



VAT Action Plan: Commission presents measures to modernise VAT in the EU

Brussels, 7 April 2016

Today's Action Plan is the first step towards a single EU VAT area which is equipped to tackle fraud, to support business and help the digital economy and e-commerce.

[VAT Action Plan](#)

The European Commission has presented an [Action Plan](#) setting out ways to reboot the current EU VAT system to make it simpler, more fraud-proof and business-friendly.

The current VAT rules urgently need to be updated so they can better support the Single Market, facilitate cross-border trade and keep pace with today's digital and mobile economy.

The 'VAT gap', which is the [difference between the expected VAT revenue and VAT actually collected](#) in Member States, [was almost €170 billion in 2013](#). Cross-border fraud itself is estimated to be responsible for a VAT revenue loss of around €50 billion a year in the European Union. At the same time, the current VAT system remains fragmented and creates significant administrative burdens, especially for SMEs and online companies.

The Action Plan sets out a pathway to modernise the current EU VAT rules, including:

- key principles for a future single European VAT system;
- short term measures to tackle VAT fraud;
- update the framework for VAT rates and set out options to grant Member States greater flexibility in setting them;
- plans to simplify VAT rules for e-commerce in the context of the Digital Single Market (DSM) Strategy and for a comprehensive VAT package to make life easier for SMEs.

Vice-President **Valdis Dombrovskis**, responsible for the Euro and Social Dialogue said: *"Today, we are starting a dialogue with the European Parliament and the Member States for a simpler and more fraud-proof VAT system in the EU. Every year, cross-border VAT fraud costs our Member States and tax payers about EUR 50 billion. At the same time, the administrative burden for small businesses is high and technical innovation poses new challenges for VAT collection. This Commission has already proposed clear measures to address corporate tax avoidance, and we will be equally decisive in tackling VAT fraud."*

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"VAT is a major source of tax revenue for EU Member States. Yet we face a staggering fiscal gap: the VAT revenues collected are €170 billion short of what they should be. This is a huge waste of money that could be invested on growth and jobs. It's time to have this money back. We are also keen to grant Member States more autonomy on how to define their VAT reduced rates. Our Action Plan will deliver on each of these points."*

Key elements

A future definitive EU VAT system for cross-border trade to reduce opportunities for fraud

The current VAT system needs to be modernised to keep pace with the challenges of today's global, digital and mobile economy. The current VAT system for cross-border trade which came into force in 1993 was intended to be a transitional system and leaves the door open to fraud. The Commission therefore intends to come forward in 2017 with a proposal to put in place **definitive rules for a single European VAT area**. Under the new rules, cross-border transactions would continue to be taxed at the rates of the Member State of destination ('destination principle') as today, but the way taxes are collected would be gradually changed towards a more fraud-proof system. At the same time, an EU-wide web portal would be implemented to ensure a simple VAT collection system for businesses

and a more robust system for Member States to gather revenue.

Immediate measures to tackle VAT fraud under the current rules

Cross-border VAT fraud deprives Member States of vast sums of revenue. Estimates show that the **future VAT system could reduce cross-border fraud by around EUR 40 billion** (or by 80%) a year. Later this year, the Commission will propose **measures to reinforce current tools used by Member States** to exchange information related to VAT fraud, fraud schemes and good practices. We will continue to closely monitor the performance of tax administrations in collecting and controlling VAT.

More autonomy for Member States to choose their own rates policy

Under the current rules, Member States need to stick to a pre-defined list of goods and services when it comes to applying zero or reduced VAT rates. The Commission plans to modernise the framework for rates and to give Member States more flexibility in future. It proposes **two options**: one option would be to maintain the minimum standard rate of 15% and to review regularly the list of goods and services which can benefit from reduced rates, based on Member States' input. The second option would abolish the list of goods and services that can benefit from reduced rates. This would, however, require safeguards to prevent fraud, avoid unfair tax competition within the Single Market and it could also increase compliance costs for businesses. Under both options, the currently applicable zero and reduced rates would be maintained.

Support for e-commerce and SMEs

The current VAT system for cross-border e-commerce is complex and costly for Member States and businesses alike. EU businesses are at a competitive disadvantage because certain non-EU traders can import VAT-free goods to the EU. The complexity of the system also makes it difficult for Member States to ensure compliance. The Commission will come forward by the end of 2016 with **a legislative proposal to modernise and simplify VAT for [cross-border e-commerce](#)** as part of the Digital Single Market strategy. This will include a proposal to ensure that e-publications can benefit from the same reduced rates as physical publications. As a second step, we will present in 2017 **a VAT simplification package designed to support the growth of SMEs** and to make it easier for them to trade across borders.

Background

The common Value Added Tax (VAT) system plays an important role in Europe's Single Market. It was originally put in place to do away with turnover taxes which distorted competition and hindered the free movement of goods and to remove fiscal checks and formalities at internal borders. It is a major and growing source of revenue in the EU, raising almost EUR 1 trillion in 2014, corresponding to 7% of EU GDP. One of the EU's own resources is also based on VAT. As a consumption tax, it is one of the most growth-friendly forms of taxation.

But the VAT system has been unable to keep pace with the challenges of today's global, digital and mobile economy. The current VAT system, which was intended to be a transitional system, is fragmented, complex for the growing number of businesses operating cross-border and leaves the door open to fraud: domestic and cross-border transactions are treated differently and goods or services can be bought free of VAT within the Single Market.

The Commission has consistently pressed for the reform of the VAT system. We have listened to the European Parliament and the Council, which both agreed that any future VAT system should be based on the principle of destination, i.e.: where the goods or services are consumed.

Today's Action Plan is part of the Commission's [Better Regulation](#) agenda.

Next Steps

The Commission will ask the European Parliament and the Council, supported by the European Economic and Social Committee, to provide clear political guidance on the options put forward in this Action Plan and to confirm their support for the reforms set out in this Communication.

The Commission will present proposals on all issues in 2016 and 2017.

For more information:

[Information on the Action Plan on VAT](#)

[Memo](#) on the Action Plan on VAT

[Communication on the Action Plan on VAT](#)

IP/16/1022

Attachments

[VAT factsheet.pdf](#)