VAT Expert Group opinion of EU Action Plan for VAT

Indirect Tax

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The EU Commission has published the opinion of the VAT Expert Group on its Action Plan for VAT.

The EU's action plan for VAT provides, among other things, for:

- The adoption of measures to tackle the increasing size of the 'tax gap' in VAT in Europe;
- The creation of a robust, fair and efficient VAT system based on the destination principle.

Plans for the VAT system include the possibility of more flexibility in setting rates by member states: for example, the UK would be able to set a zero-rate for women's sanitary products, which is not permitted under the current rules.

It is also intended to tax goods and services moving within Europe in the same way as domestic transactions.

A few years ago the European Commission set up the VAT Expert Group (VEG) to advise it. The CIOT has had a representative, Tarlochan Lall, on the VEG for about three-and-a-half years. Tarlochan has been heavily involved in the VEG's consideration of the EU VAT Action Plan and the opinion, which was recently published by the commission.

The VEG welcomes the action plan's publication and the proposals to explore how to implement the destination system for VAT. However, it calls on all stakeholders, not only member states and the commission, but also businesses to:

- use existing measures to tackle fraud;
- co-operate to resolve problems relating to fraud; and

- actively and timeously work towards a better VAT system.

On the first two points, we have consistently pointed out that tackling fraud by imposing additional burdens on compliant businesses and penalising them if fraud takes place does not solve the problem and may indeed exacerbate it since fraudsters may believe that they will not suffer the consequences of their acts. With the adoption of a destination system, harmonisation of rates may be less important, although it may encourage an element of cross-border shopping. Nevertheless, the VEG has agreed in principle that some flexibility should be possible without creating market distortions.

The VEG does, however, point out that, in principle, the system should be the same throughout the bloc and that member state-specific approaches, even temporarily, would put at risk the development of a 'coherent, harmonized and fraud proof VAT system …'.

We continue to take an active part in discussions on the action plan, and this includes working with the Confédération Fiscale Européenne. Readers are welcome to make their views known to the indirect taxes technical officers at indirecttax@ciot.org.uk.