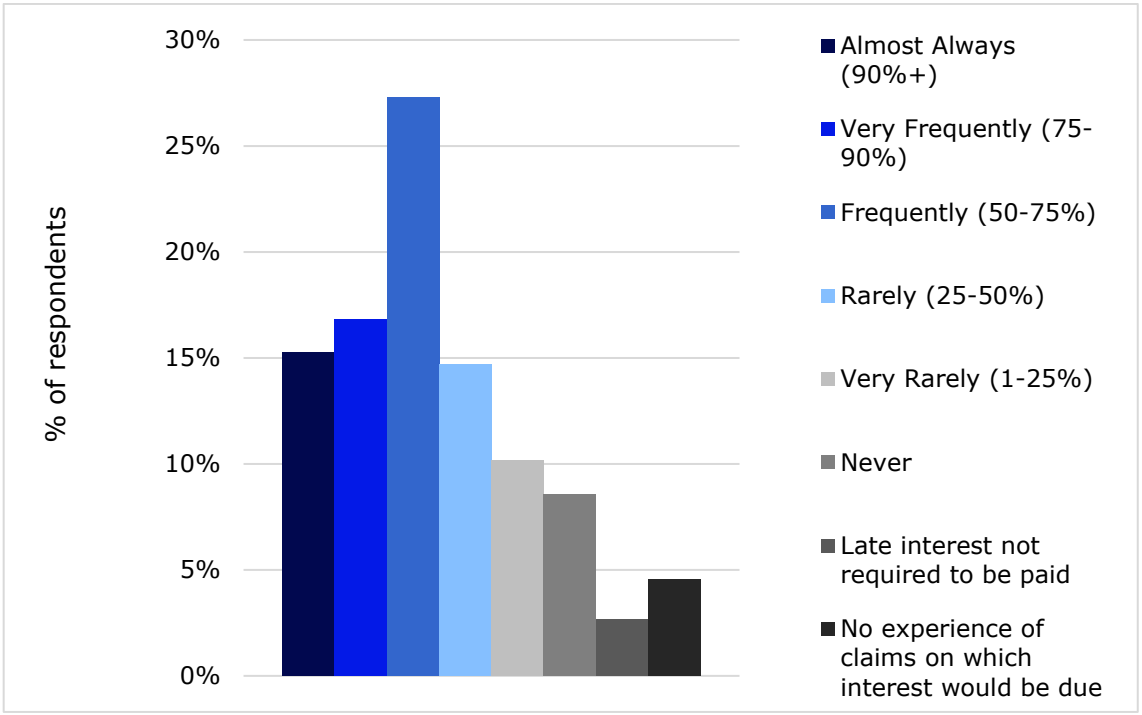
5.7.6 Claiming late payment interest from tax administrations

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.

Businesses received approximately EUR 890 of interest per VAT reimbursement claim paid outside deadlines across the EU-5 in 2016. On average, an interest rate of 3.5% is applied on claims paid outside deadline.

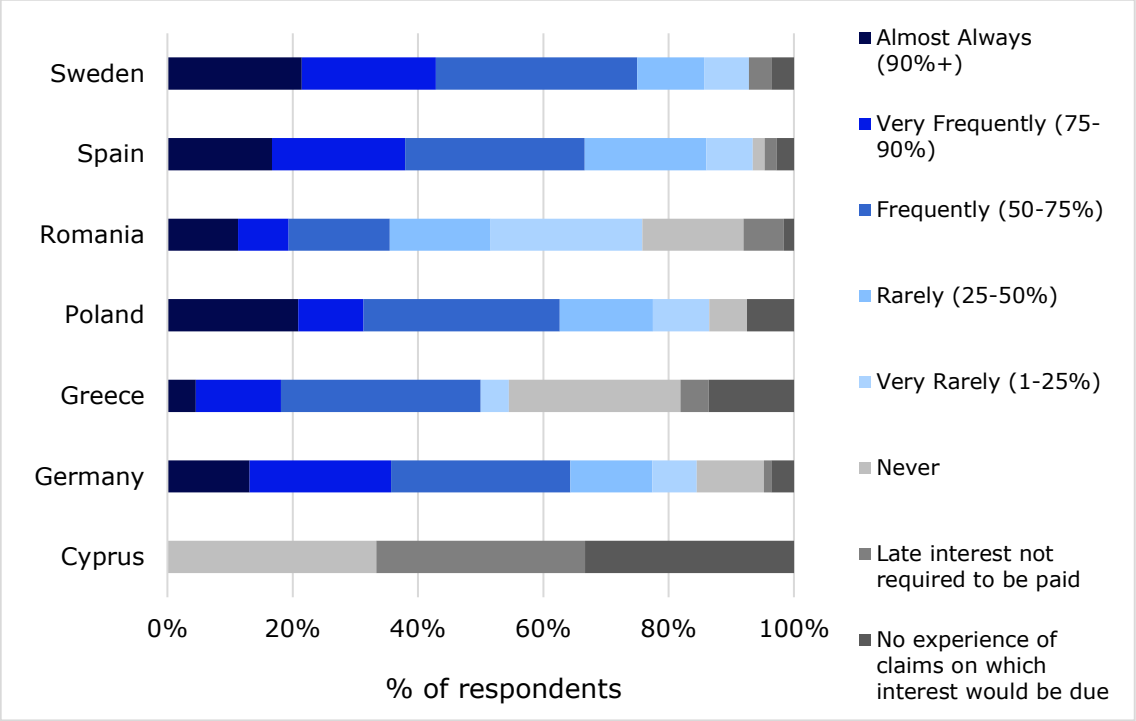
The results of the business survey show that more than one-third of respondents received interest on fewer than half of the claims for which they were entitled to late payment interest. Only 15% of the respondents noted that they almost always receive interest. This issue seems to be particularly prevalent in Greece and Cyprus, where 27% and 33% of the businesses surveyed claim they never receive interest in respect of delayed claims.

Figure 46: Frequency with which tax administrations pay late payment interest



Source: PwC analysis

Figure 47: Frequency with which tax administrations pay interest on VAT late payment interest by Member State



Source: PwC analysis

5.7.7 Summary

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 over the period 2013-2016. In contrast, the value of VAT reimbursement claims paid outside deadline declined over the same period.

According to the *Paying Taxes* report for 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. Greece, Romania and Italy paid the highest proportion of claims outside deadlines in 2016.

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 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, data collected from five tax administrations shows that, on average interest of 3.5% is paid on claims that are paid outside deadline. However, one-third of businesses reported that they never or rarely receive late payment interest despite being entitled to it.

5.8 Frequency and causes of appeals, disputes and litigation

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 administration helps to highlight potential areas of inefficiency and options for improvement.

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:

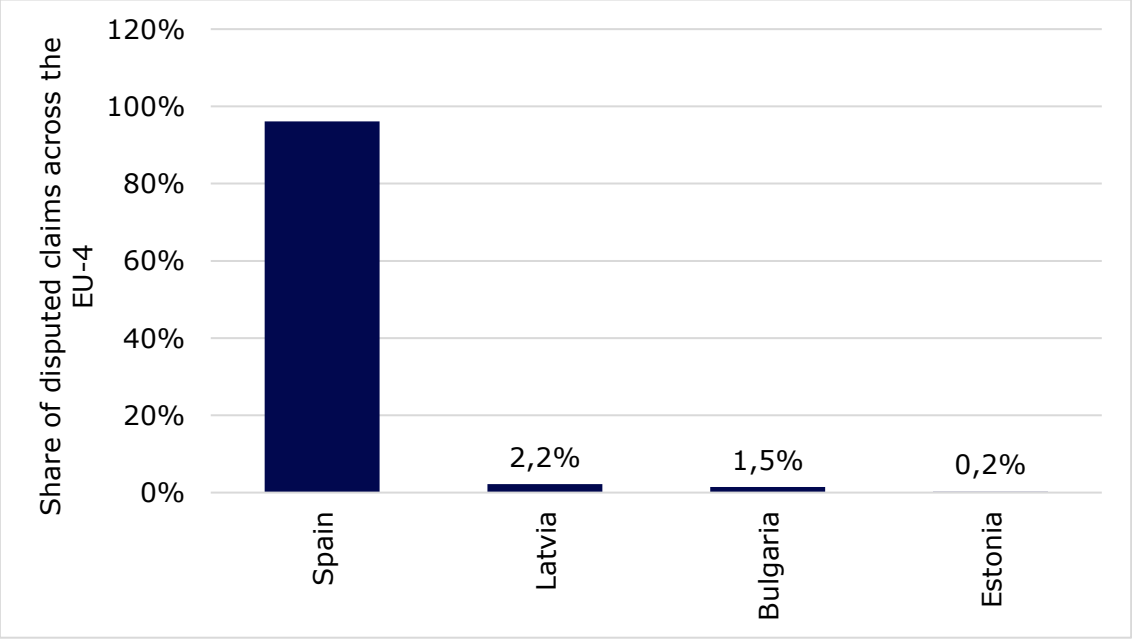
- EU-4: Bulgaria, Estonia, Latvia and Spain.
- EU-5: Bulgaria, Estonia, Latvia, Poland and Spain.

5.8.1 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 rate of dispute of 0.12% and amounted to an average value per disputed claim of EUR 39,400.

Spain accounted for 96.1% of all reimbursement claims disputed in 2016 across the EU-4. In contrast, Latvia, Bulgaria and Estonia had a modest share contributing 2.2%, 1.5% and 0.2% to the overall number of claims disputed in 2016.

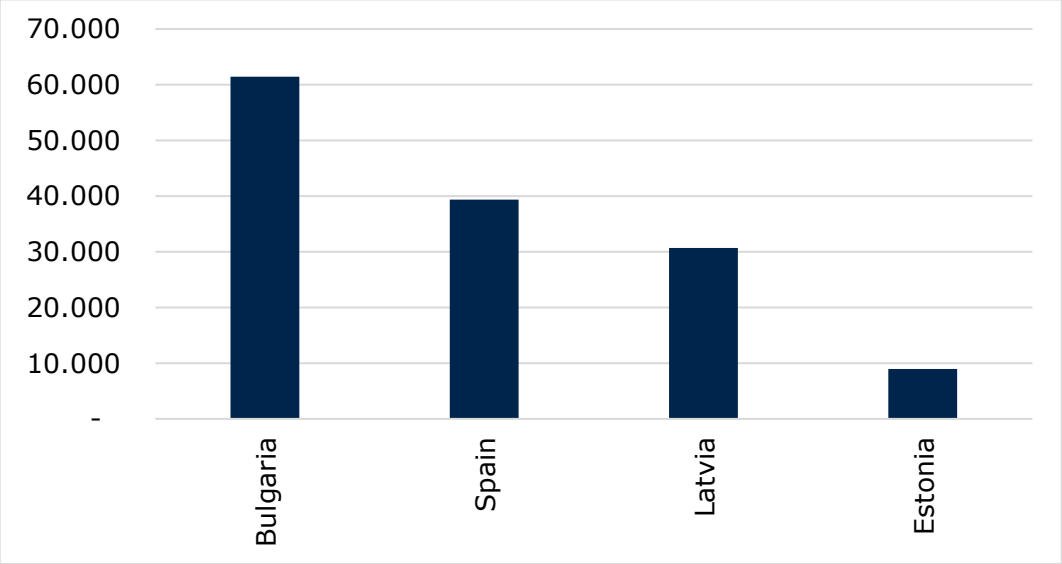
Figure 48: Share of claims disputed across the EU-4 in 2016



Source: Tax administration data, PwC analysis

A significant difference can be seen in the average value per disputed claim in 2016 as outlined in Figure 49. Bulgaria had the highest average value per disputed claim at EUR 61,400, followed by Spain at EUR 39,300. In comparison, taxpayers in Estonia not only disputed fewer claims but also claims of a lower value.

Figure 49: Average value per disputed claim across the EU-4 in 2016



Source: Tax administration data, PwC analysis

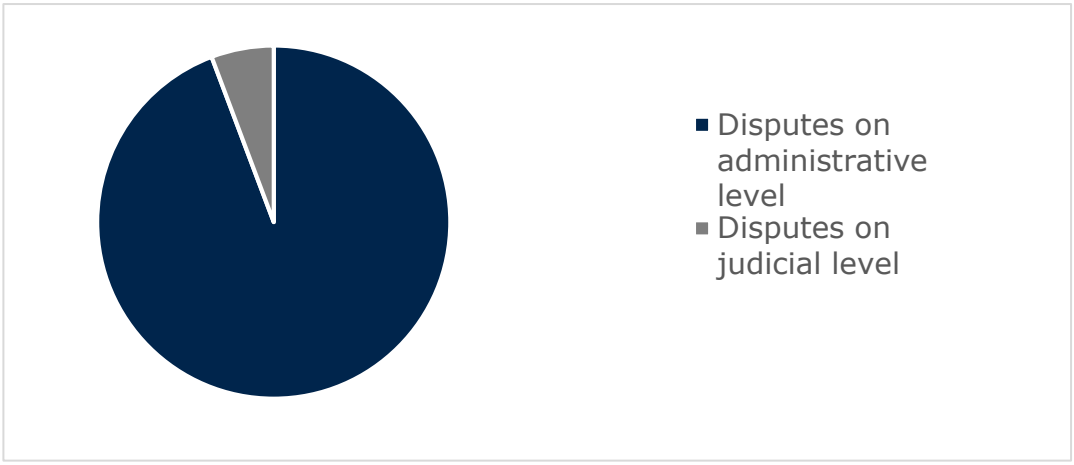
5.8.2 At which level did the appeals, disputes and litigation occur?

In general, tax administration decisions on VAT reimbursement claim can be appealed at the administrative or judicial level.[16] In 2016, most disputed claims were heard at an administrative level across the EU-4. Again, the highest number of disputes occurred in Spain, with taxpayers disputing 0.28% of all reimbursement claims received in 2016 at an administrative level, whereas only 0.02% were disputed at the judicial level.

The average value of a disputed claim seems to be fairly consistent regardless of the level at which the dispute occurs. However, the average value of a disputed claim in Bulgaria differs significantly depending on the level at which the dispute is heard. The average value of a claim disputed at the judicial level in Bulgaria is EUR 173,000, significantly higher than the EUR 34,800 average value of an administrative level dispute. This suggests that Bulgarian taxpayers tend to proceed to a judicial level to dispute high-value claims.

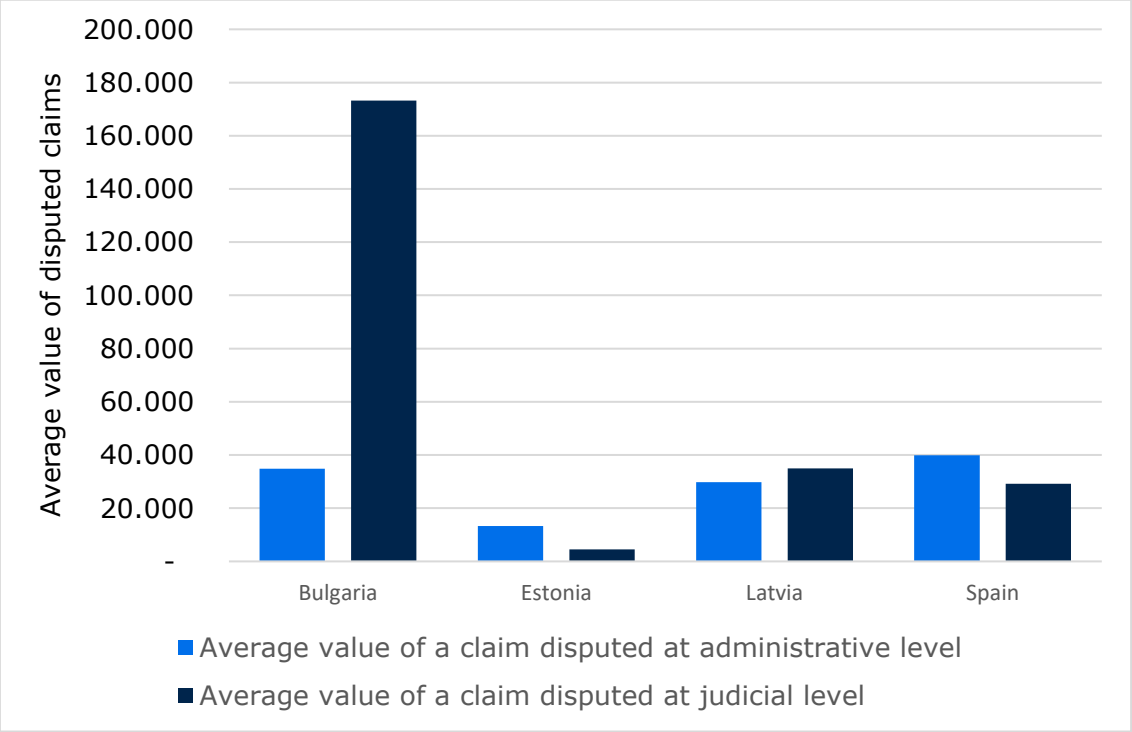
Figure 50: Disputed claims at administrative and judicial levels across the EU-4 in 2016

[16] 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.



Source: Tax administration data, PwC analysis

Figure 51: Average value of a disputed claim by level of dispute across the EU-4 in 2016

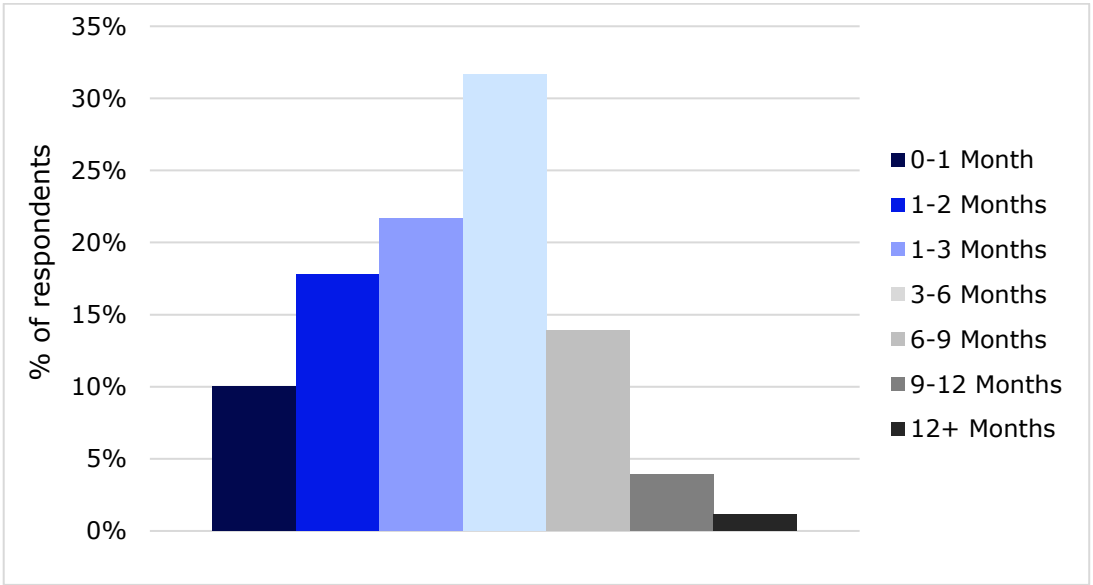


Source: PwC analysis

5.8.4 Average duration and cost of an appeal, dispute or litigation

The results of the business survey show that, on average, disputes last less than nine months for 95% of respondents and take less than three months for 49% of respondents. Just 1% of businesses surveyed claim the average duration of a dispute to be in excess of 12 months.

Figure 52: Average duration of a dispute

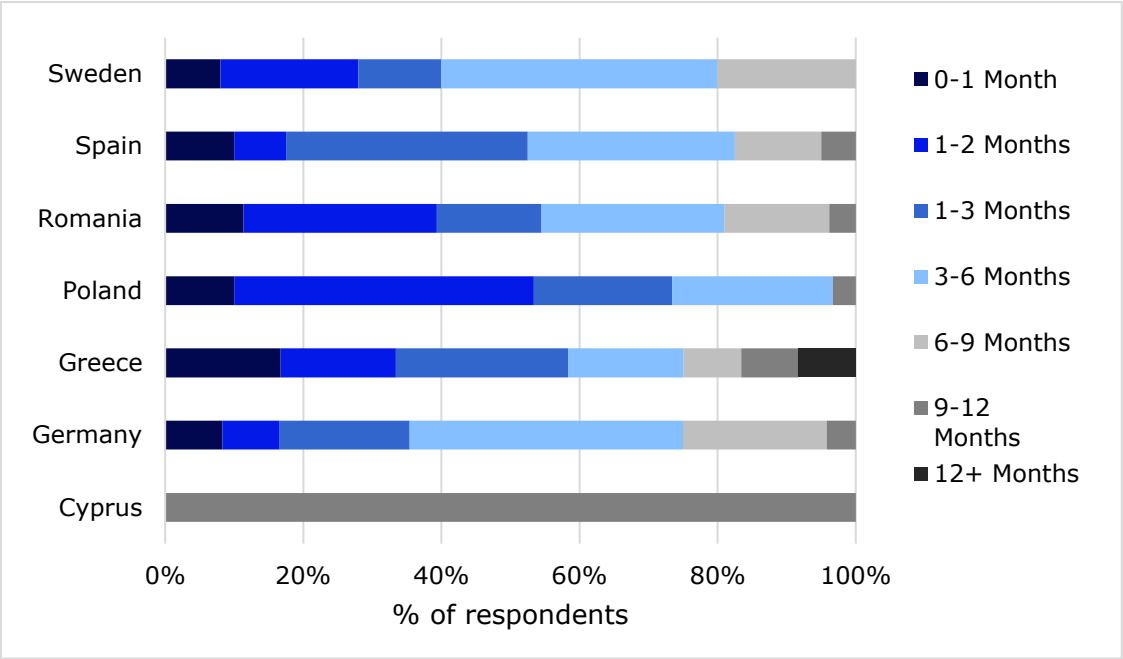


Source: PwC analysis

The businesses surveyed in Poland seem to experience shorter dispute durations than businesses in other Member States in the business survey country sample. 53% of respondents from Poland stated that disputes take less than two months.

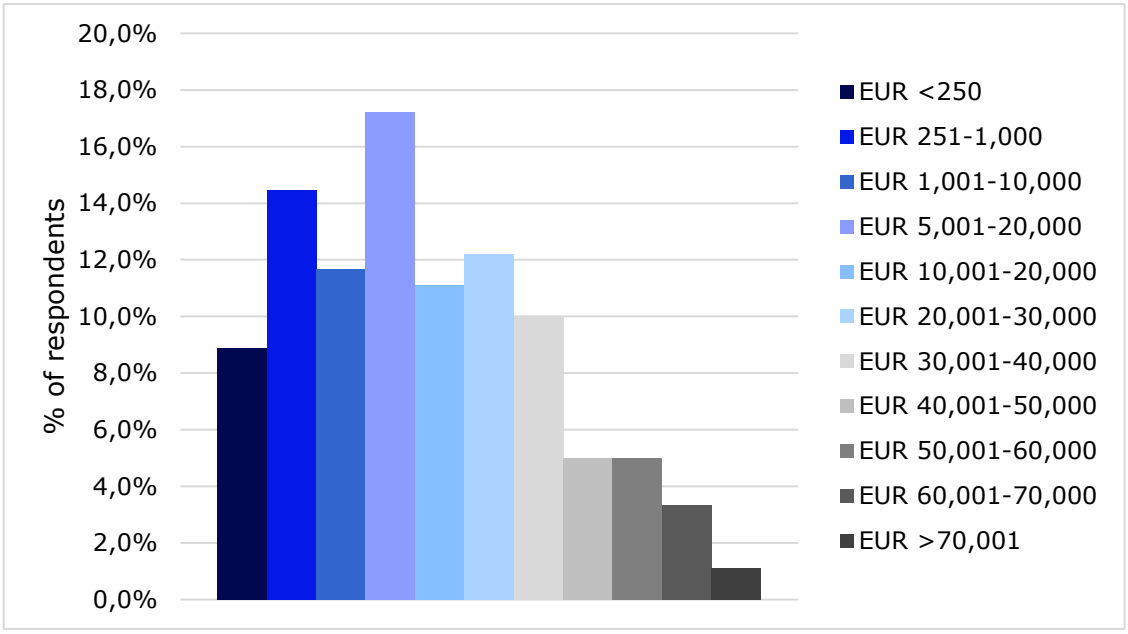
Approximately, one-quarter of the businesses surveyed claim that the average cost to dispute a VAT reimbursement claim was less than EUR 1,000, and over half claim the average cost is less than EUR 20,000. The cost of disputing a claim was significantly higher in Sweden than in the other Member States surveyed, with almost three-quarters of Swedish businesses surveyed claiming the average cost to be in excess of EUR 20,000.

Figure 53: Average duration of a dispute per Member State



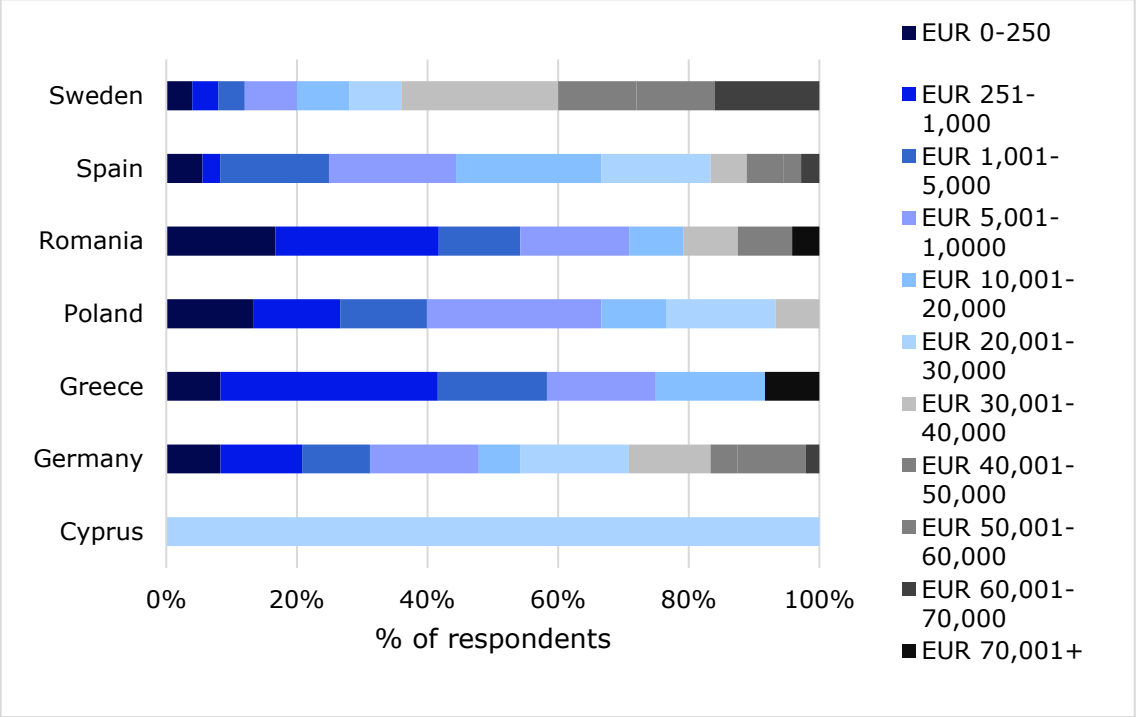
Source: PwC analysis

Figure 54: Cost incurred by businesses when disputing a claim



Source: PwC analysis

Figure 55: Cost incurred by businesses when disputing a claim per Member State



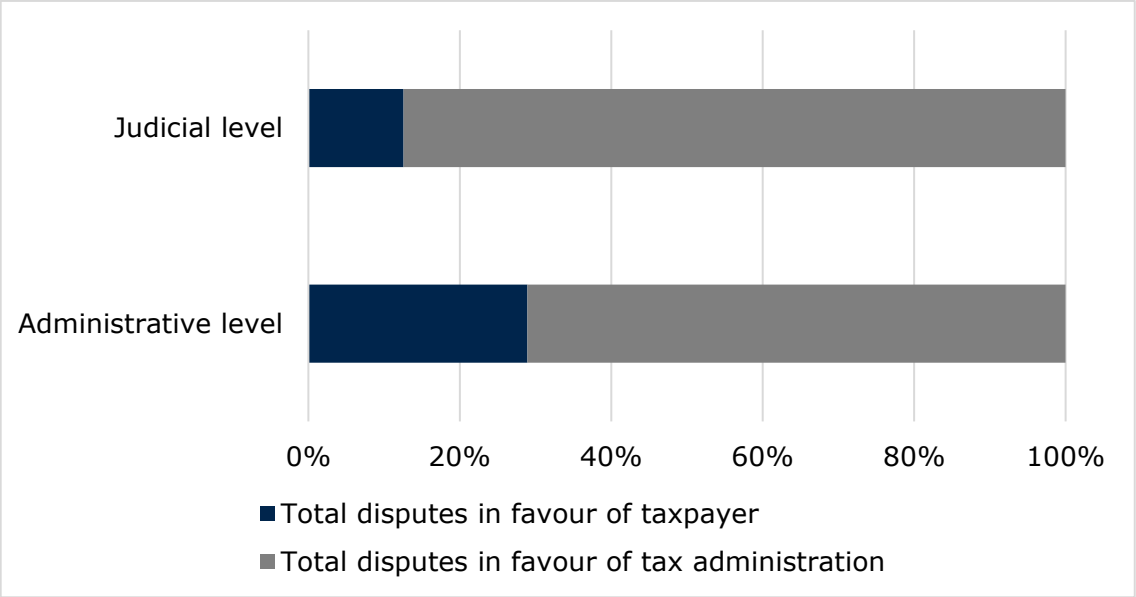
Source: PwC analysis

5.8.5 Decisions awarded in favour of the taxpayer versus the tax administration

Of the VAT reimbursement claims for which a decision was made within the EU-5 26.6% were decided in favour of the taxpayer and 73.4% in favour of the tax administrations in 2016. This trend can also be seen at the different levels of dispute,

as illustrated in Figure 56. Tax administrations won disputes in 87.4% of judicial level and 71.1% of administrative level disputes.

Figure 56: Outcome of disputes by level of dispute



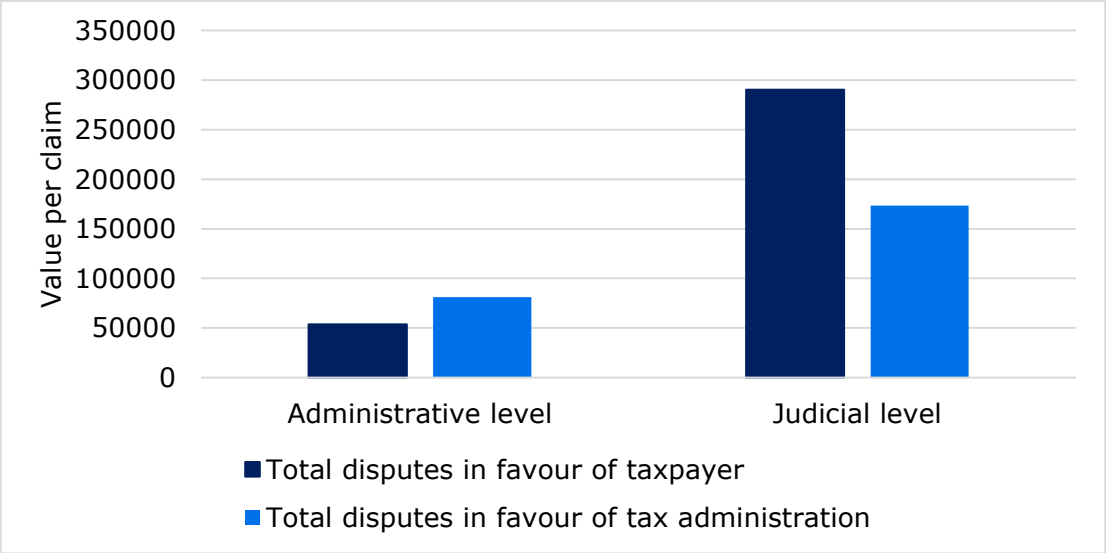
Source: Tax administration data, PwC analysis

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 of 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 57, 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 57: Average value of a disputed claim by outcome and level of dispute in 2016



Source: Tax administration data, PwC analysis

5.8.6 Summary

The tax administrations from the EU-4 dealt with approximately 1,800 disputed claims in 2016amounting to EUR 69.5 million. 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. 94.3% of reimbursement claim disputes occurred at an administrative level.

Across the EU-5, 26.6% of disputed 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. 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 12 months. 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.

5.9 Effectiveness of tax administrations communication and support

This section assesses the effectiveness of the communication and support provided by tax administrations. Sufficient levels of communication and support can help improve claim preparation and processing by promoting understanding of the procedural and legal requirements.

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: All Member States except for Cyprus, France, Ireland, Malta, Poland and the United Kingdom.
- EU-21: All Member States except for Belgium, Cyprus, France, Ireland, Malta, Poland and the United Kingdom.
- EU-10: Czech Republic, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, the Netherlands, Portugal and Slovakia.

5.9.1 Communication with taxpayers

Tax administrations are in contact with claimants for the whole of the VAT reimbursement process. The three most widely used forms of communication, were emails and/or other electronic means, written communication and in person visits to the tax office. Collectively, these means of communication were used by 79% of respondents to the tax administration survey. Communication via telephone is the next most widely used form of contact, with 18% of respondents using it.

Greece and Germany stated that the national or central tax administration does not communicate directly with the taxpayer. In Greece, local tax offices are responsible for communicating with taxpayers. While in Germany, the tax administration of each state has this responsibility.

Engagement with tax administrations: Contacting the claimant

In general, 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 taxpayer 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 to those considered to be affected the most by

the changes.

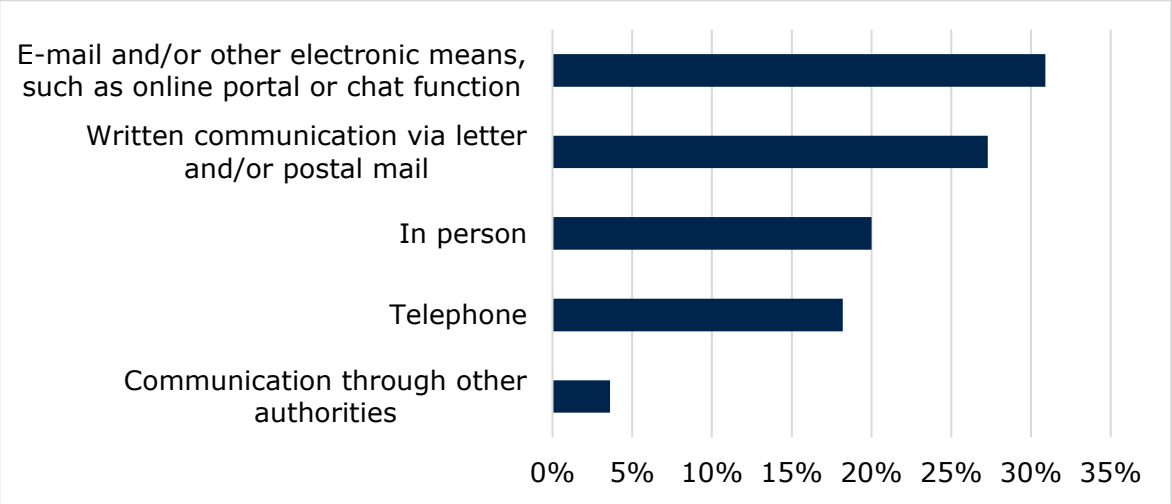


Figure 58: Most widely used forms of communication across the EU-21 in 2016
Source: Tax administration data, PwC analysis

5.9.2 Effectiveness of communication with taxpayers

Interaction and communication between tax administrations and taxpayers was found to have a positive impact on the VAT reimbursement process in the Czech Republic, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, the Netherlands, Portugal and Slovakia. Notable examples responses to the tax administration survey are highlighted in Table 2.

Table 2: Examples of tax administration communication

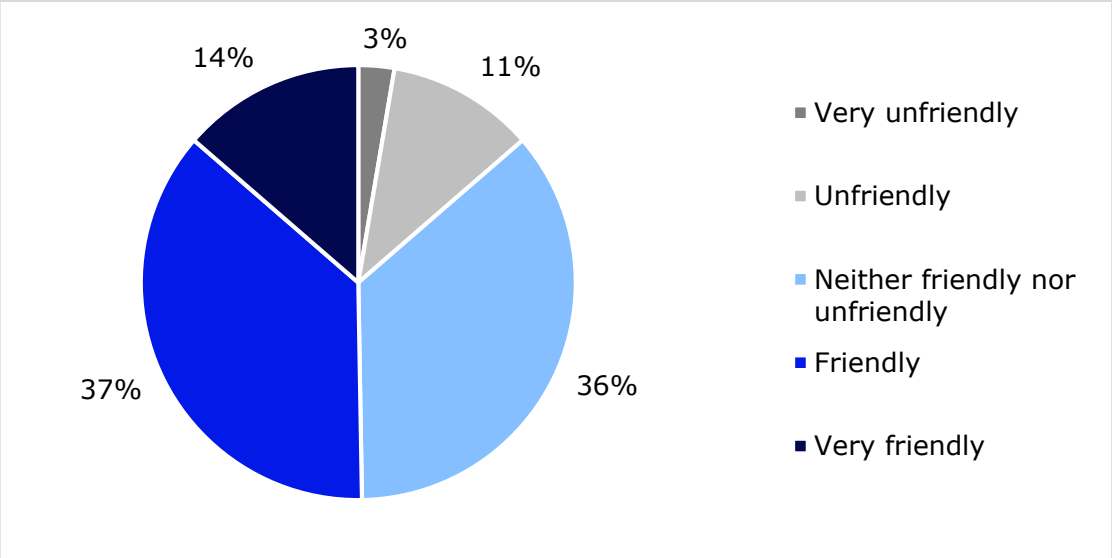
Member State	Commentary
Denmark	The Danish tax administration highlighted that meeting in person can positively impact communication and interaction.
Latvia	In Latvia, the tax administration prioritises constructive and timely communication with the taxpayers, which has favourably impacted the process.
Slovakia	The Slovakian tax administration aims to maximise help during the completion of VAT returns and to publicise general information about reimbursement claims.
Netherlands	The Netherlands highlighted how practical solutions can be beneficial and minimise delays. The Dutch tax administration

Member State	Commentary
	allows for flexible solutions, such as correcting minor inaccuracies.
Estonia	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.
Lithuania	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.
Hungary	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.
Finland	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.

Source: Tax administration data, PwC analysis

Although the experiences of these Member States vary in character, they emphasise how flexibility, online resources and swift interaction can benefit both parties. Indeed, over 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 59: Business perception of tax administration communication and support



Source: PwC analysis

Engagement with tax administrations: Feedback from taxpayers

In interview, a number of tax administrations expressed interest in receiving constructive feedback from taxpayers on the VAT reimbursement process. 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 that provides an opportunity for taxpayers to share feedback on the procedure for claiming a VAT reimbursement.

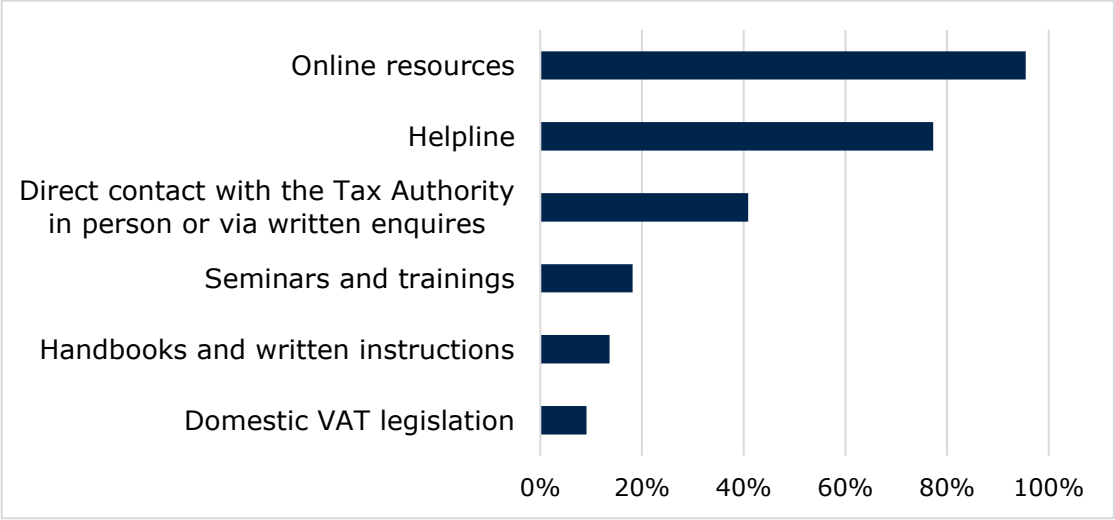
5.9.3 Effectiveness of tax administration support

Online resources were the most widely used source of information for businesses, used by 21 of 22 Member States. Interestingly, Germany was the only Member State to not refer to the use of online resources. However, this may be due to the fact that state-level tax administrations are responsible for administering VAT reimbursements in Germany.

Helplines were the second most widely used support, being accessible in around three-quarters of 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.

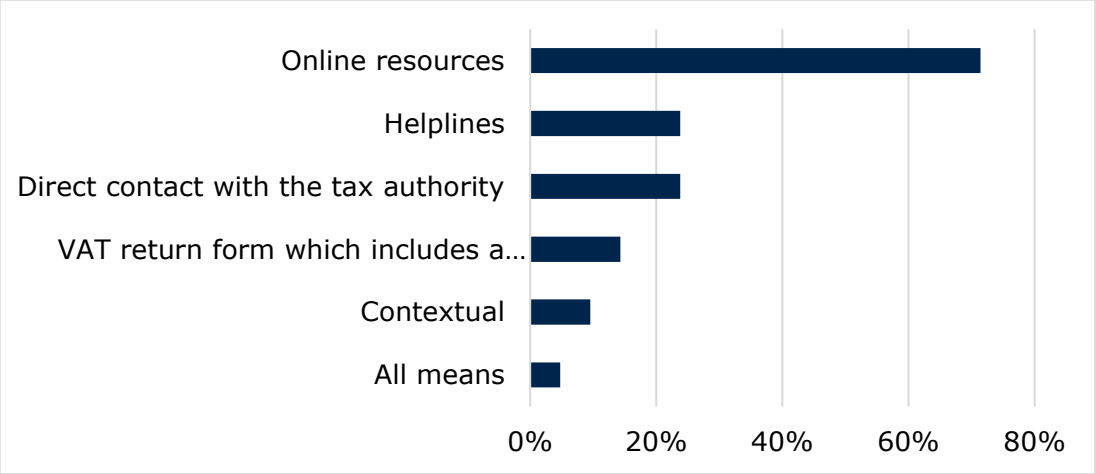
Figure 60: Most widely available sources of support across the EU-22 in 2016



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 findings 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.

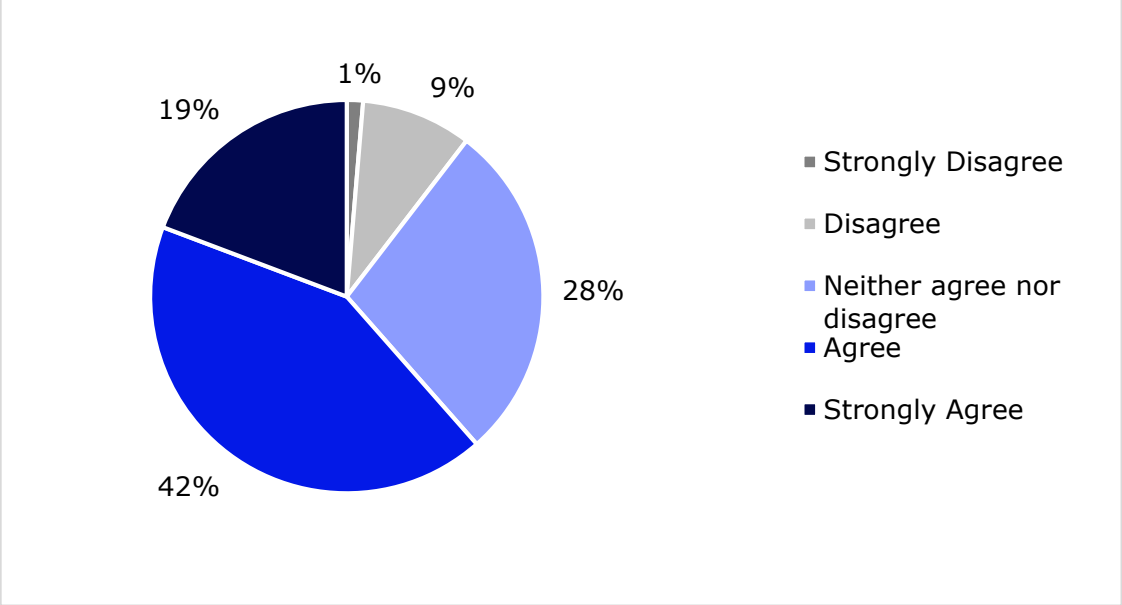
Figure 61: Most effective sources of tax administration support across the EU-22 in 2016



Source: Tax administration data, PwC analysis

62% of the businesses surveyed found that information published by tax administrations is useful.

Figure 62: Agreement with statement that tax administration guidance is easily accessible



Source: PwC analysis

5.9.4 Summary

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.

The three most effective sources of help and information align with the three most used resources. Tax administrations ranked online resources as both the most common and effective source, followed by helplines and direct contact respectively.

5.10 The impact of technology on VAT reimbursement process

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.

In this section EU-22 refers to all Member States except for Cyprus, France, Ireland, Malta, Poland and the United Kingdom.

5.10.1 Impact of technology on claim preparation

Businesses can use technology to shorten the length of time taken to prepare and submit VAT reimbursement claims. EU-22 tax administrations have shown a heavy reliance on technology-enabled procedures to assist taxpayers preparing claims.

Furthermore, technology has streamlined the filing process for taxpayers. For example Hungary's e-VAT return application highlights errors made during filling and offers detailed explanations to taxpayers.

5.10.2 Impact of technology on processing claims

The tax administration survey highlighted that the use of technology has a number of applications for processing VAT reimbursement claims:

- Many tax administrations, such as Belgium, Croatia and Italy, use technology-enabled systems to assign VAT filings to the correct departments for processing.
- Most tax administrations used technology-enabled systems to conduct risk analysis to determine whether any further assessment or investigations are required. For example, the Hungarian tax administration uses technology to detect non-compliant filings and prevents such filings from being reimbursed.
- Technology has also ensured that tax administrations have access to the taxpayer profiles. This has been adopted in Latvia, Slovakia and Slovenia to support risk-based analysis of claims.

5.10.3 Summary

Tax administrations in the EU-22 felt that technology-enabled systems, such as these, help them to process claims more efficiently. However, in a number of cases it may simply be too soon to tell if technology has positively affected the processing of VAT reimbursement claims. For instance, the Croatian tax administration has only partly rolled out technology-enabled systems. Similarly, the tax administration in Luxembourg has only recently introduced such systems.

6. Conclusions

In light of the ongoing structural changes in the overall framework of the VAT system, 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, evidence from tax administrations and businesses suggests there is still significant room for improvement. A number of suggestions for improvement are presented below for consideration by Member States and the European Commission.

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 could be realised through changes to EU and/or the corresponding national legislation.

6.1 Data collection by tax administrations

6.1.1 Overview of challenge

Lack of systematic data collection

Over the course of the study it became apparent that tax administrations in most Member States face significant challenges in extracting data on VAT reimbursements.[17] There are two main reasons that could explain this:

1. Systems used by administrations are restricted in their ability to extract VAT reimbursement data for a variety of different metrics. Information received from tax administrations was very limited in quantity and detail.
2. Most tax administrations do not appear to have a clear allocation of responsibilities between departments for the collection of VAT reimbursement data. This hinders the efficient collection of comparable and detailed data within a tax administration.

Difficulties in extracting data on VAT reimbursements create two more critical challenges:

1. Low quality data makes it difficult to develop performance metrics and indicators for each Member State.
2. Differences in the nature, quantity and level of detail of data collected across Member States hinders pan-EU data sharing. Such data sharing is essential in ensuring businesses (both foreign and domestic) are registered and pay VAT, as well as helping to reduce and prevent instances of VAT fraud.

6.1.2 Suggestion for improvement

Standardised collection and systematic sharing of data on VAT reimbursements across Member States

[17] Evidence for this is presented in the limitations faced with data collected from EU-28 tax administrations outlined in the technical annex to this report.

Given the importance to businesses of well-functioning VAT 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 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.[18]

Furthermore, a harmonised framework of performance indicators can be developed on the basis of such data. This would aid the identification of unusual trends in VAT reimbursement claims. 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 which is estimated to costs tax administrations approximately EUR 60 billion annually in tax losses.[19] Sharing consistent data and metrics would enable tax administrations to work together more efficiently in the fight against VAT fraud.

6.2 Financial risks

6.2.1 Overview of the challenge

Financial risks generated by frequency for claiming VAT reimbursements

Delays in receiving a reimbursement generate cash flow impacts for businesses, which may have an adverse effects on 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.[20]

Responses to the business survey showed that approximately one-third of businesses found that a delayed VAT reimbursement resulted in impacts to their cash flow, and 40% of businesses had to defer investment.

[18] The Standing Committee on Administrative Cooperation annually collects data on VAT refunds under Directive 2008/9/EC from tax administrations across the EU.

[19] 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]

[20] Rules on how frequently businesses can claim a VAT reimbursement vary significantly across the EU. For example, VAT reimbursements can only be claimed once a year in Italy, whereas businesses established in Estonia can claim on a monthly basis if they wish to do so.

6.2.2 Suggestion for improvement

Guidelines on VAT reimbursement claim frequency

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, 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.

6.3 Late payment interest

6.3.1 Overview of challenge

Difficulties in receiving late payment interest

The 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 this, respondents to the business survey noted that they struggled to receive 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.

6.3.2 Suggestion for improvement

Investigate challenges in recovering late payment interest

In light of CJEU judgement Rafinaria Steaua Romana of 24 October 2013 the Commission may wish to investigate this issue further to ensure that EU VAT law is adhered to at a national level by Member States.

6.4 Requests for additional information

6.4.1 Overview of challenge

Proportionality of requests for additional information

Respondents to the business survey noted that VAT reimbursement claims are often delayed because of requests for additional information and that original invoices are frequently requested by tax administrations.

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. The increased use of e-invoicing may mean that businesses could struggle to comply with requests to provide original invoices. Indeed, the 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.

6.4.2 Suggestion for improvement

Improve procedures to verify VAT reimbursement claims

The requirement to submit original invoices seems questionable given recent technological advances and the increased use of IT solutions. The European Commission may wish to explore whether requests for additional information are proportionate to the size and nature of the claim.

In addition, the European Commission should encourage tax administrations to request copies of invoices rather than originals. This will allow businesses to respond to additional information requests more quickly and efficiently, while at the same time ensuring more robust and timely verification of claims by tax administrations.

Appendix 1: Summary of 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.