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COVER NOTE

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COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT

Accompanying the document

Proposal for a Council Directive

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

{COM(2013) 721 final}
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EXECUTIVE SUMMARY SHEET

Impact assessment on a proposal amending Directive 2006/112/EC on the common system of value added tax (VAT Directive) as regards a standard VAT return.

A. Need for action

Why? What is the problem being addressed?

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

Moreover, the lack of clear and concise information on how to submit the VAT return, the information that should be completed for each box and having that information in an understandable language all add to the complexity for business.

This complexity in turn leads to the following two main problems.
1. Restricts cross border trade
2. Increase in burdens on business

What is this initiative expected to achieve?

The objective of the proposal is twofold; first to reduce obstacles to cross border trade by standardising information requirements and second to ease the burden on business, and specifically on SMEs and micro-businesses, by simplifying obligations.

Indirect benefits may also result in:

- Reducing the VAT gap by improving the exchange of information between Member States' tax authorities.
- Improving the accuracy and timeliness of VAT declarations
- Facilitating the broadening of the scope of the mini-OSS

What is the value added of action at the EU level?

As Member States would not voluntarily move to align their VAT returns, a common VAT return is unachievable through their actions alone. Consequently no changes, either positive or negative, can be envisaged in respect of meeting the primary targets of reducing both obstacles to cross border trade and administrative burdens in the short term.

Longer term a lack of action may have a higher negative impact on cross border trade. Increasingly as EU trade grows and specifically that of cross border e-commerce, disparate VAT returns may, as an obstacle to cross border trade, have a higher negative impact in the future.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

The following policy options have been considered and one option discarded.
1. No EU action (benchmark)
2. Non-regulatory option (discarded)

3. Legislative approach
In a legislative approach 4 options have been considered.
a) Compulsory standard EU VAT declaration (business and Member States)
b) Standard VAT declaration optional for all business (compulsory for Member States)
c) Standard VAT declaration optional for those businesses submitting VAT returns in more than 1 Member State (compulsory for Member States)
d) Compulsory standard VAT declaration with limited flexibility for Member States to determine the information from a standardised list

The preferred option is legislation for a compulsory standard VAT declaration with limited flexibility for Member States to determine the information from a standardised list.

This approach is selected because it best satisfies the trade-off between more flexibility for business which reduces cross border obstacles to trade and administrative burdens against the cost and complexity for Member States or providing that change.

Who supports which option?

Business is very supportive of standard VAT return. In Member States with a lot of VAT return boxes they prefer a single mandatory VAT return in all Member States. In Member States with simple national VAT returns an optional standard VAT return is preferred. A mandatory standard VAT return with flexibility for Member States to reduce the reporting information is supported as a second best solution. Doing nothing or limiting the standard VAT return to businesses submitting VAT returns in more than one Member State was not preferred.

Member States are in most cases supportive of a standard VAT return but mindful of the impact in terms of having to change their national VAT return and the cost that will entail. It is crucial for them to have only one VAT return as the cost to implement and manage a double scheme would be prohibitive, and there needs to be scope to take on board different levels of information needed for risk analysis and control.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

The beneficial economic impacts were measured against meeting the main objectives of removing obstacles to cross border trade and reducing administrative burdens on business. There are other secondary benefits including economic, social and environmental impact. The benefits accrue to business.

Removing obstacles to cross border trade: EUR 3 to 6 billion

Reducing administrative burdens: EUR 9 billion

Social impact: Small improvement in overall employment
Environmental impact: No significant impact

What are the costs of the preferred option (if any, otherwise main ones)?

The cost of the standard VAT declaration is borne by **Member States**. Those providing information suggest the cost of implementing a standard VAT declaration is between EUR 150 000 to EUR 120 million with the average of replies being EUR 30.5 million.

For **businesses** they will incur set-up costs of changing from national VAT returns to the standard VAT declaration. This is estimated at EUR 2.9 to 4.25 billion and would take between 8 months and 2.5 and 4 months to recover set-up costs through lower administrative burdens.

How will businesses, SMEs and micro-enterprises be affected?

The VAT system generally requires businesses to apply VAT and submit and pay it through a VAT return. As the standard VAT declaration would see estimated benefits to businesses of up to EUR 15 billion there is no specific need to target additional measures at **SMEs**.

However, for **micro enterprises** they should be allowed less frequent VAT return filing, which can reduce compliance costs further as submitting a quarterly VAT return is not three times more burdensome than submitting a monthly VAT return. These savings are EUR 1.8 billion.

Will there be significant impacts on national budgets and administrations?

The costs for Member States of implementing the standard VAT declaration are estimated on average to be EUR 30.5 million.

There should be beneficial effects on Member States tax receipts through a reduction in the VAT gap (around 12% of VAT is uncollected) as the proposal would:

- Improve the exchange of information between Member States' tax authorities to help tackle fraud and evasion
- Improve the accuracy and timeliness of VAT declarations through standardisation and easier compliance

Will there be other significant impacts?

There may be other impacts although less significant than reducing obstacles to cross border trade and administrative burdens. These impacts may include:

- Facilitate the broadening of the scope of the mini-OSS by establishing a standard VAT return (longer term solution for facilitating e-commerce)
- Improve competitiveness of business as "red tape" is reduced
- Attract non-EU businesses through simpler EU standardised rules

D. Follow up

When will the policy be reviewed?
TAXUD is looking at establishing a methodology to measure tax compliance. Any adopted proposal can be evaluated within that tax compliance study, say two years after the standard VAT declaration enters into force.

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1. INTRODUCTION

The common EU VAT system is a valuable and growing source of revenue which contributed 22% of total taxes for Member States in 2010, a rise of 3.4 percentage points since 1995. It is a consumption tax to be borne by the final consumer but whose collection is falling on businesses, which act as the "unpaid tax collector" of the Treasury.

However, it is also a complicated system with more than half of the 400 plus articles of the VAT Directive dealing with derogations and sector or product-specific exemptions or special rates and schemes. Also, while tax legislation through its design features might be able to encourage voluntary compliance, it cannot guarantee voluntary compliance. Thus, and given the enormous sums at stake, compliance must be enforced and monitored.

So, it should not be a surprise that the VAT scheme is seen as burdensome by both tax payers and tax authorities. On the one side, over the last decades there might have been a tendency of piling up additional information requests by tax authorities while on the other side the cost-saving potential of new information and communication technologies might have been overlooked to some extent by both tax payers and tax authorities.

Indeed, when having tried to identify unnecessary reporting and information requirements in the context of the Commission's Action Programme for Reducing Administrative Burdens in the European Union, VAT related burdens ranked at the top. Of the 13 legislative areas covered, VAT obligations represented 2/3rd of the administrative costs (EUR 79 billion out of EUR 124 billion) as measured in a 2009 report[1].

Of the EUR 79 billion annually of administrative costs for VAT, EUR 69 billion were classified as administrative burdens[2]. Of this, three areas represented more than 80% of the VAT administrative burden; VAT bookkeeping, returns and invoicing.

[1] http://ec.europa.eu/dgs/secretariat_general/admin_burden/meas_data/meas_data_en.htm

[2] Administrative cost relates to the "normal" business costs, administrative burden relates to the extra cost imposed by legislation.

As regards the administrative burden on completing VAT returns in the EU, these were estimated at EUR 19 billion.

The target of the Commission's Action Programme was to reduce the administrative burden stemming from EU legislation by 25% by 2012 and this has been fully achieved. Of the measures taken the VAT Directive on invoicing accounted for burden reductions of EUR 18 billion in the medium term for businesses. However, it was highlighted by the High Level Group on Administrative Burdens (the so-called "Stoiber" group), that more work was needed particularly in the tax area.

For this reason the suggestions from the Stoiber group concerning burden reduction measures were included in the public consultation on the Green Paper on the future of VAT[3]. They were also covered in the accompanying recommendation from a study[4] for the Stoiber Group on reducing administrative costs from VAT returns for businesses; namely "consideration could be given to implementing a uniform VAT return throughout all 27 Member States".

This recommendation was suggested as the VAT Directive on the common system of VAT, while requiring taxable persons to submit a VAT return, currently allows the Members States to determine the content and submission. This results in 27 very different periodic VAT returns with anything from less than 10 boxes to 100 boxes to be completed and for small businesses and those businesses submitting VAT returns in more than one Member State it is considered particularly burdensome.

Importantly the "Retrospective evaluation of the elements of the VAT system"[5] estimates that a reduction of 10% in the dissimilarity of the general VAT administrative procedures between countries could yield a rise of 3.7% in intra-EU trade, while real GDP and consumption would increase by 0.4% and 0.3%, respectively. Thus, a standardised VAT return could have real positive effects on the EU economy.

The Stoiber Group and its report on the baseline measurement of administrative burdens formed the basis of the review of VAT obligations included in the Green Paper on the future of VAT[6]. It is from this fundamental review on the future of VAT towards a simpler, more robust and efficient VAT system that the need to reduce burdens on business and particularly in terms of the obligation to submit VAT returns was confirmed.

The Commission therefore committed itself, in its Communication on the future of VAT[7], to put forward a legislative proposal in 2013, so that a standard VAT declaration "is available in all languages and optional for business across the EU".

The objective of the present proposal is twofold; first to reduce obstacles to cross border trade by standardising information requirements and second to ease the

[3] COM(2010) 695

[4] http://ec.europa.eu/dgs/secretariat_general/admin_burden/meas_data/meas_data_en.htm

[5] http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/report_evaluation_vat.pdf

[6] COM(2010) 695 final and SEC(2010) 1455 final

[7] COM(2011) 851

burden on business, and specifically on small and medium sized enterprises (SMEs) and micro-businesses, by simplifying obligations.

This Impact Assessment looks at the possible options and how they respectively meet these two objectives. Moreover, it is also in line with the ECOFIN conclusions[8] of May 2012 and given the current imperative of fiscal consolidation, minimizes costs on Member States and also business for the implementation and management of the required changes.

It has been redrafted in line with the opinion of the Impact Assessment Board. In particular the problem definition has been clarified in respect to the cross border and national problems of submitting VAT returns, the links to the One Stop Shop and e-filing have been further explained as well as why action is needed at EU level and more information has been provided on the impacts on Member States although this still remains limited given the general lack of replies for quantitative information.

2. PROCEDURAL ISSUES AND CONSULTATION

DG TAXUD is the lead Directorate General. Other DGs were consulted through an Impact Assessment Steering Group that included DG MARKT, DG ENTR, DG CNECT, SG and OLAF. In addition the Legal Service and ESTAT were kept informed although they did not participate in the Steering Group.

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

The details of the agenda planning are included in Annex 9.1.

2.1. Studies

Two studies of note have been completed on VAT returns and an evaluation of the VAT system is also of relevance (see Annex 9.2 for links).

a) Deloitte study (2009)

This study was completed for the Stoiber Group and was the initial study measuring burdens associated with VAT returns.

b) PwC study (2013)

This study was focused on the feasibility, the scope, the comprehensiveness and impact of a common EU standard VAT return. The focus was on the definition of the information needed for a standard VAT declaration and guidance on how to complete the declaration, including how, when and how often the standard VAT declaration should be submitted and how corrections could be made.

c) Institute of Fiscal Studies (2011)

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8 TAKES NOTE of the intention of the Commission to present a proposal for creating a standardised VAT declaration, and in this context CALLS ON the Commission to ensure a broad based dialogue and a thorough cost-benefit analysis beforehand.

The retrospective evaluation of elements of the EU VAT system provides a broad evaluation of the EU VAT system including estimates of the administrative burden and compliance cost for fulfilling VAT obligations with particular attention to the effects of the dissimilarities between the Member States. Extensive analysis was done comparing a harmonised EU VAT system and the present system with Member States given flexibility to apply the VAT system differently in terms of for instance VAT obligations.

2.2. Consultation of stakeholders

The following types of stakeholders have been consulted. More details of the stakeholder groups can be found in the Annex 9.4.

i) All stakeholders (Member States, business, tax practitioners, citizens, academics etc.)

All stakeholders were consulted initially through a public consultation on the Green paper on the future of VAT[9] which included an accompanying staff working document. Section 9.7 of the staff working document[10] raised the specific point of a standardised EU VAT declaration.

The public consultation was launched on 1 December 2010 and closed on 31 May 2011.

ii) Business

Business was consulted not only through the public consultation but through workshops held to define the standard VAT declaration during the PwC study. The business consultation in the study was undertaken approximately from January 2012 until June 2012. The result of the business quantitative and qualitative information is contained in the PwC final report.

Following the final report from PwC, business was again consulted through the VAT Expert group[11] set up by Commission Decision[12]. This met on 25 January 2013.

SMEs were also consulted specifically at a Small Business Act follow up meeting held on 17 April 2013 (10 SME business organisations were present).

iii) Member States

Member States' tax authorities were consulted through a Fiscalis seminar held by Portugal on 2-4 October 2012. Information from Member States was included were appropriate in the study by PwC.

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9 For further details see: http://ec.europa.eu/taxation_customs/common/consultations/tax/2010_11_future_vat_en.htm

10 SEC(2010) 1455 final

11 For further details see: http://ec.europa.eu/taxation_customs/taxation/vat/key_documents/expert_group/index_en.htm

12 Decision 2012/C 188/02

As well Member States were consulted through the Group on the Future of VAT (GFV) following publication of the PwC final report. The GFV meeting was held on 28 January 2013.

2.3. Stakeholder views

Business views

The views of business came from four sources; the Green paper on the future of VAT public consultation, the PwC study, Small Business Act meeting (SMEs) and the VAT Expert group.

In summary, business is very supportive of standard VAT return[13]. In general businesses from Member States where the VAT return includes a lot of boxes to complete prefer the same mandatory VAT return in all Member States. For businesses in Member States with simple national VAT returns an optional standard VAT return is preferred with the option to continue using the national VAT return.

Business would also welcome a mandatory standard VAT return with flexibility for Member States to reduce the reporting information. This was seen as a second best solution.

The options of doing nothing or limiting the standard VAT return to businesses submitting VAT returns in more than one Member State was not preferred.

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

Member States' views

The views of Member States were received initially from the ECOFIN conclusions of 15 May 2012, and then subsequently from the Fiscalis seminar in October in Portugal and finally through a Group on the Future of VAT meeting.

Member States[14] are generally open to the idea of standard VAT declaration. Two Member States were expressly against a standard VAT declaration because they considered it would prevent them from collecting the information they need. Several other Member States had a cautious approach and stressed the impact in terms of having to change their national VAT return and the cost that it will entail.

Two elements seem however crucial for all Member States; firstly there should only be one type of VAT return as the cost to implement and manage a double scheme (European and national) would be prohibitive, and secondly there needs to be scope to take on board different levels of information needed for risk analysis and control.

[13] See annex 9.4 for more details
[14] See annex 9.4 for more details

3. PROBLEM DEFINITION AND SUBSIDIARITY

3.1. The starting point

The VAT Directive lays down the rules by which Member States must require a VAT return from their taxable persons. Those rules are contained in Chapter 5 of Title XI and they require every taxable person to "submit a VAT return setting out all the information needed to calculate the tax that has become chargeable and the deductions to be made…".

These VAT declarations are a core tool of managing payment and revenue streams and they are having legal status by defining the financial liability positions of companies vis-à-vis the Member State to which they are submitting the returns. Subsequent auditing is then benchmarked against declarations in the VAT returns submitted.

Save for some details regarding supplies of goods to other Member States, Member States are free to set the type of information they deem necessary for the calculation of the VAT that is due according to the VAT Directive. For the periodic VAT return (typically monthly or quarterly) this may vary from 6 boxes in Ireland to up to 99 boxes of information in Hungary to be completed (see table 9.7.1 for more details). In addition summary annual VAT returns are required in eight Member States (Austria, Germany, Greece, Italy, Luxemburg, Malta, Portugal, Spain), and in certain Member States this can include 200 or more boxes to be completed (see table 9.7.1 for more details).

The same goes for the periodicity of VAT returns for which Member States have implemented different rules. Most require monthly returns although for Cyprus, Malta and the UK it is quarterly reporting. All Member States except Bulgaria and Estonia allow micro enterprises to file at longer periods than monthly (see table 9.7.1 for more details).

The study by PwC (2013) identified eight Member States (EU8) where the businesses would not opt for an EU standard VAT declaration as the national return was deemed easier[15]. These Member States are Cyprus, Denmark, Finland, Ireland, Malta, Netherlands, Sweden and the UK. For the other Member States (EU19) the standard VAT declaration is deemed easier.

In most cases returns can only be filled in in the local language (the Commission does not interfere with Member States right to use their national language), which represents a specific burden for non-established businesses or shared service centres established outside the country.

The effect of VAT return obligations generally falls disproportionately on SMEs. Indeed even the requirement to submit a VAT return is more administratively costly on an SME that generally does not have the sufficient resources or knowledge to deal with tax matters in comparison to a large business with more detailed internal controls and staff dedicated to taxation issues. Thus, SMEs have to purchase

[15] PwC study (2009), Table 29, Appendix 1

specialised services on the market which could be more costly and definitely have a negative cash-flow implication.

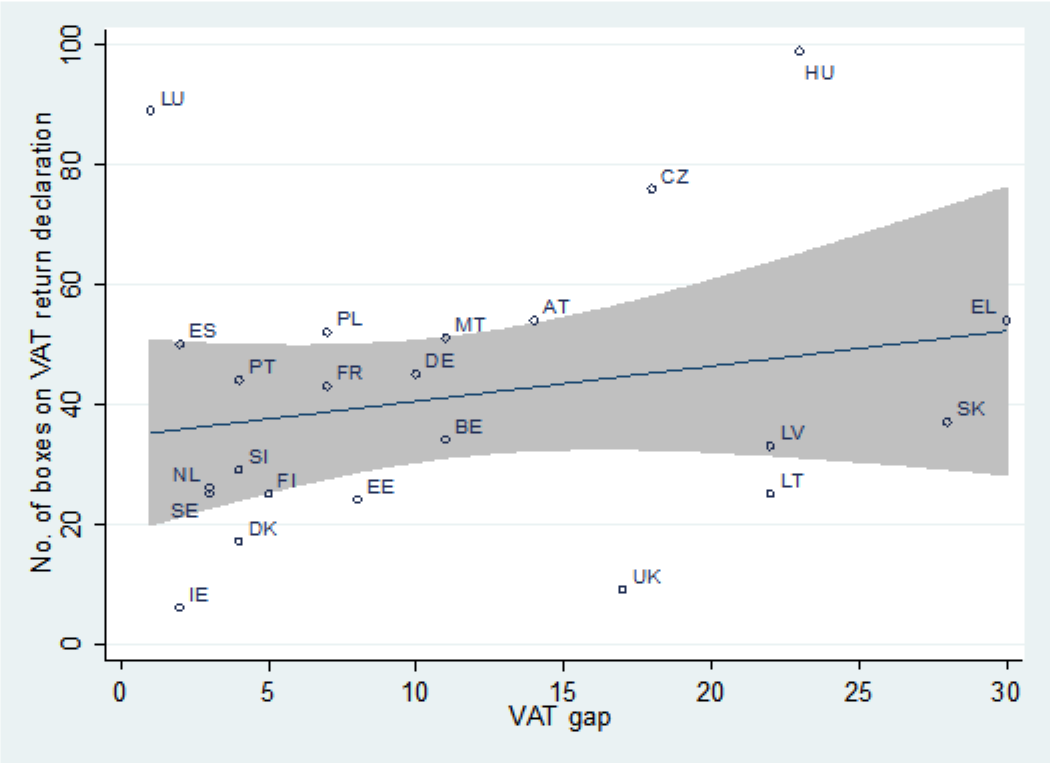
VAT return and VAT Gap

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

Indeed, there seems even to be a slight positive correlation between the level of fraud (as measured by the VAT gap) in a particular Member State and the number of boxes on a national VAT return. The more complex a VAT return the higher the VAT gap, which seems to suggest that national approaches based on complex VAT returns are not very effective.

Figure 1 below shows the number of boxes on a VAT return plotted against the percentage of VAT gap for the Member States (Italy is excluded). This highlights there is a slight positive correlation between the number of boxes on a VAT return and the VAT gap.

Figure 1: Correlation between the number of boxes on a VAT return and the VAT gap by Member State



Source: VAT Gap – Reckon Study 2009, N° boxes on VAT returns – PwC Study 2013

First it should be stressed that such a positive correlation does not mean that more VAT return boxes is a factor which increases the VAT gap. Nevertheless it does mean that increasing the number of boxes is totally ineffective in reducing the VAT gap.

This positive correlation might be explained by the following reasons:

- it might be that the more complex the returns are the more taxable persons, notably small companies or companies linked to economic activities more exposed to the risk of shadow economy, might shy away from declaring properly.

- it might be that Member States confronted with more fraud have a tendency to ask for more information to address the problem.

- it could be that Member States with poorer risk management systems, based more on return information than on other sources (registration information, information from other administrations) are less effective in tacking VAT fraud.

Of course the VAT Gap does not just measure fraud. It measures the difference between the theoretical VAT receipts that could be collected based on a country's VAT regime applied to household consumption against actual VAT receipts collected. It therefore includes fraud, errors, tax planning, insolvencies as well as cross border shopping.

In looking at Luxembourg for instance, with a very low VAT gap but a high number of boxes on its VAT return (an apparent outliner), the low VAT gap is in part due to VAT receipts being high because of the inclusion of, for instance, e-service providers being located in Luxembourg for cross border shopping and therefore inflating Luxembourg VAT receipts. It is not that a large number of VAT return boxes necessarily reduces fraud.

Lack of EU dimension

Member States have designed their VAT returns for purely domestic control, organisational and risk management purposes and therefore there is no EU dimension playing a role. The result is different systems, different rules and therefore overall a high burden in terms of compliance costs in the Internal Market. Certain Member States have minimised information requirements on the VAT return but are relying more on information through registration or other third party reliable sources, whereas others have designed a risk management system which is largely based on detailed VAT returns. The difference in approach is large as seen by national VAT returns.

Member States have little incentive in trying to reduce national differences in VAT returns or create a standard VAT return. Left to their own devices the differences between VAT returns and their complexities would at best remain the same.

There is a cross-border dimension to the problem affecting both large and small businesses as well as a more domestic dimension to the problem, mainly affecting SMEs and micro enterprises. However, as more and more domestically-oriented small businesses are expected to go international in the coming years (notably in the Eurozone as there is no longer an exchange-rate risk involved), tackling today the domestic problem for SMEs would also have positive knock-on effects and would facilitate them going international and, thus, strengthen the effectiveness of the Single Market.

3.2. The main cross-border drivers of the problem requiring action

The main difficulty businesses face in completing VAT returns in different Member States is the complexity and different language regimes[16]. This comes from having to provide different information, the information not having consistent definitions, the lack of good guidance in how to complete the VAT return, different rules and procedures for the submission, and the need to complete it in the national language. This complexity also comes from the level of information required, which in several Member States, is very demanding.

This complexity in turn leads to the following two main problems:

1. It restricts cross border trade

The public consultation on the Green paper on the future of VAT found that "certain sectors encounter specific problems with cross-border transactions which they considered an obstacle to the single market. This is the case for companies involved in distance sales, resulting in VAT registrations and subsequent VAT obligations in several Member States. It has been pointed out that because of this traders often may not offer internet or mail-order business to customers from other Member States."

For SMEs, when doing business cross border, the problem is magnified for two clear reasons.

i) There is less financial capacity to set up local companies with local staff to submit VAT returns in another Member State.

ii) There is less financial capacity to hire specialised staff or pay outside consultants with knowledge of foreign rules and languages necessary to complete a VAT return in another Member State.

The result is that there is a specific barrier to trade and many SMEs simply don't trade cross border for these reasons. In the recent top 10 inquiry about SME's concerns in relation to regulatory burdens, SMEs tell us that "the system is very complex, with different national procedural rules and the lack of a simple, uniform VAT declaration. This discourages SMEs from trading across borders."

This is particularly true in relation to electronic commerce, for which different VAT rules are often an obstacle to selling beyond the domestic market, although no estimate is available to measure this obstacle.

[16] See summary of replies to the Green Paper on the future of VAT, questions 21 and 22 http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/future_vat/summary_vat_greenpaper.pdf

Removing this barrier could increase business expansion in the internal market and it may also increase the choice of consumers and strengthen price competition particularly in on-line shopping.

As estimated in the "Retrospective evaluation of the elements of the VAT system" a reduction of 10% in the dissimilarity of the general VAT administrative procedures between countries could yield a rise of 3.7% in intra-EU trade, while real GDP and consumption would increase by 0.4% and 0.3%, respectively.

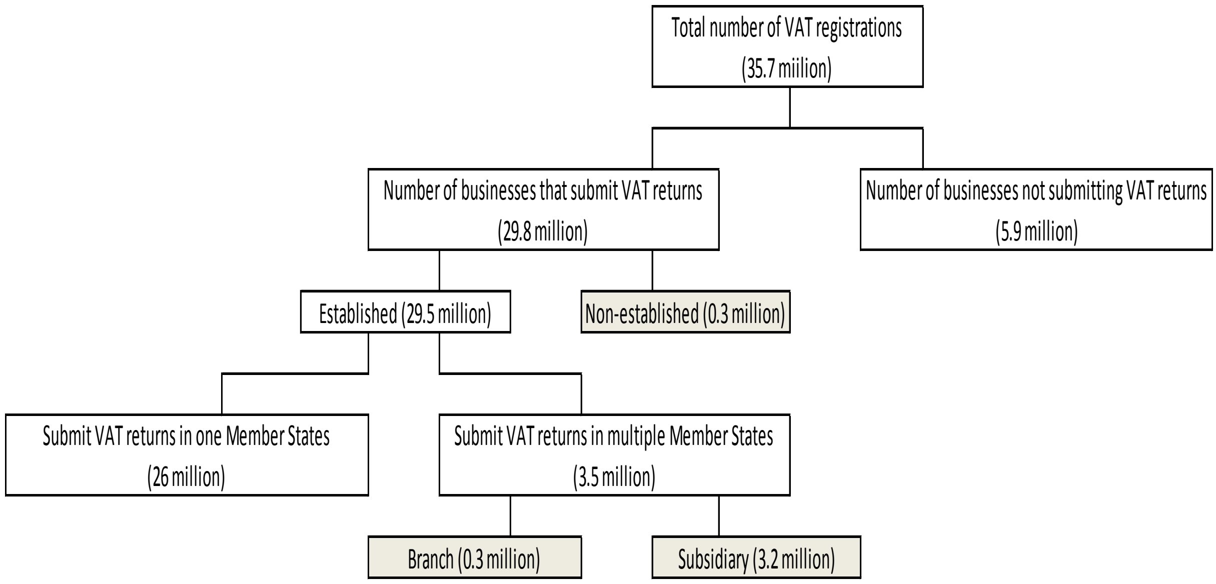
Thus businesses have through consultations stated to the Commission that completing VAT obligations in different Member States is a barrier to cross border trade and thereafter the economic evaluation of the VAT system has indeed confirmed this to be the case showing increases in trade and growth with a more harmonised VAT system.

2. It increases the burden of doing business across borders

In terms of assessing the number of businesses affected and the associated cost, there are an estimated 29,8 million businesses completing VAT returns in the EU with about 3,8 million of those submitting VAT returns in more than one Member State.

A detailed analysis of the businesses submitting VAT returns in more than one Member State is set out in Figure 2 (those affected are highlighted in grey: non-established 0.3 million, branch 0.3 million, subsidiary 3.2 million).

Figure 2: Number of businesses submitting VAT returns in more than one Member State



Source: PwC study (2013)[17]

Although figures are not available for non-established businesses or branches, of the 3.2 million businesses that are subsidiaries of a group company around 56% are SMEs and 44% are large companies[18].

Even assuming the cost for completing VAT returns domestically was the same as that for completing VAT returns in another Member State, it could be estimated that VAT returns would cost at least annually EUR 4 billion for business being active across borders in the single market (13% of EUR 30 billion – see Annex 9.6, table 9.6.2). In fact the PwC study estimates that the cost for non-established businesses is much higher[19] and therefore for all businesses submitting VAT returns in more than one Member State (non-established, branches and subsidiaries) a conservative figure of 2 to 3 times higher than EUR 4 billion could be assumed.

The increase in cross border costs is not in contradiction with the PwC study (2013) finding that 54% of large businesses do not think the standard VAT return would reduce their costs[20]. This statistic represents business views in cases where the national VAT return is seen as simpler or much the same as the standard VAT return and therefore use of the standard VAT declaration provides no or little benefit. It does not represent the benefits of cross border standardisation nor advantages through reduced frequency of submission or abolition of the annual VAT return.

17 Table 7, Appendix 1 of PwC study (2013 gives a breakdown by Member State

18 PwC study (2013, Main report, Table 31

19 PwC Study (2013), paragraph 104, Appendix 1, EUR 1 971 for non-established businesses submitting VAT returns, PwC average for all business EUR 265 (Table 9.61., annex 9)

20 PwC study (2013), Main report p143

3.3. The main domestic drivers of the problem requiring action

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

In the Communication on Smart regulation - Responding to the needs of small and medium - sized enterprises[21], the findings show that VAT legislation is seen by individual SME businesses as the most burdensome area of EU legislation. The burden for all businesses was evaluated as part of the Stoiber Group's work on reducing administrative burdens and was estimated at around EUR 69 billion annually, of which VAT returns are EUR 19 billion[22].

The study for the Stoiber Group, in measuring the cost of VAT returns in six Member States, found that Hungary with the highest number of VAT return boxes required the most amount of time to submit the VAT return. For comparison, in Hungary (99 boxes) large businesses spent 2 044 minutes completing the VAT return whereas in Cyprus (11 boxes) and the lowest number of boxes of the sample countries it took 369 minutes (5 ½ times less).

The number of boxes it concluded was a key factor in businesses spending more time, and by consequence having a higher burden.

Furthermore, the Deloitte Study (2009) for the Stoiber Group, based on recommendations from stakeholder consultations, provided suggestions for burden reduction in 4 areas:

a) harmonising frequency and thresholds for the submission of VAT returns

b) discarding the need for nil returns

c) uniform VAT return

d) eGovernment solutions using easier applications (i.e. easier, more interoperable e-filing solutions)

The annual VAT return was not part of the study since this is an option in the VAT Directive and only VAT Directive obligations imposed on Member States were evaluated. However, with the online and offline consultations that helped form the High Level Group opinion businesses cited the annual VAT return as burdensome.

Of the measures mentioned by the Stoiber Group, they are all considered except the nil-filing because of the risk of fraud. This suggestion is too risky as the difference between a missing trader and one not trading has huge implications for fraud.

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21 COM(2013) 122

22 Deloitte Study (2009)

3.4. Evolution of the problem

Underlying market developments

The past decades have seen a dramatic change in the international division of labour triggering an intensified international fragmentation of value chains, including SMEs and mid-cap companies. This also holds for Europe where trade in goods and services has intensified and more and more SMEs discover and make use of supplies and demand across national borders. This has been largely facilitated by the intensified approximation of laws within the European Union and the emergence of an ever growing Eurozone evaporating exchange-rate risks within this zone. Thus, more and more companies will be exposed to having to fill in VAT returns in more than one Member State.

Changing legislative environment at the European level

i) One Stop Shop

At EU level the Commission is working with Member States towards the implementation of a mini-One Stop Shop (MOSS) in 2015 and this, should it be enlarged, could help non-established businesses. As planned it will allow businesses supplying telecoms, broadcasting and electronic services to private individuals to declare and pay the VAT due in other Member States through the Member State where the business is established. The details for the declaration of the MOSS has been harmonised through a Commission Implementing Regulation[23].

The mini-One Stop Shop has a targeted population which is at the very maximum the 1% (307 654 companies[24]) of enterprises registered for VAT as non-established in another Member State increased by a further 2% as a result of the place of supply changes from 2015 (so 3% in total).

A full One Stop Shop, under a system of taxing supplies cross border at the rate in the Member State of destination, could include up to 1,2 million business that are required to submit recapitulative statements in the EU for their cross border transactions.

However, the implementation of a full One Stop Shop must be seen as a long term goal. First the mini-One Stop Shop needs to be evaluated in the years after 2015. This review could be completed in 2017 and accompanied by a Commission proposal for an enlarged One Stop Shop to all Business to Consumer (B2C) supplies. Agreement needed in Council and the time required for implementation by Member States could see an effective start date of 2020. Difficulties to address for Business to Business (B2B) supplies, involving issues such as the right to deduct, would probably mean a much later introduction of a full One Stop Shop.

Nevertheless, the One Stop Shop only addresses cross border trade for non-established businesses. A business established in several Member States (branches or subsidiaries) would still be required to submit national VAT returns in each Member

23 Commission Implementing Regulation (EU) No 815/2012

24 See figure 1, non-established 0.3 million.

State of establishment. Most of the targeted population would therefore in any case be excluded from such a simplification.

ii) e-filing

The Stoiber Group in its May 2009 opinion[25] on taxation, based on stakeholder suggestions, stated that in relation to VAT obligations there was a need "to facilitate and promote the fully electronic interaction between businesses and tax authorities, to make the respective e-government solutions simple and to create incentives for businesses to use them".

Findings from the Deloitte study (2009) had quantified burden reduction at EUR 3.4 billion if Member States introduced simple, easy to use, time-saving e-government solutions for this purpose. Of course, the e-filing of VAT returns are only a part of the potential saving.

Furthermore, electronic solutions in other Commission proposals, such as e-invoicing in public procurement[26] can dovetail with electronic VAT reporting. The Impact Assessment on e-invoicing in public procurement states that "if e-invoicing is integrated with tax reporting, it can reduce administrative burden, as tax declarations can be generated automatically."

Thus businesses see a need for exploiting electronic solutions and doing so has been quantified as reducing burdens on business. Any initiative on a standard VAT return should therefore look to address this issue of e-filing. In the end, a common standard for electronic returns (single signature to e-sign different declarations or a standard alternative solution accepted by all Member States) would enable companies to fully exploit the benefit of e-filing.

3.5. Analysis of subsidiarity

Article 113 of the Treaty on the Functioning of the European Union (TFEU) provides that:

> *"The Council shall, acting unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the Economic and Social Committee, adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market and to avoid distortion of competition."*

The national VAT returns can be seen, due to the differing amounts of information to be provided in the national language, as adding complexity for businesses which in turn create barriers for businesses supplying goods or services cross border and thereby hampering the functioning of the internal market.

[25] http://ec.europa.eu/dgs/secretariat_general/admin_burden/docs/enterprise/files/hlg_opinion_taxation_09052009_en.pdf

[26] COM(2013) 449 final

It is therefore necessary to legislate in this area at EU level to remove these barriers and ensure a smooth functioning of the internal market.

Subsidiarity principle

The objectives cannot be sufficiently achieved by the Member States. Standardisation of the VAT return obligation can only be achieved through the EU's legislative process by amending the VAT Directive which sets out general rules on the VAT return.

The current VAT Directive already includes rules on returns (articles 250 to 261). It is these rules which provide Member States with only minimum requirements and offer them the option to add national requirements. This initiative is therefore not about creating new rules in the VAT Directive but simply about amending those existing rules.

On the other hand, reducing the frequency of filling in VAT returns, notably for micro enterprises, could be decided at the national level. However, for micro enterprises it is justified to provide a common reporting period so there is legal certainty when submitting VAT returns in different Member States as to those rules. To require different national filing periods to those standardised at EU level would add unnecessary complexity and undermine the very objective of this initiative.

Likewise, allowing Member States to retain an annual summarising VAT return would equally undermine the legal certainty for businesses and undermine the objective of creating a common standard since this would lead to divergent approaches and information requirements by Member States. Moreover, as at present certain Member States require more information on annual VAT returns over that contained in a periodic VAT return there is a risk that standard information is circumvented with additional information required on annual VAT returns.

Also, past experience has shown that Member States, if it was left to their own individual initiative, do not show an appetite to reduce the frequency and comprehensiveness of the VAT returns they require from their business community. Over the last two decades, and despite all the good intentions for a reduction in administrative burden, there were few incidences reported to the Commission where a Member State has decided to reduce the frequency of VAT returns (e.g. for micro-enterprises) or to reduce the scope of VAT returns themselves.

Thus, changes for simplification and the reduction in administrative burden must be initiated at the European level. Indeed Member States have been broadly supportive of an EU initiative. This has the benefit of being a coordinated and agreed approach by all Member States requiring changes to be implemented at a given date.

However, concerns from those Member States with few boxes on their VAT returns have made it clear that administrative burdens should not increase through a harmonised EU VAT return with more boxes. The aim though is not harmonisation but the setting of minimum standards above which Member States may introduce or keep simplification measures that go beyond the standard EU VAT return. For instance, quarterly filing for micro enterprises could be extended to SMEs or even all businesses and a common EU e-filing solution can be supplemented by other e-filing solutions. Thus flexibility will continue for Member States.

It remains of course that for those Member States currently requiring more boxes on their national return than the new standard VAT return, important changes will be needed in terms of risk management, information collection and information exchanges between administrations. This will require time and some assistance, which can be offered through exchanges of best practices financed by the Fiscalis programme. For this reason, time will be needed between the entry into force and implementation of the new rules.

At the same time certain minimum standards are needed for simplification to achieve its objective of reducing barriers to cross border trade and administrative burdens on business and this will entail some restriction on Member States. For instance, without a ceiling on the number of possible boxes on a VAT return the complexities for a business to report in different Member States would remain so high as to continue to restrict cross border trade.

Nevertheless any reduction for some Member States on the number of VAT return boxes will not adversely affect their ability to tackle fraud. No evidence has been found to suggest any correlation, and certainly no causality, between limiting the number of boxes on a VAT return and the VAT Gap increasing. In fact there is a slight positive correlation suggesting those Member States with fewer VAT return boxes have a lower VAT Gap.

Despite this it would seem business at national level have been unsuccessful at pushing the tax authorities to reduce administrative burdens on VAT returns. In part this may be down to the fact that as most businesses only submit one VAT return in the Member State where they are established they have become accustomed to the local rules and accept them as they are. It may in part be because the dialogue between business and tax authorities does not allow business to assert their views to draw change. Or perhaps businesses see change in the common VAT system being more appropriately addressed at EU level and it is through this avenue that they have made their views known through the various consultations.

Proportionality principle

To remove obstacles to the proper functioning of the internal market and to reduce burdens on business, limiting the information requirements to that needed for the control and collection of VAT by Member States would be necessary. This would need to be done through amendments to the VAT Directive 2006/112/EC aiming at a standardisation of VAT returns.

A proposal would therefore comply with the proportionality principle.

4. OBJECTIVES

4.1. General policy objectives

4.1.1. Main policy objectives

a) Reduce obstacles to cross border trade

Under the country of destination principle, certain supplies are taxable in the Member State where the supply to a consumer takes place and require the supplier to register and declare the VAT in that Member State. This is the case for Business to Consumers (B2C) cross border supplies of goods above the distance selling threshold (distance sales) as well as certain B2C supplies of services e.g. short term hiring of cars (place where the car is put at the disposal of the customer), property (location of property), and cultural, artistic sporting etc. events (where the event takes place).

Should the EU VAT system move to taxing all cross border supplies at the rate applicable in the Member State of destination, then obstacles to cross border trade would increase significantly without a One Stop Shop having a standard VAT declaration.

Without the simplification of a One Stop Shop (OSS) where the supplier could submit his VAT declaration in his own Member State for supplies taxable in another Member State, the supplier is required to submit a VAT declaration direct to the Member State where the tax is due. Clearly, this is a significant administrative burden to the supplier in terms of providing a different set of information in possibly a different language, and it discourages cross border sales. This acts as a barrier to the internal market, which is particularly worrying in the context of promoting e-commerce.

The problem exists too for businesses which have an establishment in more than one Member State, for instance an EU or foreign business with branches or subsidiaries in different Member States. It would be easier to expand EU businesses or attract inward investment in the EU if those businesses were faced with the same VAT declaration in each Member State where they had an obligation to submit a VAT return rather than different VAT returns in each Member State.

Equally important, both for foreign businesses as well as EU businesses that trade in different Member States, is the ability to exploit cost savings through shared service centres[27]. These typically large businesses could save money through economies of scale by having a shared service centre which would complete the VAT obligation of submitting the same VAT return for all Member States. The differences and hence the complexity of the national VAT returns discourages the setting up of an EU wide shared service centre.

Allowing businesses to complete a standard VAT declaration in all Member States where they would normally have to complete a national VAT declaration would reduce an obstacle to cross border trade and promote trade in the single market.

b) Reduce burdens on domestic businesses in order to support growth and competitiveness

The standard VAT declaration is a key action point of the strategy for the future of VAT by helping move towards a simpler VAT system and thereby reducing compliance costs for business. As such it helps reduce burdens on business, an

[27] Shared service centres can fulfil VAT return obligations both for business groups and independent businesses

important element of the Better Regulation Agenda, and helps improve the competiveness of EU businesses and thereby stimulate growth and jobs.

Indeed, administrative burdens on businesses for submitting VAT declarations have already been estimated in two studies[28], one by Deloitte (2009) at EUR 19 billion and another by PwC (2013) at EUR 39 billion. This administrative burden can be significantly reduced by a standard VAT return allowing the development of standard reporting and automation of processes.

Furthermore, given that 99% of businesses are classified as SME in the EU the administrative burden reduction will principally affect these smaller businesses.

4.1.2. Specific objectives

Growth friendly fiscal consolidation[29] is one of the five priorities of the Annual Growth Survey 2013[30]. As VAT represents around 21% of national tax revenues[31], and with 12% of VAT receipts uncollected[32], a more efficient fraud proof VAT system is needed. The exchange of timely information between Member States is a key element in reducing fraud and improving compliance.

A standard VAT declaration should *facilitate cooperation of tax authorities across borders* by making it easier for all Member States to know when, how and what information has been declared by businesses in all Member States. This should facilitate a better sharing of information between the tax administrations.

Voluntary compliance should be facilitated as the differences between the VAT declarations in different Member States as well as the complexity of national returns in individual Member States presently leads to errors and mistakes when submitting VAT declarations nationally or in different Member States. Consequently Member States do not receive the correct amount of VAT at the correct time, and this is in part reflected in the VAT gap (12% of VAT due is uncollected).

The broadening of the scope of the mini-OSS to allow VAT registration, declaration and payment of VAT in the Member State where the business is established will in the long term help to reduce burdens on business involved in cross border trade. The OSS could utilise the agreement of a standard VAT declaration as the basis for the OSS VAT declaration. The standard VAT declaration could *prepare for smoother future reforms of the VAT system*.

4.2. Consistency of objectives with other EU policies

Communication on the future of VAT

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[28] Table 9.6.1, Annex 9.6

[29] Taxing consumption (e.g. VAT) is seen as less distortive than taxing profits or labour, where higher rates can encourage movement of capital and means of production.

[30] COM(2012) 750 final

[31] Table 8, Annex A, Taxation trends in the European Union, 2012 edition, Eurostat, ISSN 1831-8789

[32] Reckon Study, 21 September 2009 http://ec.europa.eu/taxation_customs/resources/documents/taxation/tax_cooperation/combating_tax_fraud/reckon_report_sep2009.pdf

On 6 December 2011 the Commission adopted a Communication on the future of VAT setting out the fundamental characteristics that must underlie the new VAT regime. It lists the priority actions that are needed in the coming years to create a simpler, more efficient and more robust VAT system in the EU tailored to the single market.

The Communication follows the Green paper on the future of VAT which was itself followed by an extensive six month public consultation on how the EU VAT system can be strengthened and improved to the benefit of all stakeholders. The Commission received 1 726 replies from businesses, academics, citizens and tax authorities, a record response to a tax consultation.

The European Parliament (EP), the European Economic and Social Committee (EESC) and the Tax Policy Group (who are the personal representatives of the EU's finance ministers) welcomed the Green Paper and confirmed the need to reform the VAT system.

The Communication sets out the commitment under the move towards a simpler VAT system to "propose in 2013 that a standard VAT declaration should be available in all languages and optional for business across the EU".

It is also a key element in satisfying the wishes of Member States through the ECOFIN conclusions of 15 May 2012 that any proposal is preceded by consulting all stakeholders and identifying the advantages and disadvantages of all options concerned.

Action Programme for Reducing Administrative Burdens in the EU

The Commission's Action Programme for Reducing Administrative Burdens in the EU aims at reducing the administrative burden stemming from EU legislation by 25% by 2012.

VAT legislation is a key area for further burden reduction and the Communication on the future of VAT mentions that compliance costs for business represent 2% to 8% of VAT receipts. The compliance costs are significantly higher when businesses are involved in cross border trade. Furthermore compliance costs are disproportionately higher for small businesses.

The Final Report on the measurement and reduction of administrative costs in relation to the Tax Law (VAT) of 5 March 2009 makes recommendations on how administrative burdens can be reduced for VAT declarations. In addition to harmonising the frequency and the threshold for submission, as mentioned by the Stoiber Group, it suggests that consideration should also be given to "implementing a uniform VAT return throughout all 27 Member States".

Single Market Act II

Recent economic developments in the EU have further emphasized the need for a new growth initiative aimed at further deepening, modernizing and strengthening the Single Market. This initiative has been in particular called for by the Spring

European Council. The Commission presented a Communication on the Single Market Act II[33] entitled "Together for new growth" on 3 October 2012. One of the initiatives mentioned in the Single Market Act II was the proposal for a standard VAT declaration as a means to further improve the business environment.

Annual Growth Survey 2012

The deepening of the Single Market was also recommended in the Annual Growth Survey 2012[34] in the section on "Growth Friendly Tax Policies in Member States and Better Tax Coordination in the EU" through the revamping of the VAT Directive, as presented in the Communication on the Future of VAT, which includes the proposal for a standard VAT declaration.

Digital agenda

A standard VAT declaration would look to increase the efficiencies of using technology to deal with tax authorities by setting a minimum standard for the use of electronic submissions. This should be flexible enough to provide for submission either through a web portal hosted by the Member States or by allowing electronic file transfers.

Equally the standard VAT declaration should build on work undertaken by DG CNECT on the interoperability of advanced electronic signatures. A solution to electronic filing of VAT returns throughout the EU could be based on electronic signatures whereby an electronic signature authorised in one Member State can be used to submit VAT returns in all Member States.

Tackling fraud and evasion

At the March 2012 European Council, Member States asked the Commission "to rapidly develop concrete ways to improve the fight against tax fraud and tax evasion, including in relation to third countries and to report by June 2012". The Commission issued a Communication to the Council on concrete ways to reinforce the fight against tax fraud and tax evasion in readiness to the EU Summit at the end of June and pledged to publish an Action Plan[35] before the end of 2012.

The Communication on an Action Plan to strengthen the fight against tax fraud and tax evasion mentions giving Member States' tax administrations direct access to relevant areas of each other's national data bases together with an extension of the scope of automated access in the VAT area should also be envisaged. The standard VAT declaration can provide a basis for which an easier exchange of information is possible. This is notably due to the fact that all Member States will collect from all business standardised information, which will be comparable from one Member State to another.

Communication on Smart Regulation

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33 COM(2012) 573 final
34 COM(2011) 815 final
35 COM(2012) 722 final

In the Communication on Smart Regulation – How to respond better to the needs of small and medium-sized enterprises, the Commission sets out the areas where EU legislation is most burdensome for SMEs, action that has been taken to address those burdens and the future priority files in the Commission Legislative Work Programme (CLWP) 2013 to help reduce red tape for SMEs. This should especially hold for micro enterprises.

As far as individual SMEs replying to the questionnaire are concerned, VAT is the most burdensome EU legislation for them. A key measure included in the CLWP to reduce burdens on business is a proposal for a standard VAT declaration.

5. POLICY OPTIONS

5.1. Possible options

The following policy options have been considered. However, some of them have been discarded at an early stage.

5.1.1. No EU action (benchmark)

Member States would continue to require a national VAT return for the information they would set and with their own rules for submission. This means that large divergences between the 27 different national VAT returns will continue to apply, meaning the complexity for businesses and the associated administrative burden would not diminish. At the same time, and as a consequence of the foreseeable intensification of cross-border activities in a further globalising world, more and more companies, including SMEs and mid-cap companies would be confronted with a plethora of different requirements for filling in non-approximated VAT returns.

In the limited area of cross border supplies of telecom, broadcasting and e-services to private consumers the mini-One Stop Shop has a standard exchange between Member States of VAT return information[36].

5.1.2. Non-regulatory option (discarded)

The EU could consider as well making Member States aware of their differing information requirements on VAT returns and look to agree through an exchange of best practices on a standard VAT declaration by means of working groups in the Fiscalis programme.

Indeed Member States have already acknowledged that large differences exist between their national VAT returns and this was highlighted recently at the Fiscalis seminar in Portugal in October 2012. Nevertheless, Member States gave no indication that they would be willing to move towards a common VAT return through their own initiatives but rather each defended their national returns.

What is difficult to overcome in a non-regulatory action is the incentive or the driver for change. At present each Member State designs its VAT return, including the

[36] Annex III of Commission Implementing Regulation (EU) No 815/2012

content, submission and corrections, based on national considerations such as how internal control is organised, the structure of businesses (large or small, trade classification, etc.) and risk management systems.

Typically, the design of the returns has been "path dependent", i.e. whenever new information needs occurred they were simply added without checking for the necessity of old information requests to be maintained or not. The EU dimension, as well as the specific needs of foreign companies, has so far not been a relevant factor influencing the design of national VAT returns.

This leads to divergences that only legislation at EU level can address. In fact the problem today is exactly that the EU legislation clearly leaves the option open to all Member States to design national VAT returns based on national characteristics and preferences, and there does not seem to exist any incentive to check whether all the information requests imposed on businesses are still fit for purpose or serving any longer any purpose at all.

For these reasons, it is unlikely that any "soft law" would be successful; the option has thus been discarded already at this stage.

5.1.3. Legislative approach in the context of extending the mini-one-stop-shop (discarded)

In principle, when extending the mini-OSS (MOSS) to all other sectors, there would be a need to agree on a standard declaration as well. However, there are two drawbacks to achieving a standard VAT declaration through an extended MOSS.

The first is that Member States would not agree to any enlargement before first being able to evaluate the MOSS and so any changes would be unlikely before 2020 to allow a two year evaluation of the MOSS, a further year for a Commission proposal and adoption by Council, and then two more years for the necessary IT changes before businesses could begin using an enlarged MOSS.

Secondly, the scope of the One Stop Shop is essentially only concerned with businesses involved in selling goods or services in other Member States. Thus it addresses situations in which the business is not established in the Member State where the tax is due but does not address the national VAT return. Consequently, two distinct VAT returns could possibly co-exist, a national VAT return for businesses established in the Member State where the tax is due and a One Stop Shop VAT return for non-established businesses.

5.1.4. Stand-alone legislative approach (pursued further)

In the light of the above, the only option that could really deliver on simplification and administrative-burden reduction within an acceptable timeframe would, thus, be a stand-alone legislative approach prescribing a simplified and standardised VAT declaration at the EU level.

5.2. Options (with sub-options) retained

There are various options to consider in a legislative approach such as in which areas legislation is needed and how the proposal is framed. The VAT Directive already covers some areas such as the information required, as well as the period of the VAT return, the due date and when the corresponding payment is made, and electronic submission. It does not cover how corrections should be made.

5.2.1. Type of legislation

The following legislative changes could be proposed.

VAT Directive

- The VAT directive could be amended to require Member States to offer the standard VAT declaration

Implementing Regulation (to the VAT Directive)

- It can set out the detailed information for the standard VAT declaration
- It can determine how corrections, etc. should be treated
- It could define electronic submission methods

The Implementing Regulation would be proposed only once agreement was reached on the amendment to a VAT Directive.

5.2.2. Implementation timing

Time will be needed between the entry into force and implementation in order to adopt the necessary secondary legislation, but also for Member States to adapt their IT systems as well as their collection and control methods.

5.2.3. Scope of a standardised VAT declaration

There seem essentially four options that can be considered. The options a) to c) have been considered in the PwC study, and following discussions with business stakeholders and Member States on these options a further option d) has been developed.

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

All Member States and all businesses would be required to use the standard VAT declaration and any national VAT return would be abolished.

b) Standard VAT declaration optional for <u>all</u> business (compulsory for Member States)

An alternative to a compulsory use of the standard VAT declaration would be to allow businesses (domestic and international) the choice between this declaration and the national VAT return. Not opting for the standard VAT declaration could be advantageous for businesses who for instance only submit one national VAT return which is less burdensome to complete than the standard VAT declaration. Opting in would only be possible for the standard EU VAT declaration. Once a company has opted in it would no longer be allowed to switch back to the national model. Under this system, Member States would be obliged to keep in parallel procedures and infrastructures in place for both their traditional national VAT return and for the new standardised return.

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

As a variant of the previous option it could be considered to restrict the standard VAT declaration to only those businesses that have a need for a common VAT return because they submit VAT returns in different Member States. This option therefore focuses solely on the single market aspect and would offer no simplification for purely domestic businesses.

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

This is an alternative based on a compulsory standard VAT return in which the standard VAT declaration is obligatory for both businesses and Member States but the level of information is determined by the Member States with the maximum of information required limited by the standardised return. There is a standard list of boxes with some optional for the Member State not to require. Having this additional flexibility would mainly be attractive for Member States and businesses in Member States that already have a more simplified return in place to the one proposed as the standard model.

5.2.4. Contents of the standard VAT declaration

Various options could be considered. One could be to choose an existing simple VAT return, such as the Irish VAT return which has the fewest number of boxes or that of Finland considered easy by business to complete. At the other extreme the content could be a compilation of all the information required on all VAT returns, leading to a VAT return with substantially more than 100 boxes to be filled in. These have been discarded in favour of the approach of starting without any preconceptions.

The method suggested in the PwC study was to provide information to help business self-assess the VAT due and to provide Member States information for risk and control. This model was then proposed to both the business community and Member States for comments and suggestions. The idea had been to find a good balance between the preferences of business to reduce administrative burden and the need of Member States to receive information for proper tax collection and effectively fighting tax fraud, and, thus, to learn from best practices applied in Member States. This approach resulted in a draft VAT declaration consisting of 36 boxes to be filled in. The model standard VAT return of PwC is in Annex 9.5.

In terms of analysing the impact the model designed by PwC has been used as the comparison with national VAT returns.

5.2.5. Periodicity and due date

Again various options could be considered. All current national legislation could remain allowing Member States to set the return period at one month or any longer period up to one year. Alternatively, it could be harmonised at a set period, say calendar months or quarters, or longer periods for smaller businesses.

The maximum time for submitting the VAT return is currently set in the VAT Directive at a maximum two months after the end of the return period. This flexibility could continue, be extended or standardised at a set maximum time for all businesses with additional flexibility for smaller businesses.

The approach suggested in the PwC study and being at the core of this impact assessment is a standardised period of one month with micro enterprises allowed quarterly filing, and payment required on submission of the VAT return. The impact of periodicity is nevertheless evaluated separately.

5.2.6. *Annual VAT return*

The annual summarising VAT return could be kept, abolished or standardised.

However, any decision on the annual VAT return should consider its purpose. The annual summarising VAT return, as set out in Article 261 of the VAT Directive, provides the periodic information already submitted aggregated for the year to allow annual adjustments to be made. Given the standard VAT return, as devised by PwC, provides a box for adjustments any annual VAT return is redundant.

Moreover, current practices of Member States requiring an annual VAT return are to typically demand more information. This circumvents the objective of creating a standard VAT return.

Thus, given the content of the standard VAT return and the need to establish a common standard the option would be to abolish the annual VAT return.

5.2.7. *Other issues (E-filing, corrections)*

The VAT Directive requires all Member States to allow ***e-filing*** and provides that it can be made mandatory. There is no rule on the format of e-filing.

Options could include keeping the current rules, making e-filing compulsory or requiring Member States to require a minimum format e.g. XML. A common security measure, such as a logon and password or e-signatures could be considered.

No rules currently exist on how VAT returns should be ***corrected***. Examples of options chosen by Member States include re-submitting the VAT return, providing a separate form detailing the changes or making adjustments on subsequent VAT returns. The method chosen can affect any penalties or interest that may be due.

In the area of corrections further work on a common standard is needed through implementing rules.

5.3. Options considered

In the light of the above, 4 main options have been developed, with sub-options e.g. periodicity, annual VAT returns, that are all having in common that the content of the standard VAT declaration is based on the model developed by PwC, after consultation with businesses and Member States. The options also have in common that they foresee more use is made of e-filing and common rules will be developed for submission and corrections.

However, the four options first differ in terms of the scope along the scenarios presented under section 5.2.3. Moreover, for each of these four options two sub-options are analysed: one, where the frequency for the submission by micro-enterprises is not altered and a second one where it is assumed that the frequency of submission by micro-enterprises is limited to a quarterly submission in those countries where it is not the case yet.[37] In this second sub-option there can exist once again different sub-options, e.g. whether this reduction to quarterly submissions is mandatory or voluntary and whether quarterly submissions are accompanied by monthly interim payments or not. Also, these four options differ with respect to the need or not to also submit an annual VAT return on top of the monthly and quarterly returns.

Nevertheless, all these options have in common in their basic version that the "standardisation" consists of three elements:

- a simplification and standardisation of the content of the VAT return itself,

- a standardisation of monthly returns with the option of quarterly periodicity for micro-enterprises so as to make sure that the benefits of the standardisation element is not partially lost in having different periodicities throughout the EU,

- an abolishment of the summarising annual VAT return so as to avoid that the simplification and standardisation achieved on the normal monthly and quarterly VAT returns will be offset by non-standardised and more complicated annual VAT returns.

It should also be stressed that the two last elements are for each option only "offered" to those businesses for which the declaration is the new standardised one, as they are closely linked to the first element (the standardisation one).

The analysis in chapter 6 will, however, break down cost and cost savings for each individual element so that policy makers could make an informed choice in case they wanted to opt for variants of the different options.

Table 5.3.1: Summary description of the various options

Option	Description	Member States	Business
A	Do nothing	No change	No change
B	Compulsory standard EU VAT declaration	Compulsory (instead of national)	Compulsory for all
C	Standard VAT declaration optional for all business	Compulsory (on top of national)	Opt-in for all
D	Standard VAT declaration optional	Compulsory	Opt-in

37 These countries are Bulgaria and Estonia (Appendix 5, PwC Study). .

	for those businesses submitting VAT returns in more than 1 Member State	(on top of national)	for international businesses only
E	Compulsory standard VAT declaration (option B) with flexibility for Member States to determine the information from a standardised list	Compulsory (instead of national)	Compulsory for all

As can be seen from the above table all four legislative options would oblige Member States to provide a standard VAT declaration. This is because experience has shown (see section 2.3) for the options B to E, if Member States were given the option whether or not to apply the standard VAT declaration the result would be the same as option A and there would be little or no change.

6. ASSESSMENT OF IMPACTS[38]

6.1. Background figures characterising the baseline (Option A)

There are about 30 million companies in the EU that are obliged to fill in national VAT returns. About 0.2% of these companies are large companies, 1.1% are so-called medium-sized companies, 6.5% are small companies and the vast majority, and 92.2% are micro-enterprises with an annual turnover of less than EUR 2 million (and with an average gross value added of less than EUR 70 000). Around 65% of all companies declare an annual turnover of less than EUR 100 000 and contribute less than 2% to all VAT revenue collected. This group also comprises a large number of companies that in individual Member States would have benefited from the SME exemption applicable but prefer to submit VAT returns either because their net VAT liability is negative, i.e. they get higher refunds from VAT paid on their purchased inputs than they have to pay on their taxable output, or their customers are fully taxable so can recover any VAT charged. About 13% of all companies have to submit VAT returns in several Member States of the EU as they are economically active (in VAT terms) in more than one Member State.

These 30 million companies are submitting almost 150 million VAT returns annually, of which the vast majority (more than 130 million[39]) have to be submitted by micro-enterprises. At the same time, VAT revenues paid by these micro-enterprises are a small percentage of total VAT revenues collected.

Two studies, Deloitte (2009) and PwC (2013), have quantified the annual cost for businesses submitting VAT returns in the EU; the former study estimated the cost at EUR 20 billion and the latter at EUR 39 billion (EUR 43 billion including annual summary VAT returns). The difference between these two studies is explained in Table 9.6.1 in Annex 9.6 and is largely due to the underrepresentation of SMEs in

38 The quantifications as regards numbers of VAT returns, companies and costs and potential cost savings linked with the different policy options in this chapter are largely based on two studies: Deloitte (2009) and PwC (2013), who themselves based their findings on both official and public sources (such as EUROSTAT) and non-public official information and information provided by stakeholders in the run-up to this Impact Assessment.

39 See Annex 9.7 for more details.

the PWC sample (of the 19 completed questionnaires for the standard cost model 18 were by large businesses and 1 was by an SME).

For the purposes of this Impact Assessment the figures for large businesses are based on the PwC study as this forms the basis of their sample and for SMEs the figures from Deloitte are taken adjusted for the wage level used by PwC. It was possible to use the Deloitte study, which is clearly not outdated in this field, as there has been little change to the relevant national legislation and as the outcome of the two studies in average number of minutes to complete a declaration are very close to each other.

The costs for submitting these 150 million VAT returns are very significant, and are estimated to sum up to about EUR 30 billion annually.[40] This corresponds to about 3.5% of annual VAT revenues and 0.25% of the GDP of EU27. These costs consist of in-house recurring cost (such as gathering information, preparing the VAT return, answering to questions from tax authorities etc.) for submitting monthly or quarterly VAT returns, consultancy fees for purchasing expertise and one-off cost such as the summarising annual VAT returns.

Of these EUR 30.65 billion annually about EUR 0.48 billion (EUR 0.26 billion recurring, EUR 0.18 billion consultancy fees and EUR 0.04 billion for annual VAT returns) fall on large businesses, about EUR 5.98 billion (EUR 3.21 billion recurring, EUR 2.23 billion consultancy fees and EUR 0.54 billion for annual VAT returns) on SMEs and about EUR 24.19 billion (EUR 12.97 billion recurring, EUR 9.03 billion consultancy fees and EUR 2.19 billion for annual VAT returns) on micro-enterprises.[41]

The cost for the 27 Member States to manage these 150 million VAT returns consists of recurring costs (such as verifying consistency and plausibility of information provided, gathering additional information, etc.) and one-off cost (such as IT, training verifying annual returns). They are, however, impossible to quantify, given that Member States do not provide information on the cost-breakdown by such activities.

However, information from the UK is available through the Annual Report and Accounts (2010-11) published by HM Revenue & Customs[42] on the general cost of VAT collection. For each £1 of VAT receipts the UK estimates it spends 0.70 pence in collection costs. In the financial year 2010-11 the UK had VAT receipts of £90.3 billion, and therefore VAT collection costs of £65 million.

It is though difficult to know whether the UK is typical of the EU as a whole. If this was the case then total EU VAT receipts of EUR 860 billion in 2010 would equate to total VAT collection costs of EUR 6 billion (EUR 860 billion x 0.007%).

6.2. Basic characteristics of the retained options

The four options retained all take as a starting point that agreement is found on the content of a standard VAT declaration requiring (a maximum of) 36 fields to be

40 See Annex 9.6 for more details.

41 See table 9.6.2, Annex 9.6 for more details.

42 http://www.hmrc.gov.uk/about/annual-report-accounts-1011.pdf

filled in. This is based on the standard developed by PWC, which is suggested as the one which should be included in the proposal. Although implementing rules will set the technical details of the form, the level of information required will be set in the directive. In case Council would adopt a final directive with more or less boxes, all estimates would of course vary accordingly.

The question as regards *the scope* of the use of this standardised VAT return is answered differently in the four scenarios:

Under option B, all 27 Member States and all 30 million companies submitting VAT returns would have to switch to using the new standardised VAT return. Old national VAT returns would cease to exist.

Under option C, all 27 Member States would be obliged to accept both the new standardised VAT return and the old national VAT returns. Businesses would then be able to opt for one of them. In consequence, Member States would have to offer and manage both forms for their taxable persons. It can be expected that only businesses for which the cost of the baseline scenario (recurring cost of national VAT returns plus – where applicable - cost of the summarising annual VAT return) are higher than the cost of the standardised VAT return would switch. This is assumed to be the case in 19 out of the 27 Member States that have more complicated VAT returns, so that switching would make economic sense also for purely domestically oriented businesses.

It is first assumed that all of the internationally active businesses from all Member States will switch to the new system. However, as a result of inertia or because they consider one-off switching costs are higher than longer lasting savings in recurring costs, only 80% of the purely domestically oriented businesses in these countries will opt for the new system, while none of the domestically oriented businesses in the other 8 countries will do so.

Under option D, all 27 Member States would be obliged to accept both the new standardised VAT return as well as their old national one. On the business side, however, only those companies submitting VAT returns in more than one Member State (so-called "target companies" in the PwC study) would be allowed to opt for the standardised VAT return. It is assumed that in principle all companies with multiple VAT registration will opt for the common EU standard VAT return because they will gain from standardisation and they can achieve economies of scale at group level. However, it might also be safe to assume that some (20%) of the companies located in one of the 8 Member States already presently having simpler VAT returns than the one proposed as an EU standard might be reluctant to switch.

Under option E, all 27 Member States and all 30 million companies submitting VAT returns would have to switch to using the new standardised VAT return. Old national VAT returns would cease to exist. However, as compared to option B, Member States would not be obliged to request from their companies to fill in all 36 boxes and to process this information. Instead, they might want to opt for a return only comprising of a subset of these 36 boxes. This might be attractive for those 8 Member States that already process simpler VAT returns. It is assumed that all 8 Member States will limit the information requests through the VAT declaration to those pieces of information that they collect today.

Moreover, for each of the above four scenarios two sub-scenarios are analysed with respect to *the periodicity of having to submit a VAT return*:

In each sub-scenario it is assumed that the periodicity for micro-enterprises is reduced – where applicable – to a quarterly submission instead of a monthly submission. This would reduce the annual number of VAT returns from about 150 million to about 120 million , as presently almost all Member States (with the exception of Denmark, Italy, Malta, Spain, Sweden and the UK) request from at least a part of their micro-enterprises the filing of VAT returns on a monthly basis. In this scenario, it is also assumed that the periodicity of the filing of VAT returns is synchronised with the periodicity of the payment/reimbursement of VAT.

In each sub-scenario it is assumed that the periodicity does not change as compared to the status quo.

Finally, as regards the filing of summarising *annual VAT returns* also the option is analysed where businesses in those seven Member States that request the submission of such returns[43] would no longer have to do so.

6.3. Administrative burden for businesses – including for SMEs[44]

Under *Option B* all 27 Member States and all businesses, be they simply domestically active or internationally active would switch to the Standard VAT return where 36 boxes would have to be filled in. Monthly VAT returns for micro-enterprises would – where applicable – replaced by quarterly returns and the summarising annual VAT return would – where applicable - be abolished. When not taking set-up and switching cost into account, this would trigger annual gross benefits (estimated at EUR 15 billion[45] - including quarterly filing for micro enterprises and abolishing annual VAT returns) linked to the management of these returns for all businesses in EU19. These benefits would be triggered by time savings generated by having to fill out less complicated returns standardised (across borders) and by a reduced need to "buy in" consultancy services. Also, internationally active businesses could benefit from some economies of scale where they concentrated the tasks in an in-house coordination centre. On the other hand, for domestically oriented businesses in EU8 that presently benefit from even simpler VAT returns annual administrative costs would increase somewhat (estimated at EUR 3 billion). The net saving would therefore be at EU level EUR 12 billion.

However, these benefits (and costs) do not come for free in all instances, as at least some switching cost for businesses in all 27 Member States can be expected. Some of these switching costs can be assumed to be absorbed in the context of normal updates of software or other regular adjustments of procedures, while other costs might be assumed by Member States themselves when providing the necessary IT tools for VAT returns for free to their clients. When assuming additional set-up and switching costs at about EUR 150 per company overall once-off set-up and switching

[43] These countries are AT, DE, GR, LU, MT, PT and ES. Italy could also be included.
[44] See Annex 9.6 for more details.
[45] See Table 9.6.8

costs for the entire population of 30 million companies would add up to EUR 4.25 billion[46].

In a variant of Option B it is foreseen that only the VAT return is standardised and that all micro enterprises that presently have to submit VAT returns on a monthly basis would continue to do so (no option for quarterly filing for all micro enterprises). This would affect about 4.3 million micro enterprises[47] in 20 Member States. If 80% of those eligible would do so (while the other 20% might prefer to continue submitting their VAT returns on a monthly basis as they expect refunds) this could trigger lost cost savings in the order of magnitude of EUR 1.8 billion[48].

In another variant of Option B it is foreseen that the obligation of submitting summarising annual VAT returns would not be abolished for all companies in those countries requiring such returns. This variant would generate additional lost annual cost savings for affected businesses in the order of magnitude of EUR 2.8 billion[49].

Under *Option C* only those businesses would switch to the standard return for which the combined costs of switching and of recurrent costs were lower than the benefits accruing from time savings, standardisation (across borders) and less need to consult outside experts. As it is assumed that all of internationally active businesses (about 3.8 million) and about 80% of those businesses that are registered in EU19 with more complicated VAT returns will switch to the standard return, the expected cost savings for recurrent expenditure would amount to EUR 7.2 billion[50], of which EUR 4.5 billion would accrue to the internationally active businesses. Including savings from consultancy costs (EUR 5.6 billion[51]) and abolishing the annual VAT return (EUR 1.9 billion[52]) the total savings are in the order of EUR 15 billion. These benefits would be triggered by time savings generated by having to fill out less complicated returns standardised across borders, harvesting economies of scale and by a reduced need to "buy in" consultancy services.

However, also under Option C these benefits (and costs) do not come for free in all instances, as at least some switching cost can be expected. Under the same cost assumptions as for Option B, but applied to a smaller population of businesses, overall set-up and switching costs for the affected business population of 20.4 million companies (0.4 million large businesses, 1.4 million SMEs and 18.6 million micro enterprises) would add up to EUR 2.9 billion.

In a variant of Option C it is foreseen that all micro enterprises that presently have to submit VAT returns on a monthly basis would have to continue to do so. This would represent about EUR 1.8 billion in lost savings.

46 See Annex 9.6 for more details.
47 See Table 9.7.1
48 See Annex 9.6.4
49 Table 9.6.2, cost of annual VAT returns (EUR 2.769 billion)
50 See Table 9.6.6
51 Difference between consultancy fees in Table 9.6.2 and Table 9.6.3 (EUR 11.446 billion less EUR 5.806 billion)
52 Difference between annual VAT returns in Table 9.6.2 and Table 9.6.3 (EUR 2.769 billion less EUR 0.918 billion)

In another variant of Option C it is foreseen that also the obligation of submitting summarising annual VAT returns would not be abolished for all companies in those countries requiring such returns. This variant would generate additional lost annual cost savings for affected businesses lower than those in scenario B, i.e. about EUR 1.9 billion.

Under *Option D* only internationally active business would be allowed to switch to the standard declaration, and they would benefit – where applicable – from having to submit returns only on a quarterly basis and from no longer having to submit the summarising annual return. For the business not being active internationally, nothing would change under Option D. As it is assumed that all of the internationally active businesses (about 3 million) will switch to the standard return, the expected cost savings for recurrent expenditure (for these enterprises) would amount to EUR 6 billion only. These benefits would once again be triggered by time savings generated by having to fill out less complicated returns standardised across borders, harvesting economies of scale, by a reduced need to "buy in" consultancy services and by (where applicable) no longer having to submit monthly and annual returns. In this scenario, the switching cost would then be limited to EUR 500 million[53].

In a variant of Option D it is foreseen that all micro enterprises that are being offered the standard declaration that presently have to submit VAT returns on a monthly basis would have to continue to do so. This would represent about EUR 0.8 billion[54] in lost savings compared to the EUR 6 billion. Another variant of option D would be on the contrary to offer the reduced periodicity to all micro-companies (even to those not benefitting from the standard declaration), the additional saving compared to the EUR 6 billion would then be of EUR 1 billion[55].

In a last variant of Option D it is foreseen that also the obligation of submitting summarising annual VAT returns would be abolished for all companies in those countries requiring such returns. This would represent about EUR 0.8 billion[56] in lost savings.

Under *Option E* all 27 Member States and all businesses, be they simply domestically active or internationally active would switch to the standard VAT return where (up to) 36 boxes would have to be filled in. When not taking set-up and switching cost into account, this would trigger annual gross benefits (estimated at EUR 15 billion) linked to the management of these returns for all businesses in EU19. These benefits would be triggered by time savings generated by having to fill out less complicated returns standardised across borders and by a reduced need to "buy in" consultancy services. Thus, this part of the cost savings would be similar to those under option B. Moreover, and in contrast to option B, for businesses in EU8 that presently benefit from even simpler VAT returns annual administrative costs would under this scenario (contrary to option B) not increase as it is assumed that their countries of establishment would simply ask to fill in those boxes that they would be obliged to fill in already under the existing national forms.

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53 Table 9.6.5

54 Table 6.3.1, periodicity micro-enterprises

55 The costs saving for quarterly periodicity in option C of EUR 1.8 billion less savings in option D of EUR 0.8 billion.

56 Table 6.3.1, annual returns

Under this option, once-off switching costs for the entire population of 30 million companies would at first glance – as in scenario B - add up to EUR 4.25 billion. However, as measurable switching cost might not occur in those countries that had simply requested the same information (although under a standardised format) as before, overall switching cost under this scenario might remain limited to EUR 2.9 billion[57].

In two variants of Option E it is – as under the other options - foreseen that all micro enterprises that presently have to submit VAT returns on a monthly basis would continue to do so and/or also the obligation of submitting summarising annual VAT returns for all companies in those countries requiring such returns. These two variants would generate additional annual cost savings for affected businesses in the order of magnitude of EUR 1.8 billion and EUR 2.8 billion respectively.

The below table summarises and compares the effects of the different options and sub-options on administrative burdens on the business community in the entire EU, and broken down by size class of companies.

Table 6.3.1: Administrative burden for businesses (billion €)

Option	**A**	**B**	**C**	**D**	**E (with max savings)**
Total annual cost	30	18	15	24	15
Total annual net saving (*)	**0**	**12**	**15**	**6(**)**	**15**
Split per size					
Large	0	0.1	0.1	0.1	0.1
SMEs	0	1.3	1.5	0.7	1.5
Micro	0	11	13	5.8	13
Total annual net saving (rounded)	**0**	**12**	**15**	**6**	**15**
Split per type of business					
With activity in 1 MS					
- in simple MS (EU 8)	0	-3	0	0	0
- in complex MS (EU 19)	0	9	9	0	9
With activity in several MSs	0	6	6	6	6
Total annual net saving	**0**	**12**	**15**	**6**	**15**
Split per type of cost					
Regular return, including periodicity, simpler and standardised return	0	4.4 (1.8 for periodicity micro)	7.2 (1.8 for periodicity micro)	4.5 (0.8 for periodicity micro)	7.4 (1.8 for periodicity micro)

57 Table 9.6.5, set up costs for option C

Consulting fees	0	5.3	5.6	1.2	5.3
Annual returns	0	2.8	1.9	0.8	2.8
Total annual net saving (rounded)	**0**	**12**	**15**	**6**	**15**
Set up costs	**0**	**4.25**	**2.9**	**0.5**	**2.9**
Large	0	1.25	0.3	0.15	0.3
SMEs & micro	0	3.0	2.6	0.35	2.6

* Net saving is the saving taking into account the extra-cost in MSs with simple returns but not taking into account set up costs.

** Cost savings would be higher by EUR 1 billion in this scenario (1.8 billion – 0.8 billion) in case Member States allowed all domestically-oriented micro-enterprises to opt for quarterly instead of monthly returns (and not only those who under option D would have the right to opt for the standard VAT declaration).

6.4. Costs of managing VAT returns for Member States

The compulsory introduction of a standard VAT return will require all Member States to change their national VAT return, either by complementing it (options C and D) or by replacing it (options B and E). This will result in costs in areas such as changing websites, IT systems, informing all businesses of the changes and retraining staff. It may also impact on audit and control with changes needed to risk analysis tools. This notably holds for the 19 Member States that presently request a VAT return that is more comprehensive and complicated to fill in than the standardised VAT return proposed.

The latter impact is also relevant in the context of the proposal to allow micro-enterprises to submit returns on a quarterly basis only or to abolish summarising annual VAT returns. While the first of these options could be applicable to about 4.3 million micro enterprises in about 20 Member States, the latter could become relevant for 11 million enterprises[58] in about 7 Member States. So as to offset the consequence of reduced information provided or information provided less frequently some Member States might be inclined to set up other information gathering infrastructures, which would come at an additional cost both for Member States as well as for the businesses affected.

Change-over costs for Member States

Of the eight Member States in scope of the PwC study, four Member States provided information on the costs of change. The most costly area, setting up the IT platform, was estimated to be in the range of EUR 150 000 to EUR 120 million. Given the huge variation, and the fact that only half the Member States in scope of the study could provide any figures, it is hard to draw any inferences of the likely true cost. Of the four Member States providing information the average cost of setting up the IT platform was EUR 30.5 million. Extrapolating this information to all other Member States affected by switching would give additional one-off IT costs of roughly EUR 800 million to EUR 1 billion.

[58] See Annex 9.7 for more details.

It terms of trying to assess the distribution of costs among the Member States those with a loss to the information could face higher set-up costs. Principal factors could be changes to risk analysis tools and training of staff that would be needed for those Member States where the level of information changed. All Member States though would require changes to adapt the presentation of their national VAT returns to the format of the standard VAT return.

Simplification costs

Member States were also concerned in areas other than cost but did not put a monetary value on them. For instance certain of those Member States requiring more information on their national VAT returns were concerned by the loss of information on risk analysis and audits, and moreover the effect this would have on staff resources.

The Member States losing the most information based on the PwC developed standard are the Czech Republic, Hungary, Luxembourg and Romania. In addition Greece, Italy, Portugal and Spain would lose significant information from the abolition of the annual summary VAT return.

As already mentioned, the more information required on a VAT return does not necessarily increase compliance by tax payers. There is no evidence to support the correlation between the number of boxes to be filled in in a VAT return and the VAT gap in a given country.

Also, as information on VAT returns in some Member States has no VAT relevance, but is used for gathering statistical information other than that related to VAT collection, there could be indirect costs on statistical offices and poorer statistical information. However, there are no available figures from Member States on such additional costs.

It should be borne in mind that Member States are satisfied with the level of information and effectiveness of their national VAT returns which they say are tailored to national rules and are familiar to national businesses. Thus change, even if it reduces administrative burdens in the longer run or removes an obstacle to cross border trade, is seen as unwelcome by Member States.

Support of other policies

That said Member States can acknowledge certain advantages for them of a standard VAT declaration. Firstly, it would facilitate an easier exchange of information and could facilitate a future automatic exchange of information between Member States which would help identify fraud quicker. Secondly, it could provide a greater accuracy of information with fewer mistakes, particularly as regards non-established businesses, as the VAT return would be standardised and in the majority of cases simpler than the national VAT return. Third, it could encourage voluntary compliance, notably for smaller businesses. And, finally, it could facilitate the changeover to the One-Stop-Shop, a mid-term objective in the context of facilitating cross-border trade activities both for goods and services.

Dual systems

With respect to options C and D, Member States were also clear and unanimous in stressing that a dual VAT return, i.e. maintaining their current VAT return (for one part of businesses) and in parallel a standard EU VAT declaration (for the other part of businesses) would be too complex and costly to manage. In terms of the cost, there is the cost of changing to allow businesses to submit the standard VAT declaration but also the cost of keeping and maintaining the national VAT return.

Added to the cost element is the perceived complexity for Member States of managing two VAT returns. There will be different levels of information received, rules and procedures for businesses moving from one VAT return to the other and the compatibility of historical data for risk analysis. This was expected to have a negative impact on effectively fighting fraud and aggravate the risk of VAT return shopping where businesses move from one type of VAT return to another, which could exacerbate the problem of consistent data.

Of course, also under options C and D Member States would be free to replace their national VAT return with the standard VAT declaration to avoid the dual system. This, in turn could then factually end up in applying option B through voluntary action instead of being obliged to do so through a change in the VAT Directive.

Option E would allow the eight Member States with national VAT returns simpler than the standard VAT declaration to not increase burdens on their businesses. It could also provide some flexibility for Member States with specific information needs as regards certain regions, territories or special regimes. This could be achieved through additional boxes imposed by Member States in duly justified cases, but all standardised through implementing rules to minimize administrative burdens. Thus it has the widest appeal for Member States.

Nevertheless, there would still be a cost for all Member States in achieving standardisation even if the level of information remained the same. For instance, it would be preferable if the standard VAT declaration had the information requirements set out in an agreed format so that the box for say output tax was consistent in all Member States e.g. Box 1. Thus there will still be a cost to set up or change IT systems.

Cost savings

Once the standardised system is up and running, control and collection costs could be affected in the following way.

In those Member States (EU19) that presently have to manage more complicated returns than the one proposed, options B and E would mean a potentially small decline of collection costs due to less information to be collected. In all other options however, the management of a dual system would mean, overall, an increase in these costs. On the other hand, control costs for these administrations could increase in options B and E as less information would be available. In options C and D, the dual system could impose constraints on risk management systems and could increase risk-management costs (especially in option D where the condition for the options would need to be checked).

On the other hand, for those Member States (EU8) having already rather simple VAT returns in place, collection costs would not change in option E and should also not increase in option B, although they would receive more information than in the past but they might simply ignore this information for collection purposes. This would hold also for options C and D, while in option E they would simply go for the same information as under their national regime. Nevertheless, under options C and D, collection costs could increase somewhat due to the dual system. As to control costs, for the same reasons they would not vary in option E and would decrease a little bit in options B, C and D. This latter might be partly offset by the dual system.

Table 6.4.1: Cost of managing VAT returns for Member States (qualitative)

Option	A	B	C	D	E (max)
Set up cost (IT and training)	0	< 1	< 1	< 1	< 1
Recurring costs for collection and controls	EUR 6 bn	Collection costs: - EU 19 : - - EU 8 : 0 Control costs: - EU 19 : + - EU 8 : -	Collection costs: - EU 19 : 0 - EU 8 : 0/+ Control costs: - EU 19 : ++ - EU 8 : 0/+	Collection costs: - EU 19 : 0 - EU 8 : 0/+ Control costs: - EU 19 : ++ - EU 8 : 0/+	Collection costs: - EU 19 : - - EU 8 : = Control costs: - EU 19 : + - EU 8 : =
Ranking	1st	3rd	4th	4th	2nd

6.5. Integration within the Single Market

All options retained for analysis are characterised by positive impacts on the single market, as they make it easier to carry out business across borders and in different Member States. However, while options B, C and E have also a pro-active and encouraging effect, as they would allow all business to benefit from cost savings, including those that are not yet active in more than one Member State, option D would give this advantage only ex-post, i.e. it is limited to those businesses that are already active in more than one Member State.

While this option D still generates benefits to about 3.8 million businesses (the so-called "targeted population"), it misses the dynamic and encouraging element of the other options, and it does not fully encourage businesses to begin trading across borders. For instance a business operating only in the national market must submit a national VAT return and can only benefit from a standard VAT declaration when it starts to sell cross border. This means a transition from a national VAT return to a standard EU VAT return at the time of trading in the EU, whereas options B and C already provide a standard VAT return even before the business starts trading across borders and thus the business can avoid reporting obligation changes as a consequence of trading in the EU.

There may well be the added complexity for business of complying with rules that only permit a standard VAT declaration under certain conditions. This may involve the provision of extra information, such as proof of submitting VAT returns in several Member States and the links between holding companies and subsidiaries, to ensure a correct application. This added complexity further reduces the administrative burden savings.

The standard VAT declaration does though support other policies such as the One Stop Shop (OSS) and a move to cross border taxation at destination, which needs an OSS to minimise burdens on business.

6.6. Macro-economic and employment effects

At first glance, the reduction in administrative burdens and the reduction in the costs for Member States of managing the systems of VAT returns seem to come at a negative employment balance as less time and, thus, less man power is needed to provide the same output.

However, where VAT compliance does not decline as a result of these savings the "services" previously provided by both businesses and administrations should be considered having been a deadweight loss. As shown in section 6.4, there are strong indications available that this has actually been the case.

In such a case, resources freed from no longer being obliged to serve as a deadweight loss could be used for other, productivity-enhancing purposes. Thus, cost savings of EUR 6 to 15 billion annually could first have a macro-economic effect similar to a corresponding reduction in (profit) taxes. Moreover, as there would be no need for a corresponding reduction in the provision of public goods or public transfers or a need for a corresponding increase in other taxes, the positive growth implications would be much higher than in the case of a normal reduction in taxes.

Model simulations have shown that a decline in administrative burdens as a result of improving the efficiency of the information collection regime by reducing deadweight loss would lead to an increase in GDP and employment corresponding to the reduction in administrative burden. Thus, a reduction of deadweight by EUR 6 to 15 billion or 0.05 to 0.1% of GDP could trigger an increase in GDP between 0.09 and 0.19%, resulting in employment level after 10 years being 0.006 and 0.012% higher than in the baseline scenario (Option A)[59].

6.7. Other impacts

Sector-specific and (regional) distributive effects

Simplification and standardisation, combined with a reduction in the periodicity of VAT returns for micro-enterprises should have an impact on the tax consultancy business, as demand for its services is expected to decline substantially in the field of advice on VAT returns.

Also, different Member States and their businesses might be affected differently in the different options analysed.

While all businesses in EU19 (comprising Member States with rather complex VAT returns) might benefit from simplification in options B, C and E, this would only hold for a smaller proportion of these companies in option D, as this would only benefit those companies being active in more than one Member State.

[59] Estimates based on European Economy, Economic Papers number 282 (June 2007) on Quantitative Assessment of Structural Reforms

On the other hand, all or part of businesses in EU8 (comprising Member States with rather simple VAT returns) might be exposed to higher costs in options B and D, as their simple returns would be replaced by more complex ones. This cost increase would not be valid for businesses in option C, as in this scenario only those businesses from EU8 would opt for the standardised VAT return that expect net cost savings. Nor for option E as Member States in EU8 would be allowed to keep a simple return.

For administrations of EU 19, all options will mean a loss of certain information, together with set up costs. For administrations of EU 8, while options B and D (as well as C if the business is opting) will mean more information to collect, option E will almost be equal to the status quo as they have fewer boxes on the VAT return. In all options, they will however incur set up costs.

Environmental impact

There are no significant environmental impacts expected.

Impacts on third countries

The VAT returns are only completed by businesses that are taxable persons within the EU and not otherwise exempted from the obligation of submitting VAT returns e.g. SMEs under the annual turnover threshold to be exempt from VAT, businesses only making exempt supplies etc. To the extent that the taxable persons submitting VAT returns are non-EU businesses carrying out business activities within the EU, then the impact will affect equally positively these non-EU businesses.

Promotion of EU trade

A difficulty often mentioned by businesses trading, or wanting to trade, in the EU is the barriers created by divergent VAT rules and obligations in the Member States. For instance, typically a business using the internet to sell goods cross border to final consumers (B2C supplies) will need to register, declare and pay the VAT in each Member State where the customer belongs (subject to exceeding annual turnover thresholds of typically EUR 35 000 in each Member State).

The possibility to submit an EU standard VAT return, in a common electronic way, in all Member States reduces the burden of trading cross border. The increase in EU trade would likely grow over time as businesses became familiar with the advantages offered by a standard VAT return. Even where businesses continued to choose to pay a consultant to complete VAT obligations in other Member States the cost of doing so should be reduced with standardised VAT returns.

This is particularly true for SMEs, reported from the recent top 10 enquiry on regulatory burdens.

Impact on consumers

Because businesses would more easily trade across borders, and notably distance sellers (e-commerce), the impact on consumers will be positive through increased choice and improved price competition. It is indeed today often the case that for VAT reasons, e-shops do not offer sales beyond their domestic borders.

Sharing of information by Member States

Of major importance in tackling fraud is the availability of timely and reliable information. While Member States make use of the Regulation on Administrative Cooperation to request the exchange of information this takes some time and can provide inconsistent results. An approach that can be promoted through the standard VAT declaration is the automatic exchange of information. This will provide Member States with timely and precise information to allow the early detection of fraud.

Indeed, in the Communication on the future of VAT the Commission states its aim to "examine ways to significantly broaden automated access to information".

6.8. Potential obstacles

In order to achieve a standard VAT declaration in the EU it is necessary to reach agreement with the Member States. As mentioned, a non-legislative option is very unlikely to achieve a standard VAT return given the large differences in the information contained on VAT returns of each Member State because of the different approaches to the use made of the VAT return; a simple declaration of the amount of VAT to pay or a risk analysis tool with a broad range of information demanded. The challenge with any legislative proposal in the area of taxation is to reach political agreement with unanimity.

While Member States are in general favourable towards a standard VAT return, which can reduce obstacles to cross border trade and substantially reduce burdens on business, they remain conscious of their own information requirements from a VAT return and the cost of change. The challenge is to reach a suitable compromise over the varying information needs of Member States while removing cross border obstacles to trade and providing sizeable burden reductions for businesses.

On the other hand, "simplification" and "standardisation", while highly beneficial at the aggregate level must not result in additional costs for individual countries (and their administrations) that would not be clearly offset by benefits for the business community of such countries. This cannot really be guaranteed for countries and businesses of EU8 (countries with rather simple VAT returns) by options B to D. For these countries and their businesses, option E would probably be the most rewarding and the only one acceptable for distributive and, thus, political reasons.

Once adopted, a legislative proposal should not thereafter present any difficulties in terms of compliance either from Member States transposing the legislation (in the case of a Directive) nor for the businesses that would see simpler VAT returns with reduced compliance costs. The business compliance, like today, is a national competence and the Commission would rely on Member States putting in place an adequate changeover plan, where VAT returns needed to change.

A potential obstacle at the stage of implementation could be that some Member States would still collect the same information they used to collect over and above the new standard, but through other legislation. This risk should however be minimized through clear legal safeguards in the directive prohibiting Member States from collecting other information for VAT collection purposes.

An Implementation Plan will accompany any future proposal.

7. COMPARISON OF OPTIONS

7.1. How impacts have been weighted

The weighting for the impact of the various options was based equally on the positive effects on business in terms of the removal of obstacles to cross border trade and the administrative burden reduction, and the negative effect of the cost of implementing the change for Member States. These were each given a ranking for each option and then an overall ranking was obtained. Where ranking scores were equal then the administrative burden reduction was given preference over the costs for Member States.

i) Impact on removing obstacles to cross border trade

The impact on removing obstacles to cross border trade has been estimated by the burden reduction for those businesses that submit VAT returns in more than one Member State.

ii) Reduction in administrative burdens for business

This represents the total burden reduction less the part estimated for the savings for those businesses with VAT returns in more than one Member State. The once-off set-up cost of change have been integrated by splitting them up into five annual instalments

Table 7.1.1: Ranking of the annual burden reduction for businesses for each option

Option	Cross border trade savings		Admin burden saving		Total savings*	Overall score (based on total savings)
	EUR	Rank	EUR	Rank	EUR	Rank
A	0	5th	0	4th	0	5th
B	6 bn (max)	3rd	6 bn (min)	3rd	11.2 bn	3rd
C	6 bn	1st	9 bn	1st	14.4 bn	1st
D	6 bn	1st	0	4th	5.9 bn	4th
E	3 to 6 bn	3rd	9 bn	1st	11.4-14.4 bn	2nd

* Total savings are the sum of "cross border trade savings" and "admin burden savings" minus a fifth of the one-off set-up cost

Source: Table 9.6.8, Annex 9

iii) Impact for Member States

The cost for the Member States has been difficult to estimate. Figures have been provided by half of the eight Member States in scope of the study by PwC. By far the largest cost identified was the setting up of the IT platform for the standard VAT declaration, and in this regard one Member State provided an estimate of EUR 120 million. The average cost for the four Member States providing figures was EUR 30,5 million.

Taking the average cost of the four Member States in setting up the IT platform as representative of all EU Member States would lead to an estimate of just less than EUR 1 billion.

What is clear is that Member States will incur significant costs in changing their systems to a standard VAT return. It is equally clear that a Member State having to provide and manage two VAT returns in parallel would have significantly higher costs than a Member State providing only one VAT return, whether that was the national return or the standard VAT return. Thus a critical factor for the Member States is the number of VAT returns offered to business.

The number of VAT returns is also linked to the impact on fraud. A single VAT return in all Member States is positive in that the same information is given by all businesses in that Member State as compared to two possible VAT returns which would encourage VAT return shopping[60] and therefore inconsistency of historical data to analyse for risk assessments. This could reduce audit capability and for Member States increase training costs in staff dealing with two VAT returns. Thus, although hard to quantify these elements need to be included as negative aspects for Member States of having two VAT returns.

The second critical factor is the number of Member States for which change is required. In the various options the impact can affect no Member States, all Member States or only certain Member States. Hence, the second critical factor is the number of Member States affected. For those Member States which will have to impose or offer a standard return which is simpler than the current one, they will also be impacted by a loss of information. This was discussed in detail in the Fiscalis seminar in Portugal and is at first glance considered as a negative impact. However, it should be stressed here that the analysis shows that the more information that is required by Member States on the return, the higher the VAT gap is.

In terms of option E a reduced number of Member States are affected because 8 Member States have national VAT returns where the level of information is lower than the standard VAT declaration. For these Member States it has been assumed that they would continue to require the same level of information as contained on their national VAT return and so would not need major IT platform changes.

Of course, there may be changes required as regards information being standardised to fit within the framework of a standard EU VAT return such as the common numbering of boxes or other presentational changes. Two aspects are important in

[60] VAT return shopping would be moving between a national VAT return and the EU standard VAT declaration and vice versa.

this regard. Firstly, there would be a cost associated with those changes, as there are with any IT changes, but those changes would be less costly as compared to Member States that have to reduce the number of boxes on their VAT return. Secondly, even if option E was seen as affecting equally all 27 Member States it would remain as ranked second and would not change the overall result or the ranking of other options.

Finally, priority in terms of ranking is firstly given to the number of VAT returns and secondly to the number of Member States required to change.

Table 7.1.2: Ranking of the cost (qualitative) for Member States for each option

Option	Cost for Member State		
	No. VAT return systems	No. Member States affected	Rank
A	1	0	1st
B	1	27	3rd
C	2	27	4th=
D	2	27	4th=
E	1	19	2nd

iv) Other criteria

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

7.2. Trade-offs with each option

The trade-off between the options is principally between more flexibility for business which further reduces administrative burdens against the cost and complexity for Member States or providing that change. As can be seen clearly, option C gives the greatest burden reduction for business but is the most disadvantageous for Member States. Equally option A is the best for Member States but provides the least (in fact zero) burden reduction for businesses.

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

The worst case scenario is option D since this has minimal advantages for business because it is limited to only around 10% of those completing VAT returns yet at the same time effects all Member States by requiring the provision of two VAT returns.

7.3. Ranking of the options for the various evaluation criteria

The five options have been ranked as follows:

1. Option E: Compulsory standard VAT declaration with information flexibility for Member States

2. Option C: Standard VAT declaration optional for all business

3. Option B: Compulsory standard VAT declaration

4. Option A: No EU action (benchmark)

5. Option D: Standard VAT declaration optional for those businesses submitting VAT returns in more than 1 Member State

Table 7.3.1: Overall ranking of the options

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

7.4. Preferred option

Option E is preferred.

Further details of the issues on content, submission and corrections for any legislative proposal can be found in Annex 9.8.

8. MONITORING AND EVALUATION

For the two main objectives, indicators could be set as follows:

a) Reduce obstacles to cross border trade

By reducing obstacles to cross border trade the likely result is that the number of businesses involved in cross border trade and the number of businesses registering for VAT in other Member State would increase.

An indicator of how the standard VAT declaration has reduced obstacles to cross border trade would be the figures from Member States of the number of non-established taxable persons registered for VAT in their Member State. A comparison could then be made with the figures before and after the introduction of a standard VAT declaration to determine if indeed more businesses were trading cross border.

b) Reduce burdens on business

The preferred option E is a compulsory standard VAT declaration.

Although at this stage preliminary work is only beginning regarding the feasibility of measuring compliance costs, this future work could be used to evaluate the level of administrative burdens, such as the obligation to submit a VAT return.

1.1. Secondary effects

As a consequence of a standard VAT declaration, notwithstanding impacts on the two main objectives, impacts will also spill over to other areas. These could also be monitored.

a) Reduce the VAT gap

The VAT gap is a measure of the actual VAT receipts compared to the theoretical amount of VAT that should be collected based on domestic consumption. The difference is due to many factors such as fraud, tax avoidance or mistakes. It will not be possible to determine a direct link between the standard VAT declaration and a change in the VAT gap.

Nevertheless the VAT gap is in part due to mistakes made by taxable persons. This is to some extent influenced by the complexity of the VAT system and by consequence the VAT return. A simpler standard VAT return should reduce mistakes.

As well, the sharing of information between Member States can be a factor in detecting mistakes, and tackling avoidance and fraud. As mentioned in the Communication on the future of VAT more use needs to be made of the automated access to data. A standard VAT declaration could facilitate a move from an ad-hoc exchange of information on request to one whereby information on a VAT return in one Member State could be made directly available to another Member State.

The Reckon study on the VAT gap will in the future be updated. A crude judgement of the success of the standard VAT declaration could therefore be to compare the VAT gap before and after the introduction of a standard VAT declaration. Of course this can only be a simple indicator as many more factors affect the VAT gap other than the introduction of a standard VAT declaration.

b) Facilitate broadening of the scope of the mini-One Stop Shop (MOSS)

This is a longer term objective. The MOSS will be available from 1 January 2015 based on a simple VAT return defined in a Commission Implementing Regulation which details only standard and reduced rated sales of e-services, telecoms and broadcasting.

The standard VAT declaration allows greater information than the MOSS declaration on different types of sales, e.g. exempt, exports, reverse charge, intra-Community acquisitions etc. and information on the deduction of VAT. The standard VAT declaration would then be a model should the MOSS be enlarged to cover other types of transactions and even VAT deductions.

The success of the standard VAT declaration could be measured by any future proposal for an enlarged MOSS making reference to the legislation already in place for the standard VAT declaration.

9. ANNEXES

9.1. Agenda planning

1 December 2010	Launch Green Paper on the future of VAT for consultation with all stakeholders – includes idea of a standard VAT declaration
6 December 2011	Communication on the future of VAT – includes the commitment to come forward with a proposal for a standard VAT declaration
14 December 2011	Signature of contract for a study on the feasibility and impact of a common EU standard VAT declaration (PwC)
1 March 2012	Invitation to DGs to appoint a representative to IASG (Impact Assessment Steering Group)
3 July 2012	First IASG meeting
24 September 2012	Approval of Interim report of the study (PwC)
2-4 October 2012	Fiscalis meeting with Member States, business and PwC to discuss standard VAT declaration
23 October 2012	Publication of the Roadmap (with CLWP for 2013)
28 November 2012	2nd meeting of IASG to discuss final report of the study (PwC)
25 January 2013	Meeting with business in VAT Expert Group (VEG)
28 January 2013	Meeting with Member States in Group on the Future of VAT (GFV)
6 March 2013	Approval of PwC Final Report of study
11 April 2013	3rd IASG meeting to discuss Impact Assessment
23 May 2013	4th IASG meeting to approve Impact Assessment
27 May 2013	Submission of draft Impact Assessment (IA) to Impact Assessment Board (IAB)
19 June 2013	IAB meeting
July 2013	Proposal sent to DG TAXUD Cabinet for approval
July 2013	Launch inter-service consultation (ISC)

September 2013	Proposal agreed and sent for translation
October 2013	Adoption of proposal by Commission

9.2. Links to external studies

1. Study on the feasibility and impact of a common EU standard VAT return (PwC 2013)

http://ec.europa.eu/taxation_customs/common/publications/studies/index_en.htm

2. Final Report on the measurement data and analysis as specified in the specific contract 5&6 on Modules 3&4 under the Framework contract n° ENTR/06/061

Report on the Tax Law (VAT) Priority Area

EU Project on baseline measurement and reduction of administrative costs (Deloitte 2009)

http://ec.europa.eu/dgs/secretariat_general/admin_burden/docs/enterprise/files/abst09_taxlaw_en.pdf

3. A retrospective evaluation of elements of the EU VAT system

Final report

TAXUD/2010/DE/328

FWC No. TAXUD/2010/CC/104

http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/report_evaluation_vat.pdf

9.3. Stakeholder groups and consultations

1. Consultation on the ‘Green Paper on the future of VAT– Towards a simpler, more robust and efficient VAT system’

http://ec.europa.eu/taxation_customs/common/consultations/tax/2010_11_future_vat_en.htm

2. VAT Expert Group (VEG)

3rd meeting on 25 January 2013, business views

http://ec.europa.eu/taxation_customs/taxation/vat/key_documents/expert_group/index_en.htm

3. Group on the future of VAT (GFV)

Meeting of 28 January 2013, Member States' views

http://ec.europa.eu/taxation_customs/taxation/vat/key_documents/discussions_member_states/index_en.htm

9.4. Business and Member State views

Business views

i) Views from the Green Paper on the future of VAT

The stakeholder comments for questions 21 and 22 of the Green paper relate generally to VAT obligations dealing with "Reducing red tape". This links to the Staff Working document and the suggestion of a standardised EU VAT declaration.

The Green Paper replies of relevance to the standard VAT declaration were as follows:

In summary, for the vast majority of respondents the main problems with regard to the current rules on VAT obligations arise from the lack of uniformity and of consistency across Member States. The diverse implementation at national level of the rules on VAT obligations makes VAT compliance very burdensome and is a source of legal uncertainty for businesses with cross-border activities within the EU.

In particular, respondents strongly supported the introduction of a standardised EU VAT return available in all EU languages. In addition to easing administrative burdens for businesses (including SMEs), it was suggested that an EU standard VAT return could also allow Member States to exchange data more easily and swiftly.

Opinions differed as to whether reporting periods and time limits need to be harmonised. Whilst some respondents took the view that VAT return periods and filing deadlines should be standardised across all Member States, others were of the opinion that if VAT returns in all Member States were due on or around the same date each period, this could create a serious resource bottleneck especially if use is made of a shared services centre.

From the above it is clear business are favourable towards the burden reduction potential from the standard VAT declaration which would create uniformity and consistency of VAT return obligations across the EU. On some of the details, such as the reporting period and deadlines for submission, there was more of a mixed reaction.

ii) Views from the PwC study

The study provided more details on a standard VAT declaration than was available in the Staff Working document. The businesses consulted were generally supportive and most believed a uniform approach to VAT returns in the EU would be beneficial in reducing compliance costs and encouraging cross border trade.

Half of the businesses sampled stated that there would be cost savings from a standard VAT declaration. The savings came from standardising the preparation and submission of VAT returns, reduced complexity in certain Member States of completing the standard VAT declaration, and the possibility to complete VAT returns in-house rather than paying consultants.

iii) Views from the VAT Expert Group (VEG)

The VAT Expert Group met on 25 January 2013 to discuss the standard VAT declaration.

The main conclusion was the unanimous support for a legislative proposal to standardise VAT returns in the EU. The members were, though, roughly equally split on how the standard should be applied. Some were in favour of a single standard VAT return obligatory for all businesses in all EU Member States. Others preferred the standard VAT return to be offered to all businesses as an optional alternative to the Member States' national VAT returns as in some cases the national VAT return was simpler than the EU standard VAT return.

The paper discussed with the VEG also offered alternatives of no legislative change or only making the standard VAT return available to those businesses that submit VAT returns in more than one Member State. No member supported these alternatives.

Although not included in the PwC study, a further alternative, which takes into account the comments from Member States at the Fiscalis seminar in Portugal, is to allow Member States flexibility to dispense with some, but not all, of the information on the standard VAT return. In this way those Member States offering a national VAT return with fewer boxes than the standard VAT return could continue to offer a simpler VAT return.

No member of the VEG supported as a first best solution allowing Member Sates the flexibility to choose which boxes from the standard VAT return they would require. The fear was twofold; firstly by giving options to Member States the standard VAT return would end up containing too much information, and secondly it would be more burdensome for business to determine which Member States were demanding which information.

That said, the VEG acknowledged that as a second best solution and a first step in the process towards a standard VAT return applied equally in all Member States this approach could be supported. Emphasis was placed on providing adequate information on the choices of the Member States and ensuring that a maximum number of boxes remained low.

iv) Views from Small Business Act (SBA) meeting

The initiative for a proposal for a standard VAT declaration and the work done so far, particularly in drafting an Impact Assessment to go in front of the Impact Assessment Board in June 2013, was explained to the SMEs. It was important in this context for the SMEs to provide their views.

The representatives of SME's organizations that took the floor (ZDH, UEAPME, CECOP, EUROCOMMERCE and BUSINESS EUROPE) were unanimously in favour of a standard VAT declaration. These views were consistent with the views given by the same organisations during the VAT Expert group meeting.

The same representatives considered a single VAT return as the preferred option (either obligatory or optional) but stated that the alternative of a common VAT return with optional boxes could also be acceptable if the number of boxes was reasonably limited. The latter seemed a good pragmatic approach to help achieve a Council agreement.

CECOP and UEAPME had concerns whether the submission of the VAT returns would become more frequent than currently was the case in the Member States, and they were of the opinion that the proposal should establish a reasonable obligatory minimum threshold (e.g. EUR 2 million annual turnover) for less frequent VAT returns. There was support to the Commission suggestion that Member States should be allowed to use more favourable rules than the ones established in the proposal but should not be allowed to use less favourable rules.

Member State views

i) Views from the ECOFIN conclusions

In the ECOFIN conclusions of 15 May 2012 it was agreed that the Council,

TAKES NOTE of the intention of the Commission to present a proposal for creating a standardised VAT declaration, and in this context CALLS ON the Commission to ensure a broad based dialogue and a thorough cost-benefit analysis beforehand.

The thorough cost-benefit analysis focussing both on business and tax administrations has been carried out through this Impact assessment.

ii) Views from the Fiscalis seminar

The Fiscalis seminar held from 2nd – 4th October 2012 in Portugal allowed the Member States to give a first reaction on the standard VAT declaration presented in the PwC interim report. The two key comments from Member States were:

1. The perceived cost and complexity of providing two VAT returns, a national VAT return with the option of an EU standard VAT declaration, was deemed too high. Equally some Member States were concerned that having two VAT returns would result in "VAT return shopping" where businesses were moving from one VAT return to the other. Thus Member States favoured a single VAT return.

2. The use made of the VAT return divided Member States. Some Member States saw the VAT return only as a declaration of the amount to pay or to be refunded and therefore required little information. Others saw the VAT return not only as a declaration but also as a risk analysis tool and required more statistical information. Some Member States even require statistical information that goes beyond what is relevant for VAT.

Reconciling the two key points expressed by Member States, a single VAT return with different information requirements, leads towards a VAT return obligatory for all Member States and businesses with an optional list of information from which some or all information can be required by Member States.

iii) Views from the Group on the Future of VAT (GFV)

A meeting was held with the Member States on 28 January 2013.

As was the case with the Fiscalis seminar in Portugal, the Member States were unanimous in stressing the need to have a single VAT return and so dismissed the scenario of an optional standard VAT return in parallel with a national VAT return which was seen as too complex and costly.

A large majority of Member States preferred an obligatory standard VAT return. There was widespread support for a single standard VAT return, although most Member States thought the content outlined in the PwC study would need to be flexible to take into account certain national requirements for specific territories, regimes or transactions.

Equally there was good support for the alternative scenario of allowing Member States flexibility over the information on the standard VAT return since this would mean administrative burdens would not have to increase in those Member States requiring few boxes to be completed on a national VAT return.

A small minority of Member States outlined that the option of no legislative change was their preference.

There was a general feeling that standardising the submission and corrections would be difficult and that national preferences should be kept to avoid either burdening businesses with more frequent VAT returns or else reducing the frequency and causing cash flow difficulties for Member States. An approach of setting an EU threshold to allow SMEs longer VAT periods was considered problematic given the different economies and the percentages of SMEs affected.

Equally corrections would be difficult to standardise due to the different procedures in the Member States as well as the effect on business of any resulting interest or penalties.

9.5. Standard VAT declaration (PwC model)

1.General information	
(11) Company name Intelligent box	
(12) VAT-identification number: country code of the relevant EU MS + VAT number of the relevant EU MS	
(13) VAT period	

	2. Output transactions		3. VAT due			4. Input transactions		5. VAT deductible	
Standard rate		211		311	Local purchases		41		51
Reduced rate		21 2		31 2	IC acquisitions of goods		42		52
Other rates		21 3		31 3	IC purchases of services		43		53
IC supplies of goods		22			Imports of goods		44		54
IC supplies of services		23			Domestic reverse charge		45		55
Exports of goods		24			Other cross-border reverse charges		46		56
Other supplies with right of deduction		25			SUBTOTAL	Intelligent box	47	Intelligent box	57
Other supplies without right of deduction		26			Adjustments (+/–)				58
SUBTOTAL	Intelligent box	27	Intelligent box	32	TOTAL			Intelligent box	59
VAT due via reverse charge (including deferred import VAT)				33					
TOTAL			Intelligent box	34					

6.Balance	
	Amount
(61) Net amount of current period = (34) – (59)	Intelligent box
(621) VAT credit brought forward from previous period	
(622) Advance payments made	
(63) Net VAT amount payable/refundable = [61] – (621) – (622)	Intelligent box
(64) Amount claimed as refund	

7. Corrections							
Period		Under-declared VAT		Over-claimed VAT		Total	
711		721		731		741	Intelligent box
712		722		732		742	Intelligent box
713		723		733		743	Intelligent box
71x [61]		72x		73x		74x	Intelligent box
Total						75	Intelligent box

8. Date and signature	
(81) Signature	Intelligent box/data box
(82) Name and capacity of preparer/signatory	Intelligent box/data box
(83) Date	Intelligent box

[61] x = per VAT period to be corrected.

9.6. Administrative burdens

The estimation of administrative burdens and of savings as a result of standardisation were based on an amalgamation of the findings of the PwC study and the findings in the Deloitte study. While both studies came to broadly the same findings as regards the number of VAT returns and the characteristics of the business population (large, SME, micro-enterprises) they differed significantly when it came to estimating costs and potential cost savings.

While the PwC study had some strengths, as it was based on more representative wage costs, it had tremendous shortcomings when it came to covering the SME and micro-enterprise part of the business population, which represent more than 98% of the total business population. These shortcomings were triggered by the fact that the consultant investigated in detail only a small sample of large international enterprises and neglected the need for representative case studies for smaller and micro enterprises. Also, the study suffered from some ad-hoc corrections that biased the results (notably for estimated cost savings) towards one side, i.e. over-estimating cost savings.

The PwC study is not the only recent study done for the Commission as regards the cost of submitting VAT returns in the EU. As mentioned previously, the High Level Group on Administrative Burdens (the "Stoiber" group) received a study from Deloitte in 2009. Like the PwC study it was based on the standard cost model.

While there are some similarities between the two studies, such as the total number of VAT returns submitted each year, there are also differences based on the assumptions made. For instance the PwC study is based on the wage level using the ISCO 2[62] (ISCO 2 being a more reliable wage level for the type of functions involved in filling in VAT returns) whereas the study from Deloitte is closer to the ISCO 3 wage levels.

The final figures for the cost of submitting VAT returns in the two studies are very different. Deloitte has an annual cost of EUR 19 billion while PwC arrives at EUR 39 billion. An explanation of the difference can be found in Annex 2 of the PwC report. An overview of the difference is provided below.

Table 9.6.1: Summary of the differences between the studies of PwC (2013) and Deloitte (2009)

	Deloitte (2009)	**PwC (2013)**	**Diff. (%)**
Annual number of VAT returns in EU	149,623,247	148,333,589	1
Time spent on submitting VAT returns (large businesses in France, Hungary, Poland)	794 mins	824 mins	4

62 International standard classification of occupations (ISCO) http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:International_standard_classification_of_occupations_(ISCO)

Average wage level	€14/h	€20/h	43
Consultancy fees (6 Member States in scope of both studies)	€209	€304	45
Explained difference			91
Average cost of VAT return	€128	€265	107
Total cost	€19 197 bn	€39 347 bn	105

The total difference between the study of Deloitte and that of PwC is 105%. This increases by a further 1% (approximately) as the Deloitte study has a 1% higher number of VAT returns submitted each year. Of the higher figures for the PwC study 4% is estimated to come from a higher time spent on submitting VAT returns, 43% from higher wage levels and 45% from higher consultancy fees.

The remaining difference of 16% is not explained. However, the explanations themselves are only based on available comparative figures in the two studies e.g. large businesses for France, Hungary and Poland for the time comparison, and consultancy fees in Cyprus, France, Hungary, Latvia, Poland and Spain, and thus do not reflect the true difference. Due to the extrapolations made in the two studies, for which this is unknown in the Deloitte study, only an approximate explanation of the differences can be made.

9.6.1. Recurring cost

The costs of submitting VAT returns as estimated by PwC are based on a small sample of large businesses. Given that these large businesses only represent 0.2% of the total number of businesses completing VAT returns in the EU, the assumptions made on how estimates from the sample of large businesses can indicate the costs for SMEs and particularly for micro enterprises, which represent 92% of EU businesses, are critical in determining an overall cost for submitting VAT returns.

The PwC study estimates that the cost for micro enterprises submitting VAT returns are EUR 244, a reduction of 70% of the estimate of EUR 826 for large businesses. This is significantly higher than the figures, for instance, in the study of Deloitte. Of course the wage level used by PwC is 43% higher than that of Deloitte, when comparing the large businesses, but this notwithstanding, there remains a large cost disparity.

In the PwC study the recurring cost of micro enterprises submitting VAT returns is based on an average cost per VAT return of EUR 244. Using the figures from Deloitte (EUR 57 per return) as a guide a more prudent approach should be taken for the estimate of the cost for micro enterprises.

A reasonable assumption is to use the figures from the Deloitte study for micro enterprises and SMEs but adjusted by the wage level used by the PwC study. This would mean instead of a base cost per return of EUR 244 it would be reduced to EUR 82[63]. However, as the study by Deloitte assumes half the businesses use

[63] EUR 57 increased by 43% is EUR 82.

consultants the internal time for VAT return completion should equally only reflect half of the micro businesses. While there is internal time for micro enterprises that use consultants this is significantly reduced with the majority of the cost falling in the cost category of "consultancy".

The consequence for the cost of the AS IS situation (current costs for submitting VAT returns) would be to reduce by one third half of the EUR 19.4 billion cost for micro enterprises submitting VAT returns without using consultants. This results in a revised figure of EUR 13 billion, a reduction of EUR 6.4 billion (see table 9.6.2).

Equally a comparison of SMEs shows that the average cost under the Deloitte study is EUR 79.83. Adjusted for the higher wage level in the PwC study would result in SME recurring costs of completing VAT returns of EUR 3.2 billion, using the same methodology as done previously for micro enterprises.

Consultancy fees show a marked difference between the study of Deloitte and that of PwC. The figures from PwC regarding large companies, which formed the sample base, should be seen as reliable. However, for SME and micro enterprises an adjustment should be made to reflect 21% higher consultancy fees for these business types as compared to the Deloitte study. This reduction results in consultancy fees of EUR 11.4 billion.

In line with a reduction for recurring costs of completing VAT returns and consultancy fees for SMEs and micro enterprises, a similar proportionate reduction should be made to annual summarising VAT returns. This gives a revised figure of EUR 2.8 billion.

The total cost for submitting VAT returns is then EUR 30 billion instead of EUR 43 billion.

Table 9.6.2: Cost of submitting periodic VAT returns in the EU

	PwC estimate (EUR bn)	Adjustment for micro enterprises of Deloitte (EUR bn)			
		Large business	**SME**	**Micro enterprises**	**Total**
Total recurring cost of VAT returns	24.845	0.259	3.207	12.974	16.440
Total consultancy fees	14.502	0.180	2.233	9.033	11.446
Total periodic VAT returns	**39.347**	**0.439**	**5.440**	**22.007**	**27.886**
Annual VAT	3.907	0.044	0.540	2.185	2.769

returns					
Total cost	**43.254**	**0.483**	**5.980**	**24.192**	**30.655**

Source: PwC Study (2013)

This will then change the savings for the standard VAT declaration for the various options. Where the standard VAT declaration is optional for all businesses (option C) the cost for micro enterprises represents 44% of the total cost (EUR 9.8 billion out of EUR 22.63 billion). Reducing the cost for micro enterprises submitting the national VAT returns should be reflected equally in the cost of the standard VAT return, and this can be assumed to be a similar percentage reduction (62%). This reduction should also be done for SMEs (67%), consultancy fees (79%) and the annual VAT returns (71%) to arrive at new cost figures for an optional standard VAT return (option C)

Table 9.6.3: Cost of Option C

	PwC estimate Cost of Option C (EUR bn)	Adjustment for micro enterprises of Deloitte (EUR bn)
Large business	0.191	0.191
SME	3.964	2.457
Micro enterprises	9.820	6.564
Total recurring cost of VAT returns	**13.975**	**9.211**
Consultancy fees	7.356	5.806
Total periodic VAT returns	**21.331**	**15.017**
Annual VAT returns	1.295	0.918
Total cost	**22.626**	**15.935**

A similar reduction is applied to the other options. The effect of this change for the cost of submitting the standard VAT returns in the different options and the consequential savings from an initial cost burden of EUR 30 billion is as follows.

Table 9.6.4: Summary of cost savings for each option

Option	Description	Total annual cost (EUR bn)	Total annual savings (EUR bn)
A	Do nothing	30	0

B	Compulsory standard EU VAT declaration	18	12
C	Standard VAT declaration optional for all business	15	15
D	Standard VAT declaration optional for businesses submitting VAT returns in more than 1 Member State	24	6
E	Compulsory standard VAT declaration (option a) with flexibility for Member States to determine the information from a standardised list	Between 15 to 18	Between 12 to 15

This seems a more prudent approach to take reflecting on the attributes of the two studies, Deloitte and PwC, for the estimation of the cost and the potential effect for micro enterprises. In any case these figures can only been seen as indicative.

9.6.2. Set up costs

As with the recurring costs of submitting VAT returns the estimation of the cost of changing to a standard VAT return are based on a small sample of large businesses. The effects however are largely felt by SMEs and particularly micro enterprises that together represent 99.8% of businesses.

The figures from the PwC sample show that 11 out of 12 sampled businesses (92%) believe there will be no cost to adjust to submitting the standard VAT declaration through a web from, which would be intuitively the most likely format for submission for SMEs other than paper. Even for submission by structured files and the cost of training most sampled large businesses expect no extra cost for the standard VAT declaration. These findings need to be better reflected in total set up costs for the standard VAT declaration particularly for the SMEs.

Leaving unchanged the average set up costs for large businesses (average of EUR 42 000) but assuming only 50% are affected would reduce by a half the set-up costs for large businesses.

Equally the set up costs need to reflect better that most SMEs will likely face no set up cost changes based on the sample of large businesses. The PwC study assumes the costs for medium sized businesses will be reduced by 40%, small businesses by 80% and micro enterprises by 95% compared to the large business set up costs. Given the predominance of micro enterprises it could be assumed that all SMEs would see a reduction or 95%.

The fact that most SMEs would require no change the set up costs should affect only about 95% of SMEs. Thus, 99.8% of the total of 29.8 million businesses, these being SMEs, would in 95% of the cases incur no set up costs and for the remaining 5% their set up costs would be around EUR 2 100 (5% of the cost of large businesses). This results in set up costs as follows for Option B:

Large businesses: EUR 1.25 billion

SMEs: EUR 3 billion

Total set up costs: EUR 4.25 billion

This equates to just under EUR 150 per business.

For the other options a similar percentage reduction can be applied. This gives the following set-up costs for each option.

Table 9.6.5: Summary of set-up costs for each option

Option	Description	Total cost to change (EUR bn)	Time to recover costs (months)
A	Do nothing	0	0
B	Compulsory standard EU VAT declaration	4.25	4
C	Standard VAT declaration optional for all business	2.9	2.5
D	Standard VAT declaration optional for those businesses submitting VAT returns in more than 1 Member State	0.5	1
E	Compulsory standard VAT declaration (option A) with flexibility for Member States to determine the information from a standardised list	2.9 to 4.25	2.5 to 4

9.6.3. *Summary of cost savings*

Using as an indicator figures from option C, where the standard VAT declaration is optional, indications can be provided for the effect of the various options for the different classes of business by size. The estimates are based on the recurring costs for completing periodic VAT returns and do not take into account the cost of consultancy fees or for submitting annual VAT returns.

Table 9.6.6: Summary of cost savings per type of business for Option C (excludes consultancy fees and annual VAT return)

	Cost of submitting VAT returns (EUR millions)	Option C - Cost of submitting standard VAT declaration (EUR millions)	Difference (EUR millions)	Share of saving per type of business (%)
Large businesses	259	191	68	1%
SMEs	3 207	2 457	750	10%
Micro	12 974	6 564	6 410	89%

enterprises				
Total	**16 440[1]**	**9 211[2]**	**7 229**	**100%**

[1] EUR 16 440 is from Table 9.6.2, revised total recurring cost of VAT returns

[2] EUR 9 211 is from Table 9.6.3, revised total recurring cost of VAT returns under Option C

Using the rounded percentages of 1% for large business, 10% for SMEs and 89% for micro enterprises the savings for options B, C, D and E have been estimated.

Table 9.6.7: Summary of total cost savings per type of enterprise for each option (includes consultancy fees and annual VAT return)

	Option A (EUR bn)	Option B (EUR bn)	Option C (EUR bn)	Option D (EUR bn)	Option E (EUR bn)
Large businesses	0	0.117	0.138	0.062	0.117 to 0.138
SMEs	0	1.291	1.528	0.681	1.291 to 1.528
Micro enterprises	0	11.032	13.054	5.820	11.032 to 13.054
Total	**0**	**12.440**	**14.720**	**6.564**	**12.440 to 14.720**

By way of summary, the table below shows a comparison of the impact of the five options.

Table 9.6.8: Summary of the impacts for the options (Euro billions)

Option	A	B	C	D	E	
					Min.	Max.
Total costs	**30**	**18**	**15**	**24**	**15**	**18**
Annual savings	**0**	**12**	**15**	**6**	**15**	**12**
Savings by enterprise size						
Large business	0	0.1	0.1	0.6	0.1	0.1
SMEs	0	1.3	1.5	0.7	1.3	1.5
Micro enterprises	0	11	13	5.8	11	13
Annual savings	**0**	**12**	**15**	**6**	**12**	**15**

Savings by type of enterprise						
Enterprises with VAT returns in more than 1 Member State (cross border)	0	6	6	6	6	6
Enterprises with VAT returns in 1 Member State (standardisation)	0	6	9	0	6	9
Annual savings	**0**	**12**	**15**	**6**	**12**	**15**
Costs for enterprises completing more information on VAT returns in certain Member States	**0**	**3**	**0**	**0**	**0**	**0**
Set-up costs for Member States	**0**	**<1**	**<1**	**<1**	**<1**	**<1**
Cost benefit analysis						
Set up costs	0	4.25	2.9	0.5	2.9	4.25
Annual savings	0	12	15	6	15	12
Time to recover set up costs (months)	0	4	2.5	0.5	2.5	4

9.6.4. Periodicity savings

There are an estimated 27.5 million micro-enterprises completing nearly 128 million VAT returns in the EU at an average cost of just over EUR 100 per VAT return (cost of recurring VAT returns is EUR 12.974 billion for micro enterprises – Table 9.6.2).

A little over 4.25 million micro-enterprises are required to complete monthly VAT returns. From the PwC Study[64] a comparison between the cost of quarterly and monthly VAT returns for Hungary and the UK shows that on average submitting 3 monthly VAT returns is 35% higher than submitting one quarterly VAT return.

Therefore, if the 4.25 million micro-enterprises completing 51.4 million VAT returns each year could submit those returns quarterly an estimated EUR 1.8 billion could be saved (51.4 million VAT returns x EUR 100 x 0.35% = 1.8 billion)

[64] Figure 19, Appendix 1, PwC study (2013)

9.7. Background figures

Table 9.7.1: Total population and total number of VAT returns

Member State	Periodicity for enterprises / No VAT returns each year						Number of VAT return boxes	Annual summarising VAT return (No boxes, No business)	Total number of VAT returns submitted each year
	Large	Medium-sized	Small	(1) Micro					
Austria	12	12	12	12	4		54	63	7,080,000
	1,340	7,370	43,550	497,740	120,000				
Belgium	12	12	12	12	4		34		3,543,956
	1,366	7,513	44,394	48,228	581,486				
Bulgaria	12	12	12	12			30		2,575,920
	429	2,361	13,953	197,917					
Cyprus	4	4	4		4		11		344,000
	172	946	5,590		79,292				
Czech Republic	12	12	12	12	4		76		2,846,988
	1,006	5,531	32,681	65,472	398,093				
Denmark	12	12	12		4		17		1,937,456
	838	4,609	27,235		386,318				
Estonia	12	12	12	12			24		856,632
	143	785	4,640	65,818					
Finland	12	12	12	12	4	1	25		3,687,781
	1,186	6,521	38,533	227,572	27,677	291,329			
France	12	12	12	12	4	1	43		24,087,097
	6,209	34,149	201,789	1,221,762	1,626,551	13,985			
Germany	12	12	12	12	4		45	45	26,356,800
	11,400	62,700	370,500	0	5,255,400				
Greece	12	12	12	12	4		54	254	4,974,641
	2,127	11,701	69,140	7,032	973,690				
Hungary	12	12	12	12	4	1	99		2,792,969
	1,101	6,055	35,778	84,428	280,524	142,541			
Ireland	6	6	6	6	4	2 or 1	6		1,168,120
	487	2,681	15,842	124,806	59,013	40,897			
Italy	1	1	1			1	586	586	5,132,249
	10,264	56,455	333,596			4,731,934			
Latvia	12	12	12	12	4	2	33		624,298
	174	959	5,669	34,161	20,107	26,151			

Lithuania	12	12	12	12		2	25		728,912
	148	815	4,815	52,298		16,000			
Luxembourg	12	12	12	12	4	1	89	109	377,900
	118	648	3,829	19,906	16,500	17,900			
Malta	4	4	4	(14)	4	1	51	6	118,760
	74	405	2,393	0	24,443	9,500			
Netherlands	12	12	12	12	4	1	26		7,530,000
	3,130	17,215	101,725	92,930	1,200,000	150,000			
Poland	12	12	12	12	4		52		17,440,000
	3,200	17,600	104,000	1,255,200	220,000				
Portugal	12	12	12	12	4		44	81	3,538,248
	1,464	8,054	47,595	19,056	656,055				
Romania	12	12	12	12	4		76		3,757,984
	1,136	6,250	36,932	141,334	382,537				
Slovakia	12	12	12	12	4		37		1,258,556
	393	2,162	12,774	43,733	137,456				
Slovenia	12	12	12	12	4		29		729,824
	206	1,133	6,694	31,703	63,248				
Spain	12	12	12		4		50	397	12,257,421
	5,685	31,269	184,771		2,620,905				
Sweden	12	12	12	12	4		25		4,549,619
	2,061	11,333	66,967	0	949,898				
UK	4	4	4	12	4	1	9		8,037,458
	3,812	20,966	123,890	52,415	1,691,069	13,848			
TOTAL	**59,670**	**328,185**	**1,939,274**	**4,283,511**	**17,770,262**	**5,454,085**	**Average No boxes (excluding Italy)**	**Average No boxes**	**148,333,589**
	29,834,986								**Out of which 127,258,841 by micro-companies**
							39	**57**	

This table shows that almost 150 million returns are submitted by EU enterprises each year, out of which almost 130 million are by micro-enterprises.

Based on these figures, offering to all micro-enterprises the option to file quarterly would mean that 4.2 million enterprises would be able to submit 4 declarations instead of 12 per year. If only 80% of those enterprises take this option, this would mean around 120 million declarations instead of 150 EU wide.

Table 9.7.2: Enterprises submitting annual VAT returns per Member State

Member States	Number of enterprises

requesting annual VAT returns	Large	SMEs	Micro
Austria	1,340	50,920	617,740
Germany	11,400	433,200	5,255,400
Greece	2,127	80,840	980,722
Luxembourg	118	4,476	54,306
Malta	74	2,798	33,943
Portugal	1,464	55,649	675,111
Spain	5,685	216,040	2,620,905
Total	**22,209**	**843,924**	**10,238,127**

9.8. Preferred option E

The Commission would recommend to come forward with a legislative proposal that requires all Member States to introduce a standard VAT return but with the flexibility that the Member State can choose the level of information, subject to a few mandatory boxes. In practice, a fully standardised form would be available at EU level (standards included in the PwC study), together with common definitions and guidelines, but certain boxes would not be made mandatory. In order to allow Member States to introduce the necessary legislative and IT changes, as well as to adapt the national risk management system, the reform should be introduced in Member States within a reasonable period of time.

This approach would offer the second greatest burden reduction for business because it would achieve standardisation without increasing burden in any Member State (8 Member States having a simpler declaration today than the proposed standard VAT declaration). In order to agree certain technical aspects some flexibility should also be allowed in other areas, such as submission and corrections, but without undermining the principal aims. With this in mind, the following aspects should, therefore, be considered in a future legislative proposal under this option.

i) Content

To gain the administrative burden reduction potential savings certain key elements are required in the content of the standard VAT declaration.

a) Common definitions

All the information on the VAT return should be provided in compliance with common definitions. For instance, if a VAT return box was to declare the value of exports, then there must be a common definition of the types of transactions that would be covered by the VAT return box entitled "exports". For example, should this include the movement of goods to a custom warehouse, supplies to an international organisation, or goods supplied to vessels on the high seas?

The proposal should try to define as clearly as possible the information to be included in each box on the VAT return but further work would probably be needed. Thus, the proposal could allow through the Comitology procedure advice to be given to the Commission to define an Implementing Regulation for common definitions for all the VAT return boxes. Although complete harmonisation would not be achieved, the declaration would be fully standardised through the EU.

b) Level of information

The number of boxes on the standard VAT declaration should be similar to that produced by the PwC study. This VAT return was analysed with the help of business and was part of discussions with Member States during the Fiscalis seminar in Portugal. Moreover, in the VAT Expert Group of businesses and the Group on the Future of VAT with Member States there was broad agreement on the level of information. In this way the figures produced by the PwC study would remain valid.

c) Limited number of optional information

Member States use the VAT return for different purposes. For some it is a declaration of the amount to pay or to be refunded, while for others it is also a risk analysis tool for which more information is required. These differences cannot be bridged through a standard VAT declaration that requires a set number of boxes to be completed in all cases. Member States requiring less information on their national VAT return would object to increasing burdens on their businesses and those Member States requiring more information would "fear" for an increase in fraud with a loss of information.

The most suitable approach would be to require a minimum number of boxes to be completed in all cases, which would be at least the same as or below that for all Member States, with the option for addition boxes to be required. At present Ireland has 6 boxes (VAT on sales, VAT on purchases, the balance of VAT to pay or be refunded, value of goods sent to other EU countries, value of goods received from other EU countries) although it requires additional information via an annual VAT return with typically 4 boxes per applicable VAT rate, including exempt supplies, exports, domestic zero rates, standard and reduced rates.

The number of additional boxes should be limited to around the number of boxes required in the standard developed by the PwC study.

d) Specific information needs

Member States have indicated that there are certain specific regions or special schemes for which a common standard set of information would be inadequate. For instance, specific information is needed on the French VAT declaration to correctly administer VAT in Monaco and other Member States such as Finland (graduated tax relief) or Portugal (Madeira, Azores) etc. may also require Member State specific information.

This specific information requirement is not suitable for standardised information since the information is only relevant to the Member State concerned. Thus, these specific information requirements should be allowed only on request from the Member States and only in duly justified cases.

ii) Submission

The submission covers the aspects of the periodicity and deadline for submission as well as how to submit. In this regard, the principle should be that there are certain common minimum standards above which flexibility can be afforded to Member States.

a) Periodicity and deadline

In common with the general practice of most Member States the VAT return should be submitted for a period covering one calendar month with a deadline of the end of the following month. So for instance the March VAT return would be submitted by the end of April.

In order to help the smallest businesses, those classified as micro enterprises with an annual turnover of less than EUR 2 000 000, a longer VAT period of a calendar quarter would be allowed as an option offered in all Member States. Businesses preferring monthly VAT returns could choose to remain with that periodicity.

Nevertheless, where Member States want to further reduce burdens on business this should not be hampered. So Member States could choose to allow a greater number of businesses to file quarterly returns or even allow longer periods of up to one calendar year so that businesses are not required to submit VAT returns more frequently than they do at present.

Typically the VAT payment is required by the same deadline by which the VAT return must be submitted. Moreover, this is the adopted rule for the submission of the MOSS VAT declaration. The rule on the deadline for the payment of VAT should continue but equally Member States should also be allowed a longer time period to further help businesses.

b) Method of submission

To support the Digital Agenda the preferred method of submitting VAT returns should be electronic. The VAT directive requires that all Member States provide for electronic submission, and allows Member States to require electronic submission. This provision should continue.

However, more should be done to ensure that the electronic submission allows for file transfers and also provides for common submission security, whether this is through advanced electronic signatures or other security measures. Common technical rules in an Implementing Regulation could be foreseen but with the principle that not only digital signatures should be offered.

iii) Corrections

It is unlikely that all businesses will in all cases declare the VAT correctly on a VAT return. There will be instances when the business needs to notify the tax authorities of any amendments to a previous declaration. As far as possible the way in which businesses make any corrections to the VAT return should be standardised to avoid undermining the standard VAT declaration itself. Also here common rules set out in an Implementing Regulation could be foreseen.

There seem typically three ways VAT returns are corrected; resubmitting the return again, using a separate form or making adjustments on the subsequent VAT return. Some alignment towards standardising these methods of correction could be further examined.