Implementing the ‘destination principle’ to intra-EU B2B supplies of goods

Feasibility and economic evaluation study

Final Report

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Abbreviations

B2B	Business to Business
B2C	Business to Customer (not VAT registered)
CTP	Certified Taxable Person
EC	European Commission
e.g.	exempli gratia
EKAER	Electronic Public Road Trade Control System [Hungary]
EORI	Economic Operator Registration and Identification
etc.	et cetera
EU	European Union
EUR	Euro
FTE	Full Time Equivalent
GDP	Gross Domestic Product
i.e.	id est
MOSS	Mini One-Stop Shop
MTIC	Missing Trader Intra-Community
NRT	Non-Resident Trader
OSS	One-Stop Shop
OECD	Organisation for Economic Co-Operation and Development
SME	Small-Medium Enterprises
UNECE	United Nations Economic Commission for Europe
VAR	Vector Autoregression
VAT	Value Added Tax

Glossary of terms

Administrative costs	In this report, administrative costs for a Member State Tax Authority will include costs relating to the following activities: processing VAT registrations, undertaking VAT audits, reviewing VAT returns, reviewing EC Sales Lists (recapitulative statements), helpline and written query handling, and the implementation of new legislation.
Cash accounting	Cash accounting is where businesses account for VAT when income is received and invoices are paid.
Call-off stock	A call-off stock transaction occurs when a supplier transfers his goods to a warehouse in a Member State where he has no permanent or fixed establishment. The customer's identity is known at the time of transfer and they will remove the goods from the warehouse.
Certified Taxable Person (CTP)	A Certified Taxable Person is a certified status introduced under two of the proposed VAT policy options whereby a taxable person is designated as the party responsible for payment of VAT in a Member State where the supplier is not established but in which the tax is due by them.
Chain transaction	A chain transaction is a cross-border transaction involving four or more parties.
Compliance costs	For the purposes of this report, compliance costs for businesses will include costs relating to the following activities: registration for VAT, completion of periodic VAT returns, dealing with a VAT audit, obtaining customer's VAT registration details, completing recapitulative statements, and obtaining proof of the intra-EU movement of goods.
Consignment stock	A consignment stock transaction occurs when a supplier transfers goods to a warehouse in a Member State where it has no permanent or fixed establishment. The customer will remove the goods from the warehouse but their identity is not known at the time of the initial transfer by the supplier.
EC Sales List	An EC Sales List (also known as 'recapitulative statement') is a reporting obligation that usually requires businesses to report the value of sales and/or purchases with other businesses in the EU.
Full Time Equivalent (FTE)	A Full Time Equivalent is a unit that indicates the workload of an employed person of a business or the Member State Tax Authority. For the purposes of this report, it is defined as forty hours per week.
Fixed establishment	A 'fixed establishment' is any establishment characterised by a sufficient degree of permanence and a suitable structure in terms of human and technical resources to enable it to provide the services which it supplies, as stated in Article 11 of Council Implementing Regulation 282/2011/EU.

Large business	For the purposes of this report, a large business is defined as a business with a turnover exceeding EUR 50 million, having more than 250 employees, and possessing VAT registration in six or more Member States. For further detail of the definition of a large business, please see section 3.1.2.
Mark-up	The difference between the cost of a good or service and its selling price.
Median	The median is the number separating the higher half of a data sample, a population, or a probability distribution, from the lower half.
Micro business	For the purposes of this report, a micro-business is a business which has fewer than ten employees and a turnover or balance sheet total of less than €2 million.
Mini One Stop Shop (MOSS)	The Mini One Stop Shop is a mechanism through which suppliers can account for VAT at the rate applicable in a Member State other than where they are established. For the purposes of this report, the Mini One Stop Shop is more limited in its coverage of supplies than the One-Stop Shop. Please see definition of One-Stop Shop.
MTIC fraud	MTIC fraud occurs when a fraudulent business (or "missing trader") purchases goods from a supplier located in another EU Member State. The missing trader then sells the goods to a business in its Member State and charges VAT. The purchaser, who may be an innocent party, reclaims the VAT charged by the missing trader. The missing trader then disappears without paying the VAT to the Tax Authorities of the Member State in which the VAT is due.
MTIC fraud gap	The MTIC fraud gap is a component of the VAT gap that can be directly attributed to MTIC fraud.
Non-Resident Trader (NRT)	Non-Resident Traders are businesses who sell goods to customers based in Member States in which they do not have a fixed establishment.
One-Stop Shop (OSS)	The One-Stop Shop is a mechanism through which suppliers can account for VAT at the rate applicable in a Member State other than where they are established and at the same time recover VAT incurred in Member States where they are not established. VAT is accounted for and paid through a One-Stop Shop return. A One-Stop Shop clearing system is a system through which Member States can collect and remit VAT payments to the applicable Member State where it is due.
Primary research/data	Primary research consists of a collection of original primary data collected by the researcher (for example, a survey).
Recapitulative statement	See 'EC Sales List'.
Reverse charge	For the purposes of this report, the reverse charge

	mechanism is where a taxable person receives goods or services from a business not established in the same Member State, the taxable person is required to self-assess the appropriate amount of VAT on the acquired good or service and is entitled to recover the VAT to the extent that they are entitled to do so.
Secondary research/data	Secondary data is data collected by someone other than the user (for example, data published by Eurostat).
SME Type 1	For the purposes of this report, an SME (Small, Medium Enterprises) Type 1 business is defined as a business with a turnover of less than EUR 50 million, having less than 250 employees, and a single VAT registration in their Member State of establishment. For further detail of the definition of an SME Type 1 business, please see section 3.1.2.
SME Type 2	For the purposes of this report, an SME (Small, Medium Enterprises) Type 2 business is defined as a business with a turnover of less than EUR 50 million, having less than 250 employees, and VAT registrations in more than one (but less than six) Member State. For further detail of the definition of an SME Type 2 business, please see section 3.1.2.
Tax experts' survey	The tax experts' survey is a survey of tax experts from across the EU.
Triangulation	A triangular cross-border transaction is one involving three parties.
VAR model	A VAR model is used to capture the historical relationships between multiple time series.
VAT Gap	The VAT Gap is defined as the difference between the theoretical VAT liability and the actual value of VAT collected by Member States' Tax Authorities.

Abstract

The European Commission has identified two fundamental issues with the current model of taxation: namely the additional compliance costs borne by businesses that conduct cross-border trade when compared to those businesses that only trade domestically and the occurrence of VAT fraud. The European Commission has commissioned EY to conduct a study of five policy options designed to enable the implementation of a destination based VAT system across the EU that to some extent addresses these issues.

As part of the study, EY has gathered information from businesses, tax experts, Member States' Tax Authorities and additional sources in order to make a comparison against the current "As Is" taxation model and also determine the impact of the implementation of each of the five proposed policy options.

This information aims to assess the impact of the five policy options from both a qualitative and quantitative perspective. To this end, information has been obtained on business compliance costs, tax administration costs, cash flow costs, VAT fraud implications, legislative implications and aspects of practical implementation for each of the five proposed policies.

In addition to the collection and analysis of this information, EY has provided a conclusion as to whether the policy options have a potential to address the two fundamental issues and what (if any) impact there will be on the European economy as a whole.

Résumé

La Commission Européenne a identifié deux problèmes principaux induits par le modèle d'imposition actuel : les coûts de conformité supplémentaires supportés par les entreprises qui réalisent des opérations transfrontalières, comparé à celles qui sont uniquement actives sur leurs marchés domestiques, ainsi que l'apparition de fraude à la TVA. La Commission Européenne a commandité à EY une étude concernant cinq options stratégiques dont le but serait de permettre la mise en place au sein de l'Union Européenne d'un système de TVA basé sur un principe de destination, qui permettrait dans une certaine mesure de résoudre ces problèmes.

Dans le cadre de cette étude, EY a recueilli des informations d'entreprises, d'experts en fiscalité, d'autorités fiscales des Etats Membres ainsi que d'autres sources afin de pouvoir effectuer une comparaison avec le modèle fiscal actuel et d'évaluer l'impact qu'aurait la mise en place des cinq régimes proposés.

Ces informations ont pour but de mesurer les conséquences des cinq options proposées, aussi bien d'un point de vue qualitatif que quantitatif. Dans cette optique, des informations ont été récoltées en ce qui concerne les coûts liés aux obligations déclaratives, les coûts de gestion administrative et fiscale, les coûts liés au préfinancement de la taxe, les implications législatives et les aspects pratiques de la mise en place des cinq options proposées.

En plus de la collecte et de l'analyse de ces informations, EY a transmis ses conclusions quant au fait de savoir si ces options ont permis de résoudre les deux problèmes principaux, et quels seront leurs éventuels impacts sur l'économie européenne dans son ensemble.

Inhaltsangabe

Die Europäische Kommission hat zwei grundsätzliche Probleme mit dem gegenwärtigen Besteuerungsmodell festgestellt: Einerseits die zusätzlichen Befolgungskosten, die denjenigen Steuerpflichtigen entstehen, die grenzüberschreitend handeln, im Vergleich zu den Steuerpflichtigen, die nur im Heimmarkt tätig sind, und andererseits die Betrugsanfälligkeit des Systems. Die Europäische Kommission hat EY beauftragt, fünf Besteuerungsmodelle zu

untersuchen, die die Umsetzung eines MwSt-Systems nach dem Bestimmungslandprinzip in der EU ermöglichen würden und damit diese Probleme bis zu einem gewissen Grad lösen könnten.

Im Rahmen der Studie befragte EY Unternehmen, Steuerexperten, die Steuerbehörden der Mitgliedstaaten und weitere Quellen, um einen Vergleich der fünf vorgeschlagenen Modelle mit dem gegenwärtigen System zu machen und um die Auswirkungen der Implementierung dieser Modelle zu untersuchen.

Die gesammelten Informationen sollen die Auswirkungen der fünf Modelle sowohl in qualitativer wie in quantitativer Hinsicht beurteilen. Zu diesem Zweck wurden Daten über die Befolgungskosten der Unternehmen, die Kosten der Steuerbehörden, Cash-flow Kosten, Auswirkungen auf den MwSt-Betrug, gesetzgeberische Auswirkungen und über Aspekte der praktischen Umsetzung für jedes der fünf vorgeschlagenen Modelle erhoben.

Neben der Sammlung und Analyse dieser Daten enthält die Studie Schlussfolgerungen dazu, inwieweit die Modelle die beiden grundsätzlichen Probleme zu lösen vermögen, und welche Auswirkungen (wenn überhaupt) sie auf die europäische Wirtschaft als Ganzes haben würden.

Executive Summary

Introduction

Since 1967, the EU has been committed to a system of Value Added Tax (VAT) based on the principle of taxation in the Member State of origin (where the supplier is established). However, in its "Communication on the Future of VAT"[1], the Commission services concluded that there was no longer political support for keeping the origin system of taxation as an objective.

Issues with the existing system of taxation

Two fundamental issues were identified with the current taxation system. These are:

1. The additional obligations and costs associated with VAT compliance for businesses engaging in cross-border trade.
2. The existing levels of VAT fraud within the EU through fraudulent transactions such as MTIC ('Missing Trader Intra-Community') fraud[2] (also known as carousel fraud).

According to the findings of this study, the costs associated with complying with cross-border VAT obligations are 11% higher than the VAT compliance costs associated with domestic trade. High costs and obligations associated with cross-border VAT compliance can deter businesses from engaging in intra-EU trade, and this can have significant implications for levels of trade across the EU as a whole. This matter needs to be addressed if the EU growth strategy for the coming decade, Europe 2020, is to be achieved, as this has highlighted the importance of improving the business environment including the reduction in tax compliance cost, so that European businesses are more competitive globally[3].

Furthermore recent studies have concluded that in relative terms (e.g. measured per employee or compared to turnover), small companies bear a disproportionate regulatory/compliance burden. On average, a company with fewer than ten employees has to face a regulatory burden that is roughly twice as high as the burden of a company with more than ten but fewer than twenty employees. The burden becomes about three times as high when compared with the burden of companies with more than twenty but fewer than fifty employees. For bigger companies, the burden per employee is only one fifth or one tenth of that of small enterprises[4].

There are 21.6 million SMEs[5] (non-financial sector) across the EU, employing 88.8 million people and generating EUR 3.67 trillion in value, 58 cents in every Euro of value added is generated by this sector[6]. SME's are crucial to the European economy. It is therefore important that any proposed policy option does not increase the cost of compliance for this business type.

High levels of VAT fraud represent a major cost to Member States through lost tax revenue, as well as potentially to any businesses which become unknowingly involved in a fraudulent supply chain. MTIC fraud alone is responsible for a VAT revenue loss of

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[1] Communication from the Commission to The European Parliament, The Council and The European Economic and Social Committee on the future of VAT dated 6 December 2011.

[2] MTIC fraud occurs when a fraudulent business (or "missing trader") purchases goods from a supplier located in another EU Member State. The missing trader then sells the goods to a business in its Member State and charges VAT. The purchaser, who may be an innocent party, reclaims the VAT charged by the missing trader. The missing trader then disappears without paying the VAT to the Tax Authorities of the Member State in which the VAT is due

[3] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF

[4] http://ec.europa.eu/enterprise/policies/sme/files/support_measures/taxsimple/taxsimp_en.pdf

[5] The relative split of businesses is SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013 in terms of GVA was estimated from a Eurostat study which provided a split for SME and large businesses. Source: Eurostat, Enterprise and Industry.

[6] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf

approximately EUR 45 billion to EUR 53 billion annually[7]. Given the current fragile economic and financial climate, a reduction of VAT fraud could provide governments with the additional tax revenues that they need without the need to further increase the tax burden on consumers.

Failure to tackle the first of these fundamental issues will inhibit businesses' ability to take full advantage of the single market and negatively impacts the European economy. By tackling VAT fraud through systemic change Member States have the opportunity to implement a more robust VAT system and at the same time boost revenues.

For these reasons a number of alternative concepts for a properly functioning destination-based EU system of VAT were considered.

Proposed policy options

The Commission services selected five options (in addition to maintaining the current system, referred to as the "As Is") to be examined:

- Option 1 – Improving the current rules without modifying them fundamentally. This is referred to as *'limited improvement of current rules'* for the remainder of this report;
- Option 2 – Adapting current rules whilst still following the flow of the goods with the supplier charging the VAT of the Member State of destination. This is referred to as *'taxation following the flow of goods'*;
- Option 3 – Adapting current rules whilst still following the flow of goods with the reverse charge mechanism. This is referred to as *'reverse charge following the flow of goods'*;
- Option 4 – Aligning with the rules governing the place of supply of services with the reverse charge mechanism. This is referred to as *'alignment with the place of supply of services'*; and
- Option 5 – Aligning with the contractual flow with the supplier charging the VAT of the Member State of destination. This is referred to as *'taxation following the contractual flow'*.

These options have been reviewed in order to determine whether they address the two fundamental issues stated above. They have also been reviewed with regard to other aspects that were deemed worthy of consideration, namely a legislative assessment to confirm that there would be no legislative barriers to implementation, VAT reporting requirements to confirm if the options adequately dealt with issues identified with the current "As Is" model, the impact on Member States administrations costs, and lastly the impact (if any) on the European economy.

Scope of the study

The assessment has been evaluated in terms of the impacts that the proposed changes would have on the functioning of the VAT system in general and the associated legislative, reporting, business compliance, tax administration, cash flow and VAT fraud implications.

Moreover, the economic impacts of the implementation of the options in terms of quantifying the effects on macroeconomic variables have also been evaluated.

Limitations of the study

The findings in this study are sensitive to the opinions of a sample of business respondents, tax officials and tax experts on questions that do not cover every

[7] This estimate is based on an analysis of the VAT fraud gap in the VAT Gap study commissioned by the European Commission.

possible element that might be required in order to fully assess the implications of the current and proposed policy options.

Therefore, the information is not presented as, or intended to be, precise, incontrovertible evidence. As with sample based research, it reflects the perceptions of the respondents on expected impacts under these hypothetical policy scenarios that they are yet to be faced with.

There are a number of assumptions on what businesses will do with savings in compliance costs. Since this is a cross-border exercise, the focus is on cross-border trade and a plausible assumption is that in an increasingly global market, price competitiveness is an ambition of EU traders. On this basis we have, in discussions with the Commission services, made the assumption that this saving will be used to boost competitiveness via dispatch price reductions.

Finally, it is difficult to predict how each EU Member State will utilise the increased tax revenues from a reduction in VAT fraud. Therefore, an assumption of revenue neutrality through a reduction in the rate of VAT is considered a possibility.

Compliance cost analysis

As part of the compliance cost analysis, three different types of businesses were considered: SME Type 1 businesses[8], SME Type 2 businesses[9], and large businesses[10].

Option 4 ('alignment with the place of supply of services') is estimated to generate the most significant compliance cost savings for all types of businesses analysed. In aggregate, the monetary impact across all businesses is EUR 2.69 billion.

A notable observation of the assessment of Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow') was that the implementation of the One-Stop Shop (OSS)[11] could result in cost increases for SME Type 1 businesses in the year of implementation and annually post implementation. However, with respect to SME Type 2 and large businesses, cost savings are expected in the year of implementation as well as on an ongoing basis. On an aggregated basis the monetary impact across all businesses is between EUR 1,114 million and EUR 938 million for Option 2 ('taxation following the flow of goods'), Scenario 1 (standard VAT rate applied to all intra-EU supplies of goods) and Scenario 2 (standardisation of reduced VAT rates) respectively, and EUR 1,328 million and EUR 1,008 million for Option 5 ('taxation following the contractual flow'), Scenario 1 and Scenario 2 respectively.

Option 3 ('reverse charge following the flow of the goods') will also generate cost savings for all business types albeit these are lower in scale when compared to Option 2 ('taxation following the flow of goods'), Option 4 ('alignment with the place of supply of services') and Option 5 ('taxation following the contractual flow').

Option 1 ('limited improvement of the current rules') will only impact a limited number of businesses; an estimate of the maximum percentage of businesses positively impacted by the implementation of Option 1 is 13%. In addition, it may result in reduced benefits in those Member States that have already implemented elements of this option. As a result of this the positive monetary impact of this option is significantly less than the other options.

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[8] An SME Type 1 business is defined as a business with a turnover of less than EUR 50 million, having less than 250 employees, and a single VAT registration in their Member State of establishment.

[9] An SME Type 2 business is defined as a business with a turnover of less than EUR 50 million, having less than 250 employees, and VAT registrations in more than one (but less than six) Member States.

[10] A large business is defined as a business with a turnover exceeding EUR 50 million, having more than 250 employees, and possessing VAT registration in six or more Member States.

[11] The One-Stop Shop is a mechanism through which suppliers can account for VAT at the rate applicable in a Member State other than where they are established and at the same time recover VAT incurred in Member States where they are not established. VAT is accounted for and paid through a One-Stop Shop return. A One-Stop Shop clearing system is a system through which Member States can collect and remit VAT payments to the applicable Member State where it is due.

Table 1 shows a summary of the anticipated net percentage and monetary costs changes under each policy option for each business type as well as an "all business" aggregate.

Table 1: Summary of the cost impacts of policy options

Summary	SME Type 1		SME Type 2		Large Business		All Businesses[12]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Option 1[13]	-4%	-5%	-36%	-29%	-40%	-37%	-25%	-23%
Option 2 (scenario 1)[14]	14%	5%	-7%	-18%	-5%	-12%	2%	-6%
Option 2 (scenario 2)[15]	15%	6%	-7%	-17%	-5%	-11%	3%	-5%
Option 3	0%	-3%	-3%	-7%	-3%	-7%	-2%	-5%
Option 4	-4%	-5%	-20%	-20%	-23%	-23%	-15%	-15%
Option 5 (scenario 1)[14]	11%	3%	-10%	-18%	-6%	-13%	0%	-8%
Option 5 (scenario 2)[15]	14%	5%	-7%	-17%	-4%	-11%	3%	-6%
Monetary impact (million EUR)								
Option 1[16]	-36	-46	-151	-121	-383	-355	-571	-522
Option 2 (scenario 1)[14]	981	350	-225	-580	-369	-885	386	-1,114
Option 2 (scenario 2)[15]	1,051	420	-225	-548	-369	-811	457	-938
Option 3	0	-210	-97	-225	-221	-516	-318	-952
Option 4	-280	-350	-644	-644	-1,696	-1,696	-2,620	-2,690
Option 5 (scenario 1)[14]	770	210	-322	-580	-442	-959	6	-1,328
Option 5 (scenario 2)[15]	981	350	-225	-548	-295	-811	460	-1,008

Source: EY

[12] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

[13] The implementation of this option would only affect approximately 13% of businesses across EU. The estimates in the table are not adjusted for this.

[14] Scenario 1 related to the situation where a standard VAT rate is applied to all intra-EU supplies of goods (i.e., reduced rate is removed).

[15] Scenario 2 relates to a situation where the definitions of products eligible for reduced VAT rates are standardised.

[16] The cost impact reported in Table 1 reflects the fact that only 13% of businesses benefit from the implementation of this option.

Also, for Option 2 (‘taxation following the flow of goods’) and Option 5 (‘taxation following the contractual flow’), a cash flow analysis was carried out due to the requirement for businesses to levy and collect VAT on transactions where previously no cash may have been received or paid. The analysis identified that where a business is in a net payment position on its One-Stop Shop (OSS) return, and it has received payment from its customer, then it will benefit from a positive cash flow due to receiving VAT from its EU customers and holding this VAT until the One-Stop Shop filing deadline. On the other hand, where a business is in a net repayment on its One-Stop Shop return, the business will experience a negative cash flow position under this option; this is due to paying VAT to its EU supplier and not being able to benefit from an immediate right of deduction.

Impact on VAT fraud

MTIC Fraud is occurring on a substantial scale across the EU. Indicative estimates of the size of fraud arising from MTIC transactions according to this analysis ranges from EUR 45 billion to EUR 53 billion annually.

Under Option 1 (‘limited improvement of current rules’) and Option 3 (‘reverse charge following the flow of goods’), no significant changes are expected to reduce the current scale of fraud arising from MTIC transactions. Therefore, from the perspective of a person wishing to commit VAT fraud, the proposed legislative changes should not materially positively or negatively impact the current level of fraud carried out by MTIC or diversion.

Under Option 4 (‘alignment with the place of supply of services’), it was identified that a new exposure to fraud may arise. This is due to the fact that the Member State of destination of the goods may be different to the Member State where the VAT is required to be reported. As such, Member States’ Tax Authorities have a reduced ability to identify and reduce the occurrence of fraud.

However, under Option 2 (‘taxation following the flow of goods’) and Option 5 (‘taxation following the contractual flow’), though there will still be an opportunity for MTIC fraud to be perpetrated, it is anticipated that this will be significantly reduced in scale. The magnitude of this reduction will be influenced by a number of factors, one of which is the level of the mark-up[17] applied by businesses on their purchases.

According to estimates in this study, and assuming a uniform mark-up on cross-border goods by businesses across the EU[18], under the implementation of either of these two options, the MTIC gap[19] could shrink to an estimated EUR 8 billion, a reduction of VAT fraud of EUR 41 billion (83%). This is equivalent to 4.53% of the total VAT revenues and 0.31% of the GDP in the EU.

Table 2 shows the net monetary impact of each option on EU Member States’ Tax Authorities in terms of anticipated administrative costs changes, cash flow and VAT fraud.

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[17] The difference between the cost of a good or service and its selling price
[18] 20% manufacturing sector mark-up is used based on the European Central Bank working paper: “Mark-ups in the euro area and the US over the period 1981-2004. A comparison of 50 sectors”.
[19] The MTIC fraud Gap is a component of the VAT gap that can be directly attributed to MTIC fraud.

Table 2: Estimated net monetary benefits (EUR millions)

Policy Options	Option 1	Option 2	Option 3	Option 4	Option 5
Implementation					
Admin costs – implementation	-79	-239	-88	-154	-230
Annual ongoing					
Admin costs – annual	-35[20]	-182	-43	-82	-236
Cash flow impact	-	2,397	-	-	2,397
VAT fraud impact	-	41,130	-	-	41,130
Net impact[21]	-35	43,345	-43	-82	43,290

Source: EY

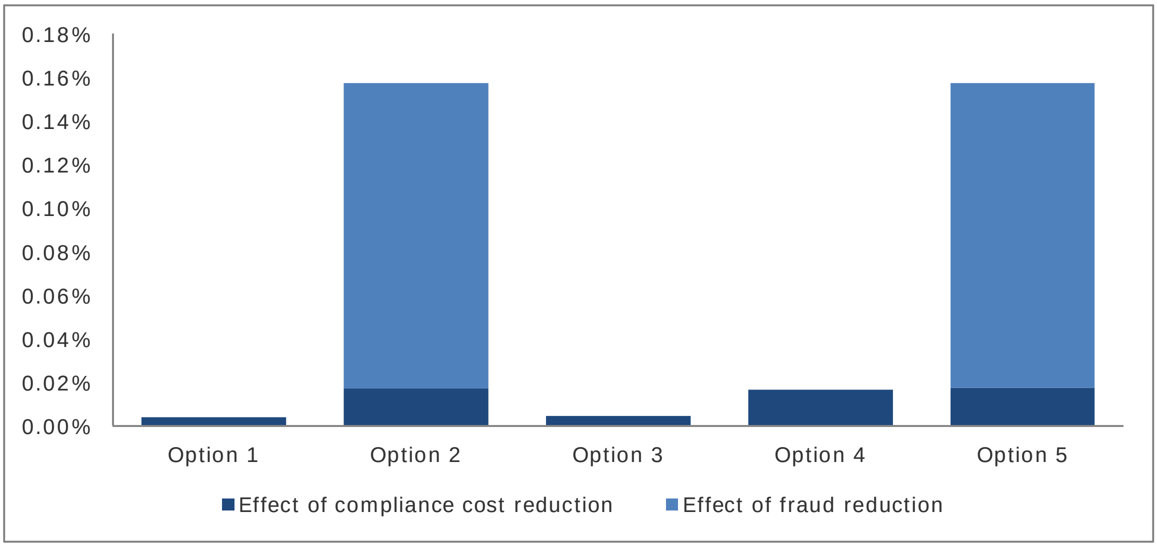
Economic analysis

From an economic impact perspective, for Option 1 (‘limited improvement of current rules’), Option 3 (‘reverse charge following the flow of goods’) and Option 4 (‘alignment with the place of supply of services’), the hypothesis is that compliance costs will be reduced but there will be no material reduction in the level of MTIC fraud. On this basis, the analysis shows that these options would have a relatively small but positive effect on the EU economy.

Options 2 (‘taxation following the flow of goods’) and 5 (‘taxation following the contractual flow’), unlike the other options, assume a reduction in VAT fraud in addition to businesses’ compliance cost savings. This additional assumption is estimated to create a further boost to the EU economy that is not forecast for Option 1 (‘limited improvement of current rules’), Option 3 (‘reverse charge following the flow of goods’) and Option 4 (‘alignment with the place of supply of services’).

Therefore Option 2 (‘taxation following the flow of goods’) and Option 5 (‘taxation following the contractual flow’) are the options that generate the biggest impact on the EU economy. According to the economic model estimates, either of these two options is expected to increase EU GDP by EUR 18.5 billion over the 3 year period (2014 to 2016), compared to the current state.

Figure 1: Differences of the EU 3-year cumulative per capita real GDP growth from the baseline



Source: EY

[20] A negative figure provided in this table refers to a cost increase.
[21] The net impact only considers annual costs hence excludes the implementation costs.

However, in this context it must be emphasised that the economic analysis favours Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow') primarily due to the assumption that the expected additional VAT revenues from a reduction in the scale of VAT fraud is used to fund a VAT rate reduction. When the implication of the fraud reduction on the economic outcomes is disregarded, Option 2 ('taxation following the flow of goods'), Option 4 ('alignment with the place of supply of services') and Option 5 ('taxation following the contractual flow') are estimated to generate similar impacts on real GDP.

A caveat to the results is that the compliance cost savings and the reduction in VAT fraud could well be higher; this is because the compliance cost estimates do not consider further cost savings that may occur in subsequent years due to increased compliance efficiencies while the VAT fraud reduction estimates do not include reduction in diversion fraud[22]. As a result, the economic impact estimated is considered to be conservative.

Legislative assessment

Based on the analysis, the study concludes that there are no significant legislative obstructions with regards to implementing any of the five policy options.

VAT reporting assessment

This assessment reviewed how the VAT reporting requirements would change under the options for various supply chains. Furthermore, it was considered whether there would be an overall increase or decrease in the VAT reporting obligations.

All of the options, with the exception of Option 3 ('reverse charge following the flow of goods') resulted in either a nil, slightly increased or slightly reduced reporting obligations depending on the supply chain (B2B supply, transaction involving three or more parties, etc.) that was considered.

Option 3 ('reverse charge following the flow of goods') was identified as resulting in either a nil effect or potentially an increase in reporting obligations under each different supply chain.

The assessment also reviewed if four issues relating to the current "As Is" model which have been identified as obstructive to B2B trade for businesses have been adequately addressed. These are:

- The lack of consistency regarding the evidence required to exempt a B2B intra community supply;
- The possibility of the supplier having to register for VAT in multiple EU Member States due to the lack of harmonisation and implementation of the call-off and consignment stock simplifications;
- The lack of consistency in how Member States have implemented the triangulation simplification rule; and
- The difficulty in determining which supply in a chain transaction (involving four or more parties) should be treated as the exempt intra-community supply.

Option 3 ('reverse charge following the flow of the goods') did not address any of the legislative issues that were identified in this study. Option 1 ('limited improvement of current rules') addressed the majority of the issues, but with the exception of the consistency of rules applied to triangular transactions. Option 2 ('taxation following the flow of goods'), Option 4 ('alignment with the place of supply of services') and Option 5 ('taxation following the contractual flow') addressed the four legislative issues identified in respect of the current "As Is" model.

[22] See section 7.3.

VAT administrative costs of Member States

When the options are assessed from the perspective of Member States' Tax Authorities, Option 1 (''limited improvement of current rules') is reported to have the lowest costs of administration, as this has the lowest cost of implementation. This may be due to the fact that some Member States have already implemented elements of this option.

With regards to labour costs, under the remaining options, the majority of respondents estimate some additional FTE requirement in the year of implementation. However, only Option 5 ('taxation following the contractual flow') reported a requirement for additional FTEs in the years post implementation.

When non labour costs were assessed, the implementation of IT systems was associated with the most significant cost increase expectations under Option 2 ('taxation following the flow of goods'), Option 4 ('alignment with the place of supply of services') and Option 5 ('taxation following the contractual flow').

In addition, for Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow'), a cash flow analysis was carried out as a result of the requirement for Tax Authorities to collect VAT on the cross-border movements of goods between businesses that previously would have been exempt. Based on the 2013 trading levels between each Member State, it was identified that for Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow') the majority of Member States would have a cash flow benefit. This is due to Member States receiving and holding VAT for a period of time before businesses in their local Member State seek to recover the VAT on their domestic VAT return.

Conclusion

In assessing which option, if any, may be selected in order to be pursued in greater detail, the performance of each option across the various areas of assessment was considered.

With regard to the fundamental objective of a reduction in VAT compliance costs associated with cross-border trade, Option 4 ('alignment with the place of supply of services') achieves the most significant reduction in compliance costs. Option 3 ('reverse charge following the flow of goods') also meets this objective, albeit that the magnitude of the monetary savings achieved is not as significant. Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow') meet the objective in terms of compliance cost reductions for SME Type 2 and large businesses but generate an increase in compliance costs for SME Type 1 businesses. On an aggregated basis however the savings generated are better than Option 3 ('reverse charge following the flow of goods'). Option 1 ('limited improvement of current rules') will only be of benefit to a small percentage of the business population, approximately 13% and as such on an aggregated basis the monetary impact is significantly smaller than the other options.

Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow') are the only options that address the second fundamental objective of this study which is a reduction in the scale of VAT fraud in the EU. A reduction of VAT fraud of EUR 41 billion per annum is estimated for both options.

It is also worth noting that Option 2 ('taxation following the flow of goods'), Option 4 ('alignment with the place of supply of services') and Option 5 ('taxation following the contractual flow') address the reporting issues identified as being problematic with the current "As Is" model. The other options did not address all of these issues.

Table 3 below shows which options performed strongly in each of the criteria assessed. A tick has been used to indicate which of the five policy options performed strongly for compliance cost reduction, VAT fraud reduction, administrative cost reduction, reporting requirement reduction and positive economic impact.

Table 3: Comparison of policy options

Policy Options	Compliance cost	VAT fraud	Administrative cost	Reporting requirement	Economic impact
Option 1			✓		
Option 2		✓		✓	✓
Option 3					
Option 4	✓			✓	
Option 5		✓		✓	✓

Source: EY

Résumé Exécutif

Introduction

Depuis 1967, l'UE a prôné un système de Taxe sur la Valeur Ajoutée (TVA) fondé sur le principe de l'imposition dans l'Etat membre d'origine (où le fournisseur est établi). Cependant, dans leur «Communication sur l'avenir de la TVA»[23], les services de la Commission sont parvenus à la conclusion qu'il n'existait plus d'appui politique pour conserver comme objectif le principe de l'imposition dans l'Etat membre d'origine.

Problèmes identifiés dans le modèle d'imposition actuel

Deux problèmes principaux ont été identifiés dans le modèle d'imposition actuel:

1. Les obligations et les coûts additionnels liés à la gestion administrative de la TVA, supportés par les entreprises qui réalisent des opérations transfrontalières ;
2. Les niveaux actuels de fraude à la TVA dans l'UE, à travers la mise en place de transactions frauduleuses comme la fraude intracommunautaire à l'opérateur défaillant[24] (aussi connue sous le nom de fraude carrousel).

D'après les résultats de cette étude, les coûts associés au respect des obligations TVA dans les opérations transfrontalières sont supérieurs de 11% aux mêmes coûts induits par des opérations nationales. Les coûts et les obligations élevés associés à la gestion administrative de la TVA dans un contexte international peuvent décourager les entreprises de se lancer dans des opérations intracommunautaires, ce qui peut avoir des implications significatives sur le niveau général des échanges commerciaux dans l'UE. Ce point devra être résolu si l'on veut respecter le plan de croissance de l'UE pour la décennie à venir, Europe 2020, celui-ci ayant souligné l'importance d'améliorer l'environnement des entreprises, notamment en diminuant les coûts de conformité fiscale afin de rendre les entreprises européennes plus compétitives au niveau mondial[25].

De plus, de récentes études ont montré qu'en adoptant une approche relative (ex. mesures par employé ou en comparaison avec le chiffre d'affaires), les petites entreprises supportent une charge réglementaire/de conformité disproportionnée. En moyenne, une entreprise de moins de dix salariés doit supporter une charge réglementaire environ deux fois plus importante que celle d'une entreprise dont le nombre de salariés est compris entre dix et vingt. Cette charge est même trois fois plus importante que celle supportée par des entreprises de vingt à cinquante salariés. Pour les plus grandes entreprises, la charge par employé est cinq ou dix fois plus faible que celle des petites entreprises[26].

Il y a 21.6 millions de PME[27] (hors industrie financière) dans l'UE, qui emploient 88.8 millions de personnes et génèrent en valeur 3'670 milliards d'euros. Pour chaque euro, 58 centimes de valeur ajoutée sont générés par ce secteur[28]. Les PME sont essentielles pour l'économie européenne. Il est donc important que chaque option

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[23] Communication de la Commission au Parlement Européen, au Conseil et au Comité Économique et Social Européen sur l'avenir de la TVA, datée du 6 décembre 2011.

[24] La fraude intracommunautaire à l'opérateur défaillant - fraude carrousel - est caractérisée lorsqu'une entreprise frauduleuse (ou « l'opérateur défaillant ») achète des biens auprès d'un fournisseur localisé dans un autre Etat membre de l'UE. L'opérateur défaillant revend ensuite ces biens à entreprise dans le même Etat membre et facture la TVA. L'acheteur, qui peut être un tiers de bonne foi, récupère la TVA payée via la procédure normale. L'opérateur défaillant disparaît ensuite sans payer la TVA aux autorités fiscales de l'Etat membre dans lequel cette TVA est due.

[25] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:FR:PDF

[26] http://ec.europa.eu/enterprise/policies/sme/files/support_measures/taxsimple/taxsimp_en.pdf

[27] La part relative dans l'UE en 2013 des PME de Type 1 (39.8%), des PME de Type 2 (18.3%) et des grandes entreprises (41.9%) en termes de valeur ajoutée brute provient d'un rapport Eurostat qui a fourni une répartition entre les PME et les grandes entreprises. Source : Eurostat, Entreprise et Industrie.

[28] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf

stratégique proposée n'augmente pas les coûts de conformité que doivent supporter ces entreprises.

Des niveaux de fraude à la TVA élevés représentent pour les Etats membres un coût majeur lié à la perte de revenus fiscaux, et peuvent aussi générer un coût pour les entreprises impliquées sans le savoir dans une chaîne d'opérations frauduleuses. La fraude carrousel est responsable à elle seule d'une perte annuelle de recettes de TVA de 45 à 53 milliards d'euros[29]. Au regard de la fragile conjoncture économique et financière actuelle, une diminution de la fraude à la TVA pourrait apporter aux gouvernements les ressources fiscales dont ils ont besoin, sans alourdir la charge fiscale pesant sur les consommateurs.

Si le premier de ces problèmes n'est pas résolu, la capacité des entreprises à tirer pleinement profit du marché unique sera entravée, et l'économie européenne en sera négativement impactée. En luttant contre la fraude à la TVA à l'aide de changements systémiques, les Etats membres ont l'opportunité de mettre en place un système de TVA plus solide et d'accroître simultanément leurs revenus.

En raison de ces éléments, des concepts alternatifs pour un système efficient de TVA basé sur le principe de destination ont été examinés.

Options stratégiques proposées

Les services de la Commission ont sélectionné 5 options à examiner (en plus de conserver le modèle existant, auquel il est fait référence sous « système actuel ») :

- Option 1– Améliorer les règles actuelles sans fondamentalement les modifier. Dans la suite du rapport, il sera fait référence à cette option sous les termes « amélioration limitée des règles actuelles ».
- Option 2 – Adapter les règles actuelles tout en continuant à suivre le flux de biens, en faisant en sorte que le fournisseur facture la TVA de l'Etat membre de destination. Dans la suite du rapport, il sera fait référence à cette option sous les termes « imposition suivant le flux de biens ».
- Option 3 – Adapter les règles actuelles tout en continuant à suivre le flux de biens, en appliquant le mécanisme de l'autoliquidation (*reverse-charge mechanism*). Dans la suite du rapport, il sera fait référence à cette option sous les termes « autoliquidation suivant le flux de biens ».
- Option 4 – S'aligner sur les règles régissant le lieu des prestations de services et le mécanisme d'autoliquidation. Dans la suite du rapport, il sera fait référence à cette option sous les termes « harmonisation avec le lieu de la prestation de services ».
- Option 5 – S'aligner sur les contrats en faisant en sorte que le fournisseur facture la TVA de l'Etat membre de destination. Dans la suite du rapport, il sera fait référence à cette option sous les termes « imposition suivant le flux contractuel».

Ces options ont été examinées afin de déterminer si elles peuvent apporter une solution aux deux problèmes fondamentaux précités. Nous avons estimé qu'il fallait également prendre d'autres aspects en considération, à savoir une évaluation législative pour confirmer qu'il n'existe aucun obstacle législatif à la mise en place des options, les obligations en matière de déclaration de la TVA pour confirmer que les options permettent de traiter efficacement les problèmes identifiés sous le système actuel, leurs impacts sur les charges administratives des Etats membres et en dernier lieu leurs impacts sur l'économie européenne (le cas échéant).

[29] Cette estimation est basée sur une analyse de l'écart de fraude à la TVA dans l'étude sur la fraude TVA commandée par la Commission européenne.

Champ de l'étude

L'analyse a été réalisée en tenant compte des conséquences que les changements suggérés pourraient avoir sur le fonctionnement du système de TVA en général, et sur les implications en termes de législation, d'obligations déclaratives, de conformité des entreprises, de gestion administrative de l'impôt, de cash-flow ou de fraude à la TVA.

Les impacts économiques de la mise en œuvre de ces options, mesurés par la quantification de leurs effets sur différentes variables macroéconomiques, ont également été étudiés.

Limites de l'étude

Les résultats présentés dans cette étude dépendent fortement des opinions exprimées par un échantillon d'entreprises participantes, par des fonctionnaires des administrations fiscales et par les experts en matière d'impôts indirects d'EY[30], lorsque les questions ne couvrent pas l'intégralité des éléments pouvant être requis pour évaluer de manière exhaustive les implications des options stratégiques actuelles et proposées.

Ainsi, l'information n'est pas présentée comme étant précise ou comme une preuve irréfutable, et n'a pas vocation à l'être. Elle reflète plutôt, comme toute recherche menée sur base d'échantillon, les impressions des participants sur les conséquences attendues de ces scénarios stratégiques hypothétiques, qui doivent être dès à présent considérées.

De nombreuses hypothèses ont été faites concernant la manière dont les entreprises pourraient utiliser les économies réalisées au niveau des coûts de conformité. Puisqu'il s'agit ici d'activités transfrontalières, l'accent est mis sur le commerce international, et nous pouvons admettre comme hypothèse plausible que dans un marché de plus en plus global, les entreprises de l'UE aient pour ambition d'améliorer la compétitivité de leurs prix. Partant de ce principe, nous avons pris comme postulat, après concertations avec les services de la Commission, que ces économies seraient utilisées pour améliorer la compétitivité via une diminution des prix à l'expédition.

Enfin, il est difficile de prédire comment chaque Etat membre de l'UE gèrera l'augmentation des recettes fiscales résultant d'une diminution de la fraude à la TVA. Par conséquent, l'hypothèse d'une neutralité des recettes à travers une réduction du taux de TVA est retenue comme une possibilité.

Analyse des coûts de conformité

Dans le cadre de l'analyse des coûts de conformité, trois différents types d'entreprises ont été étudiés : les PME de Type 1[31], les PME de Type 2[32], et les grandes entreprises[33].

D'après les estimations réalisées, l'option 4 (« harmonisation avec le lieu de la prestation de services ») doit générer les économies les plus importantes sur les coûts de conformité, quel que soit le type d'entreprise analysé. Dans l'ensemble, l'impact monétaire toutes entreprises confondues est de 2.69 milliards d'euros.

Il est intéressant de noter que d'après les évaluations des options 2 (« imposition suivant le flux de biens ») et 5 (« imposition suivant le flux contractuel »),

[30] Il s'agit d'un réseau de spécialistes EY des impôts indirects dans les Etats membres sélectionnés pour répondre à l'Enquête pour les experts fiscaux.
[31] Une PME de Type 1 se définit comme une entreprise générant un chiffre d'affaires de moins de 50 millions d'euros, ayant moins de 250 employés et n'étant assujetti à la TVA que dans l'Etat membre où elle est établie.
[32] Une PME de Type 2 se définit comme une entreprise générant un chiffre d'affaires de moins de 50 millions d'euros, ayant moins de 250 employés et assujettie à la TVA dans plus d'un Etat membre (mais moins de 6).
[33] Une grande entreprise se définit comme une entreprise dont le chiffre d'affaires excède 50 millions d'euros, ayant plus de 250 employés et assujettie dans 6 Etats membres ou davantage.

l'introduction du Guichet Unique (*One Stop Shop*, OSS[34]) peut induire une augmentation significative des coûts pour les PME de Type 1 au cours de l'année de la mise en place, et sur une base annuelle par la suite. Cependant, pour les PME de Type 2 et les grande entreprises, des économies sont attendues aussi bien au cours de l'année de mise en œuvre que par la suite de manière continue. Sur une base cumulée, toutes entreprises confondues, l'impact monétaire est compris entre 1'114 millions et 938 millions d'euros pour l'option 2 (« imposition suivant le flux de biens »), respectivement pour le Scenario 1 (Taux normal de TVA appliqué à toutes les livraisons de biens intracommunautaires) et le Scenario 2 (standardisation des taux réduits de TVA), et entre 1'328 millions et 1'008 millions d'euros pour l'option 5 (« imposition suivant le flux contractuel »), respectivement pour le Scenario 1 et le Scenario 2.

L'option 3 (« autoliquidation suivant le flux de biens ») générerait également des économies pour tous les types d'entreprises, quoique celles-ci soient d'une importance moindre comparées à l'option 2 (« imposition suivant le flux de biens »), à l'option 4 (« harmonisation avec le lieu de la prestation de services ») et à l'option 5 (« imposition suivant le flux contractuel »).

L'option 1 (« amélioration limitée des règles actuelles ») n'impacterait qu'un nombre limité d'entreprises ; on estime à 13% le pourcentage maximum d'entreprises positivement impactées par l'introduction de l'option 1. En outre, cela peut conduire à une baisse des profits pour les Etats membres ayant déjà mis en œuvre certains éléments de cette option. Par conséquent, l'impact monétaire positif de cette option est nettement plus faible que celui des autres options.

Le Tableau 1 présente un résumé des changements prévisionnels, évalués en termes de pourcentage net et d'impacts monétaires par type d'entreprises pour chaque option stratégique, ainsi que pour tous les types d'entreprises sur la base des données agrégées.

Tableau 1 : Résumé des impacts des options stratégiques en termes de coûts

Résumé	PME Type 1		PME Type 2		Grandes Entreprises		Tous types d'entreprises[35]	
Impact net sur les coûts	Année 1	Base continue	Année 1	Base continue	Année 1	Base continue	Année 1	Base continue
Option 1[36]	-4%	-5%	-36%	-29%	-40%	-37%	-25%	-23%
Option 2 (scenario 1)[37]	14%	5%	-7%	-18%	-5%	-12%	2%	-6%
Option 2 (scenario 2)[38]	15%	6%	-7%	-17%	-5%	-11%	3%	-5%

[34] Le Guichet Unique est un mécanisme par lequel les fournisseurs peuvent déclarer la TVA au taux applicable dans un Etat membre différent de celui dans lequel ils sont établis, et déduire en même temps la TVA supportée dans les Etats membres dans lesquels ils ne sont pas établis. La TVA est calculée et payée via une déclaration unique (déclaration OSS). Un système de compensation unique est un système grâce auquel les Etats membres peuvent collecter la TVA et attribuer les paiements de TVA à l'Etat membre dans lequel elle est due.

[35] L'impact tous types d'entreprises confondus est la moyenne pondérée des PME Type 1 (39.8%), des PME de Type 2 (18.3%) et des grandes entreprises (41.9%) dans l'UE en 2013. Le pourcentage d'entreprises dans l'UE en termes de valeur ajoutée brute est indiqué entre parenthèses. Source : Eurostat, Entreprise et Industrie.

[36] La mise en œuvre de cette option n'affecterait que 13% des entreprises dans l'UE. Les estimations de ce tableau ne tiennent pas compte de ce chiffre.

[37] Le Scenario 1 correspond à la situation dans laquelle un taux normal de TVA est appliqué à toutes les livraisons intracommunautaires de biens (i.e. suppression du taux réduit).

[38] Le Scenario 2 correspond à la situation dans laquelle les définitions des produits éligibles au taux réduit de TVA sont standardisées.

Résumé	PME Type 1		PME Type 2		Grandes Entreprises		Tous types d'entreprises[35]	
Impact net sur les coûts	Année 1	Base continue	Année 1	Base continue	Année 1	Base continue	Année 1	Base continue
Option 3	0%	-3%	-3%	-7%	-3%	-7%	-2%	-5%
Option 4	-4%	-5%	-20%	-20%	-23%	-23%	-15%	-15%
Option 5 (scenario 1)	11%	3%	-10%	-18%	-6%	-13%	0%	-8%
Option 5 (scenario 2)	14%	5%	-7%	-17%	-4%	-11%	3%	-6%
Impact monétaire (en millions d'euros)								
Option 1[39]	-36	-46	-151	-121	-383	-355	-571	-522
Option 2 (scenario 1)	981	350	-225	-580	-369	-885	386	-1,114
Option 2 (scenario 2)	1,051	420	-225	-548	-369	-811	457	-938
Option 3	0	-210	-97	-225	-221	-516	-318	-952
Option 4	-280	-350	-644	-644	-1,696	-1,696	-2,620	-2,690
Option 5 (scenario 1)	770	210	-322	-580	-442	-959	6	-1,328
Option 5 (scenario 2)	981	350	-225	-548	-295	-811	460	-1,008

Source: EY

De plus, une analyse en termes de cash-flow a été menée pour les options 2 (« imposition suivant le flux de biens ») et 5 (« imposition suivant le flux contractuel »), puisque les entreprises auront l'obligation d'imposer et de prélever la TVA sur les transactions n'ayant préalablement fait l'objet d'aucun encaissement ou paiement par les entreprises. L'étude a permis de relever que lorsqu'une entreprise est en situation de paiement net dans sa déclaration OSS, elle tirera profit d'un cash-flow positif, du fait de la rétention de la TVA reçue de ses clients jusqu'à la date de remise de la déclaration OSS. A l'inverse, lorsqu'une entreprise est en situation de remboursement net dans sa déclaration OSS, celle-ci supportera un cash-flow négatif ; ceci est dû au paiement de la TVA aux fournisseurs UE, sans droit à déduction immédiate de la TVA payée.

Impact sur la fraude à la TVA

La fraude carrousel intervient à grande échelle dans l'UE. Selon cette analyse, l'importance de la fraude carrousel est estimée, à titre indicatif, entre 45 milliards et 53 milliards d'euros annuels.

Selon l'option 1 (« améliorations limitées des règles actuelles ») et l'option 3 (« autoliquidation suivant le flux de biens), nous n'attendons pas de changements

[39] L'impact en termes de coûts reporté dans le Tableau 1 reflète le fait que seuls 13% des entreprises bénéficieraient de la mise en œuvre de cette option.

significatifs permettant de réduire l'ampleur de la fraude résultant des transactions de type « carrousel ». Par conséquent, si l'on se place du point de vue d'une personne souhaitant réaliser des opérations frauduleuses, les changements législatifs proposés n'auront aucun impact (ni positif, ni négatif) sur le niveau actuel de fraude carrousel ou de fraude par détournement.

Sous l'option 4 (« harmonisation avec le lieu de la prestation de services »), une nouvelle possibilité de fraude a été identifiée. Cela est dû au fait que l'État membre de destination des marchandises peut être différent de l'État membre dans lequel la TVA doit être déclarée. Ainsi, les autorités fiscales des États membres ont une capacité limitée à identifier et à réduire l'apparition de la fraude.

Toutefois, en vertu de l'option 2 (« imposition suivant le flux de biens ») et de l'option 5 (« imposition suivant le flux contractuel »), bien qu'une possibilité de perpétrer une fraude carrousel demeure, l'échelle en sera considérablement réduite. L'amplitude de cette réduction dépendra de plusieurs facteurs parmi lesquels figure le niveau de marge[40] appliqué par les entreprises sur leurs achats.

Sur la base des estimations fournies dans cette étude, et en supposant qu'une marge uniforme soit appliquée par les entreprises de l'UE[41] sur les transactions transfrontalières, le manque à gagner causé par la fraude carrousel[42] serait réduit à environ 8 milliards d'euros, quelle que soit celle des deux options mises en place, soit une diminution de 41 milliards d'euros (83%). C'est l'équivalent de 4.53% du total des revenus générés par la TVA, et de 0.31% du PIB de l'UE.

Le tableau 2 présente l'impact monétaire net de chaque option sur les autorités fiscales des États membres de l'UE en termes de changements prévisionnels des coûts administratifs, des flux de trésorerie et de la fraude à la TVA.

Tableau 2: Estimation des bénéfices monétaires nets (en millions d'euros)

Option stratégique	Option 1	Option 2	Option 3	Option 4	Option 5
Mise en oeuvre					
Coûts admin. - Mise en oeuvre	-79	-239	-88	-154	-230
Base régulière annuelle					
Coûts admin. – annuels	-35	-182	-43	-82	-236
Impact cash-flow	-	2,397	-	-	2,397
Impact sur la fraude TVA	-	41,130	-	-	41,130
Impact net[43]	-35	43,345	-43	-82	43,290

Source: EY

Analyse économique

Du point de vue de l'impact économique, pour l'option 1 (« amélioration limitée des règles actuelles »), l'option 3 (« autoliquidation suivant le flux de biens ») et l'option 4 (« harmonisation avec le lieu de la prestation de services »), nous partons du principe que les coûts de conformité vont diminuer mais qu'il n'y aura pas de diminution de la

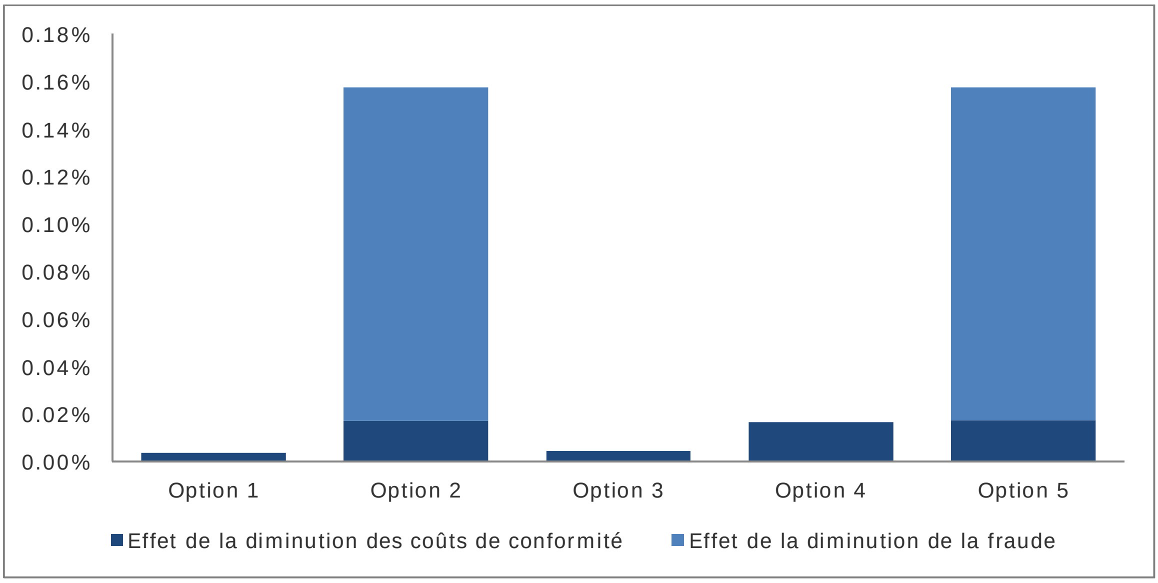
[40] La différence entre le coût de la marchandise ou du services et son prix de vente
[41] Nous avons utilisé une marge de 20% pour le secteur de l'industrie, d'après le document de travail de la Banque Centrale Européenne : « *Mark-ups in the euro area and the US over the period 1981-2004. A comparison of 50 sectors* ».
[42] La fraude carrousel est définie comme la différence entre la TVA théoriquement exigible et la TVA collectée attribuée à la fraude carrousel.
[43] L'impact net ne tient compte que des coûts annuels et exclut donc les coûts de mise en œuvre.

fraude carrousel. Sur cette base, l'analyse démontre que ces options auraient un effet positif, bien que mineur, sur l'économie de l'UE.

L'option 2 (« imposition suivant le flux de biens») et 5 (« imposition suivant le flux contractuel »), à l'inverse des autres options, supposent une diminution de la fraude à la TVA, qui viendrait s'ajouter à la réduction des coûts de conformité constatée pour les entreprises. Cette hypothèse supplémentaire devrait améliorer l'économie de l'UE, ce qui n'apparaît pas dans l'option1 (« améliorations limitées des règles actuelles »), l'option 3 (« autoliquidation suivant le flux de biens ») et l'option 4 (« harmonisation avec le lieu de la prestation de services »).

Par conséquent, l'option 2 (« imposition suivant le flux de biens ») et l'option 5 (« imposition suivant le flux contractuel ») sont les options qui génèrent le plus d'impact sur l'économie de l'UE. Sur la base du modèle économique prévisionnel, chacune de ces deux options devrait augmenter le PIB de l'UE de 18.5 milliards d'euros sur une période de 3 ans (de 2014 à 2016), en comparaison avec le modèle existant.

Schéma 1: Différences de la croissance du PIB réel par habitant de l'UE cumulé sur trois années, à partir du référentiel.



Source: EY

Cependant, dans ce contexte, il faut souligner que l'analyse économique favorise l'option 2 (« imposition suivant le flux de biens ») et l'option 5 («imposition suivant le flux contractuel »), principalement car elles présupposent que les revenus supplémentaires attendus résultant d'une diminution de l'échelle de la fraude à la TVA seront employés pour financer une réduction des taux de TVA. Abstraction faite des conséquences de la diminution de la fraude sur les résultats économiques, il apparaît que l'option 2 (« imposition suivant le flux de biens »), l'option 4 (« harmonisation avec le lieu de la prestation de services ») et l'option 5 (« imposition suivant le flux contractuel) devraient générer des impacts similaires sur le PIB réel.

Il convient d'émettre une réserve aux résultats communiqués. Les économies liées aux coûts de conformité et à la réduction de la fraude à la TVA pourraient être plus importantes ; les estimations des coûts de conformité ne tiennent en effet pas compte des économies additionnelles qui pourraient découler d'une meilleure efficacité en termes de respect des obligations dans les années suivant l'introduction, tandis que l'estimation de la diminution de la fraude à la TVA n'inclut pas la diminution de la fraude par détournement[44]. Par conséquent, il s'agit d'une estimation prudente de l'impact économique.

Analyse législative

Sur la base de cette analyse, l'étude conclut qu'il n'existe pas d'obstacle législatif important à la mise en œuvre de chacune des 5 options stratégiques.

Analyse des obligations déclaratives en matière de TVA

Dans le cadre de cette analyse, nous avons examiné la manière dont les obligations déclaratives en matière de TVA seraient modifiées en fonction des options retenues, et ce pour différentes chaînes d'approvisionnement. Nous avons également étudié si cela conduirait à une augmentation ou à une diminution globale des obligations déclaratives en matière de TVA.

Toutes les options, à l'exception de l'option 3 (« autoliquidation suivant le flux de biens ») aboutissent soit à une légère augmentation, soit à une légère diminution, soit à aucun changement en ce qui concerne les obligations déclaratives dépendant de la chaîne d'approvisionnement considérée (livraison B2B, transaction impliquant trois parties ou plus, etc.).

L'option 3 («autoliquidation suivant le flux de biens ») a été identifiée comme aboutissant soit à un effet nul, soit à une potentielle augmentation des obligations déclaratives sous chaque différente chaîne d'approvisionnement.

Cette analyse a également permis d'évaluer si les options proposées étaient à même d'apporter des solutions adéquates aux quatre problèmes clés posés par le système actuel, identifiés comme entraves au commerce B2B pour les entreprises. Ceux-ci sont:

- Le manque de cohérence en ce qui concerne la preuve requise pour exonérer une livraison intracommunautaire B2B;
- La possibilité pour le fournisseur d'avoir à s'assujettir à la TVA dans plusieurs États membres de l'UE en raison du manque d'harmonisation et des simplifications en matière de stocks détenus chez les clients (« call-off stocks ») et de stocks en consignation;
- Le manque de cohérence dans la façon dont les États membres ont mis en œuvre la règle de simplification pour les opérations triangulaires; et
- La difficulté à déterminer quelle prestation dans une transaction en chaîne (impliquant quatre parties ou plus) doit être traitée comme une livraison intracommunautaire exonérée.

L'option 3 (« autoliquidation suivant le flux de biens ») ne propose aucune solution aux problèmes liés aux obligations déclaratives identifiés dans cette étude. L'option 1 (« amélioration limitée des règles actuelles ») propose également une solution pour la majorité des problèmes identifiés, à l'exception de la cohérence des règles régissant les opérations triangulaires. Quant à l'option 2 (« imposition suivant le flux de biens »), l'option 4 (« harmonisation avec le lieu de la prestation de services ») et l'option 5 (« imposition suivant le flux contractuel»), elles proposent une solution aux quatre problèmes liés aux obligations déclaratives posés par le système actuel.

Coût de la gestion administrative de la TVA dans les Etats membres

Lorsque les options sont étudiées en tenant compte du point de vue des gouvernements des Etat membres, l'option 1 (« amélioration limitée des règles actuelles ») est considérée comme celle entraînant le moins de charges administratives, puisqu'il s'agit de l'option la moins chère à mettre en œuvre. C'est

[44] Voir section 7.3.

probablement dû au fait que certains Etat membres ont déjà mis en place quelques éléments de cette option.

Concernant les coûts de main d’œuvre, sous les autres options, pour la majorité des participants à l’étude, des équivalents temps plein (ETP) supplémentaires seraient requis pendant l’année de mise en place. Cependant, seule l’option 5 (« imposition suivant le flux contractuel ») requerrait également des ETP supplémentaires au cours des années suivant la mise en place.

En s’intéressant aux coûts autres que ceux de main d’œuvre, il est apparu que les options 2 (« imposition suivant le flux de biens »), 4 (« harmonisation avec le lieu de la prestation de services ») et 5 (« imposition suivant le flux contractuel ») ont généré les plus importantes hausses prévisionnelles des coûts liés à la mise en place des systèmes informatiques.

De plus, une analyse en termes de cash-flow a été menée du fait de l’obligation qu’ont les Administrations Fiscales de collecter la TVA sur les mouvements de biens transfrontaliers entre entreprises, qui auraient bénéficié d’une exonération sous l’ancien modèle. En se fondant sur le niveau des échanges commerciaux en 2013 entre chaque Etat membre, il a été constaté que pour les options 2 (« imposition suivant le flux de biens ») et 5 (« imposition suivant le flux contractuel »), la majorité des Etats membres bénéficierait d’un impact positif en termes de cash-flow. Ceci est dû au fait que les Etats membres perçoivent et conservent la TVA pendant un certain temps avant que les entreprises ne demandent à la récupérer dans leurs propres Etats membres à travers leurs déclarations de TVA domestiques.

Conclusion

Pour évaluer quelle option, au besoin, pourrait être sélectionnée pour faire l’objet d’un examen approfondi, la performance de chaque option dans les différents secteurs de l’analyse a été étudiée.

En considérant l’objectif fondamental d’une réduction des coûts liés à la gestion administrative de la TVA dans les opérations transfrontalières, l’option 4 (« harmonisation avec le lieu de la prestation de services ») est celle qui permet d’atteindre la plus grande diminution des coûts de conformité. L’option 3 (« autoliquidation suivant le flux de biens ») permet également d’atteindre cet objectif, bien que l’importance des économies monétaires réalisées ne soit pas aussi significative. L’option 2 (« imposition suivant le flux de biens ») et l’option 5 (« imposition suivant le flux contractuel ») atteignent les objectifs de réduction des coûts de conformité pour les PME de Type 2 et grandes entreprises, mais génèrent une augmentation de ces coûts de conformité pour les PME de Type 1. Sur une base agrégée, les économies générées sont toutefois plus importantes que sous l’option 3 (« autoliquidation suivant le flux de biens »). L’option 1(« amélioration limitée des règles actuelles ») ne bénéficiera qu’à un faible pourcentage des entreprises concernées, approximativement 13%, et sur une base agrégée, l’impact monétaire est donc significativement plus faible que celui des autres options.

L’option 2 (« imposition suivant le flux de biens ») et l’option 5 (« imposition suivant le flux contractuel ») sont les seules options qui apportent une solution au second point essentiel de cette étude, à savoir une réduction de l’ampleur de la fraude à la TVA dans l’UE. Pour les deux options, une diminution de la fraude à la TVA de 41 milliards d’euros par an est prévue.

Il convient également de noter que l’option 2 (« imposition suivant le flux de biens »), l’option 4 (« harmonisation avec le lieu de la prestation de services ») et l’option 5 (« imposition suivant le flux contractuel ») résolvent les problèmes de déclaration identifiés dans le système actuel. Les autres options ne traitent pas l’intégralité de ces problèmes.

Le tableau 3 ci-dessous présente les options réalisant les meilleurs résultats selon les différents critères évalués. Les options stratégiques qui, parmi les cinq, présentent les meilleurs résultats en termes de diminution des coûts de conformité, diminution de fraude à la TVA, diminution des charges administratives, diminution des obligations déclaratives et d'impact économique positif ont été identifiées par un coche.

Tableau 3: Comparaison des options stratégiques

Options stratégiques	Coûts de conformité	Fraude à la TVA	Coûts admin.	Obligations déclaratives	Impact économique
Option 1			✓		
Option 2		✓		✓	✓
Option 3					
Option 4	✓			✓	
Option 5		✓		✓	✓

Source: EY

Zusammenfassung

Einführung

Seit 1967 kennt die EU ein Mehrwertsteuersystem, basierend auf dem Prinzip der Besteuerung im Ursprungsland (wo der Leistungserbringer seinen Sitz hat). In ihrer "Mitteilung zur Zukunft der Mehrwertsteuer"[45] kam die EU-Kommission jedoch zum Schluss, dass die politische Unterstützung für die Besteuerung im Ursprungsland nicht mehr vorhanden ist.

Probleme mit dem bestehenden Besteuerungssystem

Zwei grundlegende Probleme wurden mit dem aktuellen Besteuerungssystem identifiziert:

1. Die zusätzlichen Pflichten und Kosten im Zusammenhang mit der Befolgung der MWST-Vorschriften für Unternehmen, die grenzüberschreitend tätig sind.

2. Der bestehende Mehrwertsteuerbetrug innerhalb der EU durch betrügerische Transaktionen wie beispielsweise beim Karussellbetrug.[46]

Die Ergebnisse dieser Studie zeigen, dass die Kosten im Zusammenhang mit der Einhaltung grenzüberschreitender Mehrwertsteuerverpflichtungen 11% höher sind als die MWST-Befolgungskosten im reinen Binnenhandel. Hohe Kosten und Pflichten bei der grenzüberschreitenden MwSt-Compliance können Unternehmen von der Aufnahme des innergemeinschaftlichen Handelns abschrecken, was erhebliche Auswirkungen auf das gesamte EU-Handelsvolumen haben kann. Diese Frage muss angegangen werden, wenn die EU-Wachstumsstrategie für das kommende Jahrzehnt, Europa 2020, erreicht werden soll. Diese hebt die Bedeutung der Verbesserung der Rahmenbedingungen für Unternehmen, einschließlich der Verringerung der Steuerbefolgungskosten, hervor, damit die europäischen Unternehmen im globalen Kontext wettbewerbsfähiger werden.[47]

Neuere Studien haben darüber hinaus festgestellt, dass relativ gesehen (z.B. gemessen pro Mitarbeiter oder im Verhältnis zum Umsatz), Kleinunternehmen mit einem unverhältnismässig hohen regulatorischen Aufwand belastet sind. Im Durchschnitt hat ein Unternehmen mit weniger als zehn Beschäftigten einen etwa doppelt so hohen Verwaltungsaufwand wie ein Unternehmen mit mehr als zehn aber weniger als zwanzig Beschäftigten. Die Belastung wird etwa dreimal so hoch, wenn sie mit der Belastung der Unternehmen mit mehr als zwanzig, aber weniger als fünfzig Mitarbeitern verglichen wird. Für größere Unternehmen beträgt die Belastung pro Arbeitnehmer nur einen Fünftel bis einen Zehntel derjenigen von Kleinunternehmen.[48]

Es gibt 21,6 Millionen KMU[49] in der EU (ausserhalb des Finanzsektors), die 88,8 Millionen Menschen beschäftigen und eine Wertschöpfung von 3,67 Billionen Euro generieren. 58 Cent eines jeden Euros Wertschöpfung werden von diesem Sektor

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[45] Mitteilung der Kommission an das europäische Parlament, den Rat und den europäischen Wirtschafts- und Sozialausschuss zur Zukunft der Mehrwertsteuer vom 6. Dezember 2011.

[46] Missing Trader Intra-Community fraud (MTIC): Beim Karussellgeschäft oder Karussellbetrug wirken mehrere Unternehmen in verschiedenen EU-Mitgliedstaaten zusammen, wobei einer der Händler der Lieferkette die von seinen Abnehmern bezahlte Umsatzsteuer nicht an das Finanzamt abführt. Die Abnehmer machen hingegen die Vorsteuer geltend und erhalten diese vom Finanzamt ausgezahlt. Da in weiteren Teilen der Kette eine Lieferung über Binnengrenzen erfolgt und nach dem Bestimmungslandprinzip die Umsatzsteuer nicht im Ursprungsland (Sitzland des Verkäufers), sondern im Bestimmungsland (Sitzland des Käufers) anfällt, erfolgt keine Verrechnung mit der Vor- oder Umsatzsteuer aus weiteren Teilen der Lieferkette.

[47] http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:DE:PDF

[48] http://ec.europa.eu/enterprise/policies/sme/files/support_measures/taxsimple/taxsimp_en.pdf

[49] Die relative Aufteilung der Unternehmen in KMU-Typ 1 (39,8%), KMU-Typ 2 (18,3%) und große Unternehmen (41,9%) in der EU im Jahr 2013 bezogen auf ihren Brutto-Mehrwert wurde aufgrund einer Eurostat-Studie geschätzt, die eine Aufteilung in KMU und große Unternehmen vornahm. Quelle: Eurostat, Unternehmen und Industrie.

generiert.[50] KMU sind von entscheidender Bedeutung für die europäische Wirtschaft. Daher ist es wichtig, dass die in Betracht gezogenen Optionen nicht die Befolgungskosten für diesen Unternehmenstyp erhöhen.

Eine hohe Mehrwertsteuerbetrugsquote bedeutet hohe Kosten für die Mitgliedstaaten in Form von Steuerausfällen sowie potenziell für alle Unternehmen, die unwissentlich in eine betrügerische Lieferkette verwickelt werden. Der Karussellbetrug allein ist für geschätzte Steuerausfälle von 45 bis 53 Milliarden Euro pro Jahr verantwortlich.[51] Angesichts des derzeitigen fragilen wirtschaftlichen und finanziellen Klimas brächte eine Reduzierung des Mehrwertsteuerbetrugs den Mitgliedstaaten zusätzliche Steuereinnahmen, ohne die Steuerbelastung der Verbraucher weiter zu erhöhen.

Gelingt es nicht, dieses erste Problem anzugehen, werden die Unternehmen daran gehindert, den vollen Nutzen aus dem europäischen Binnenmarkt zu ziehen, was sich negativ auf die europäische Wirtschaft auswirkt. Indem sie den MwSt-Betrug mit systematischen Veränderungen gezielt bekämpfen, haben die Mitgliedstaaten die Möglichkeit, ein robusteres MwSt-System zu implementieren und gleichzeitig ihre Steuereinnahmen zu steigern.

Aus diesen Gründen ist eine Reihe von alternativen Konzepten für ein gut funktionierendes bestimmungslandbasiertes EU-Mehrwertsteuersystem untersucht worden.

Vorgeschlagene Optionen

Die Kommission wählte fünf Optionen (zusätzlich zur Beibehaltung des aktuellen Systems) für eine vertiefte Prüfung:

- Option 1 - Verbesserung der derzeitigen Vorschriften ohne sie grundlegend zu ändern. Dies wird im Folgenden als "begrenzte Verbesserung der geltenden Vorschriften" bezeichnet;

- Option 2 - Anpassung der geltenden Vorschriften, wobei weiterhin dem Warenfluss gefolgt wird, jedoch der Lieferant die Mehrwertsteuer des Bestimmungslands erhebt. Dies wird im Folgenden als "dem Warenfluss folgende Besteuerung" bezeichnet;

- Option 3 - Anpassung der geltenden Vorschriften, wobei weiterhin dem Warenfluss gefolgt wird, jedoch mit Umkehr der Steuerschuldnerschaft (reverse-charge Verfahren). Dies wird im Folgenden als "dem Warenfluss folgendes Reverse-Charge-System“ bezeichnet;

- Option 4 - Angleichung an die Vorschriften über den Ort der Leistung von sonstigen Leistungen mit Umkehr der Steuerschuldnerschaft. Dies wird im Folgenden als "Angleichung an den Ort der Erbringung von sonstigen Leistungen" bezeichnet; und

- Option 5 - Angleichung an den Vertragsfluss, wobei der Leistungserbringer die Mehrwertsteuer des Bestimmungslandes erhebt. Dies wird im Folgenden "Besteuerung nach dem Vertragsverhältnis“ genannt .

Diese Optionen wurden untersucht, um festzustellen, ob sie die beiden oben genannten Grundsatzfragen sowie andere Aspekte, die es wert sind, in Betracht gezogen zu werden, beantworten können. Diese anderen Aspekte sind namentlich eine Gesetzesanalyse zwecks Bestätigung, dass der Implementierung keine gesetzgeberischen Hürden im Weg stehen, die MWST-Meldepflichten, um zu bestätigen, dass die Optionen die mit dem gegenwärtigen Modell verbundenen

[50] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf
[51] Diese Schätzung beruht auf einer Analyse des Mehrwertsteuerbetrugs in der von der Europäischen Kommission in Auftrag gegebenen Studie zum MwSt Betrug.

Probleme in angemessener Weise behandeln, die Auswirkungen auf die Verwaltungskosten der Mitgliedstaaten und schließlich die Auswirkungen (falls vorhanden) auf die europäische Wirtschaft.

Umfang der Studie

Die vorgeschlagenen Optionen wurden auf ihre Auswirkungen in Bezug auf das Mehrwertsteuersystem im Allgemeinen, auf die damit verbundene Gesetzgebung, auf die Meldepflichten, auf die Befolgung durch die Unternehmen, auf die Steuerbehörden, auf den Cash Flow sowie den Mehrwertsteuerbetrug untersucht.

Schliesslich wurden die wirtschaftlichen Auswirkungen der Umsetzung der verschiedenen Optionen ebenfalls ausgewertet, indem ihr Einfluss auf makroökonomische Variablen quantifiziert wurde.

Grenzen der Studie

Die Ergebnisse der Studie hängen stark von den Meinungen der befragten Unternehmen, Steuerbehörden und der Mehrwertsteuerexperten ab zu Fragen, welche nicht jedes mögliche Element abdecken, das nötig sein könnte für eine lückenlose Beurteilung der heutigen und der vorgeschlagenen Optionen.

Aus diesem Grund sind die Informationen nicht als exakter, unwiderlegbarer Beweis formuliert und sollen auch kein solcher sein. Vielmehr widerspiegeln die Informationen, wie dies für stichprobenbasierte Studien der Fall ist, die Wahrnehmung der Befragten zu den erwarteten Auswirkungen der hypothetischen Szenarien.

Es gibt eine Reihe von Annahmen dazu, wozu Unternehmen eingesparte Befolgungskosten verwenden würden. Da es bei dieser Studie um grenzüberschreitende Sachverhalte geht, liegt der Fokus auf dem grenzüberschreitenden Handel und eine plausible Annahme wäre deshalb, dass die EU-Unternehmen in einem zunehmend globalisierten Markt Konkurrenzfähigkeit hinsichtlich der Preise anstreben. Unter dieser Annahme haben wir, in Abstimmung mit der Kommission, die Annahme getroffen, dass die erwähnten Einsparungen zur Steigerung der Wettbewerbsfähigkeit durch Reduktion der Versandpreise genutzt werden.

Schliesslich ist es schwierig vorauszusehen, wie die einzelnen EU-Mitgliedstaaten mit höheren Steuereinnahmen aufgrund des abnehmenden Steuerbetrugs umgehen werden. Aus diesem Grund wurde die Annahme in Betracht gezogen, dass die Mitgliedstaaten Einnahmenneutralität durch eine Reduktion der Höhe der Steuersätze anstreben.

Beurteilung der Befolgungskosten

Für die Analyse der Befolgungskosten wurden drei Unternehmenstypen in Betracht gezogen: KMU-Typ 1 Unternehmen[52], KMU-Typ 2 Unternehmen[53] und grosse Unternehmen[54].

Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") wird schätzungsweise die grössten Einsparungen bei den Befolgungskosten für alle Arten von Unternehmen erlauben. In Summe dürften die Einsparungen für alle Unternehmen 2,69 Milliarden Euro betragen.

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[52] Ein KMU-Typ-1-Unternehmen wird als Geschäft mit einem Umsatz von weniger als 50 Mio. Euro, mit weniger als 250 Beschäftigten und einer einzigen MwSt-Registrierung im Mitgliedstaat, in welchem es ansässig ist, definiert.

[53] Ein KMU-Typ-2-Unternehmen wird als Geschäft mit einem Umsatz von weniger als 50 Mio. Euro und mit weniger als 250 Beschäftigten definiert. Es hat MwSt-Registrierungen in mehreren (aber weniger als sechs) Mitgliedstaaten.

[54] Ein großes Unternehmen ist als Unternehmen mit einem Umsatz von mehr als 50 Millionen Euro, mit mehr als 250 Mitarbeiter und mit MwSt-Registrierungen in sechs oder mehr Mitgliedstaaten definiert.

Bemerkenswert ist, dass die Einführung der einzigen Anlaufstelle (One-stop-shop, OSS)[55] bei den Optionen 2 ("dem Warenfluss folgende Besteuerung ") und 5 ("Besteuerung nach dem Vertragsverhältnis“) zu Kostensteigerungen für KMU-Typ 1 Unternehmen im Jahr der Umsetzung und in den Folgejahren führen könnte. In Bezug auf KMU-Typ 2 und große Unternehmen sind hingegen Kosteneinsparungen bereits im Jahr der Einführung wie auch in den Folgejahren zu erwarten. Auf aggregierter Basis betragen die monetären Auswirkungen für all Unternehmen zwischen 1‘114 und 938 Millionen Euro für die Option 2 ("dem Warenfluss folgende Besteuerung "), Szenario 1 (Anwendung des Standard-Mehrwertsteuersatzes auf alle innergemeinschaftlichen Lieferungen) und Szenario 2 (Standardisierung der reduzierten Mehrwertsteuersätze), und zwischen 1‘328 und 1‘008 Millionen Euro für Option 5 ("Besteuerung nach dem Vertragsverhältnis“), Szenario 1 und Szenario 2.

Option 3 ("dem Warenfluss folgendes Reverse-Charge-System ") wird auch zu Kosteneinsparungen für alle Unternehmen führen, diese sind aber geringer im Vergleich mit Option 2 ("dem Warenfluss folgende Besteuerung "), Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen ") und Option 5 („Besteuerung nach dem Vertragsverhältnis“).

Option 1 ("begrenzte Verbesserung der geltenden Vorschriften") wirkt sich nur auf eine begrenzte Anzahl von Unternehmen aus; wir schätzen, dass maximal 13 % der Unternehmen positive Auswirkungen aus der Umsetzung der Option 1 erfahren. Die Auswirkungen dürften noch geringer sein in den Mitgliedstaaten, die bereits Elemente dieser Option umgesetzt haben. Insgesamt sind die positiven finanziellen Auswirkungen dieser Option deutlich geringer als bei den anderen Optionen.

Tabelle 1 zeigt eine Zusammenfassung der zu erwartenden Veränderungen in Prozent sowie in absoluten Zahlen für jede Option und jeden Unternehmenstyp sowie die aggregierten Zahlen für alle Unternehmungen.

Tabelle 1: Übersicht über die Kostenauswirkungen der verschiedenen Optionen

Übersicht	KMU Typ 1		KMU Typ 2		Grosse Unternehmen		Alle Unternehmen[56]	
Netto-Kosten Auswirkungen	Jahr 1	laufend	Jahr 1	laufend	Jahr 1	laufend	Jahr 1	laufend
Option 1[57]	-4%	-5%	-36%	-29%	-40%	-37%	-25%	-23%
Option 2 (Szenario 1)[58]	14%	5%	-7%	-18%	-5%	-12%	2%	-6%
Option 2 (Szenario 2)[59]	15%	6%	-7%	-17%	-5%	-11%	3%	-5%

[55] Die einzige Anlaufstelle (One-Stop-Shop, OSS) ist ein Mechanismus, der es dem Lieferanten erlaubt, über die MwSt abzurechnen zu den Steuersätzen, die in anderen Mitgliedstaaten gelten, als demjenigen, in dem er ansässig ist, und gleichzeitig Vorsteuern geltend zu machen in Mitgliedstaaten , in denen er nicht ansässig ist. Die Mehrwertsteuer wird deklariert und bezahlt mittels einer Erklärung bei der einzigen Anlaufstelle. Das One-Stop Shop Clearing-System ist ein System, durch das die Mitgliedstaaten die MwSt sammeln und an die Mitgliedstaaten überweisen können, in denen die Mehrwertsteuerzahlungen fällig sind.

[56] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

[57] The implementation of this option would only affect 13% of businesses across EU. The estimates in the table are not adjusted for this.

[58] Scenario 1 related to the situation where a standard VAT rate is applied to all intra-EU supplies of goods (i.e., reduced rate is removed).

[59] Scenario 2 relates to a situation where the definitions of products eligible for reduced VAT rates are standardised.

Übersicht	KMU Typ 1		KMU Typ 2		Grosse Unternehmen		Alle Unternehmen[56]	
Netto-Kosten Auswirkungen	Jahr 1	laufend	Jahr 1	laufend	Jahr 1	laufend	Jahr 1	laufend
Option 3	0%	-3%	-3%	-7%	-3%	-7%	-2%	-5%
Option 4	-4%	-5%	-20%	-20%	-23%	-23%	-15%	-15%
Option 5 (Szenario 1)	11%	3%	-10%	-18%	-6%	-13%	0%	-8%
Option 5 (Szenario 2)	14%	5%	-7%	-17%	-4%	-11%	3%	-6%
Finanzielle Auswirkungen (Mio. EUR)								
Option 1	-36	-46	-151	-121	-383	-355	-571	-522
Option 2 (Szenario 1)	981	350	-225	-580	-369	-885	386	-1,114
Option 2 (Szenario 2)	1,051	420	-225	-548	-369	-811	457	-938
Option 3	0	-210	-97	-225	-221	-516	-318	-952
Option 4	-280	-350	-644	-644	-1,696	-1,696	-2,620	-2,690
Option 5 (Szenario 1)	770	210	-322	-580	-442	-959	6	-1,328
Option 5 (Szenario 2)	981	350	-225	-548	-295	-811	460	-1,008

Quelle: EY

Für die Optionen 2 ("dem Warenfluss folgende Besteuerung") und 5 ("Besteuerung nach dem Vertragsverhältnis“) wurde zusätzlich eine Cash Flow Analyse durchgeführt, da bei diesen Optionen künftig MwSt auf Transaktionen erhoben und bezahlt werden müsste, wo dies bisher nicht der Fall war. Die Analyse hat ergeben, dass ein Unternehmen, welches sich gemäss OSS-Erklärung in einer Nettozahler-Position befindet, von einem positiven Cash Flow profitiert, indem es von seinen EU-Kunden MwSt erhält und über dieses Geld bis zum OSS-Fälligkeitstermin verfügen kann. Auf der anderen Seite hat die Option bei einem Unternehmen, welches sich gemäss OSS-Erklärung in einer Nettoempfänger-Position befindet, einen negativen Effekt auf den Cash Flow. Dies ist dadurch bedingt, dass es seine EU-Lieferanten umgehend bezahlen muss, jedoch nicht von einem unmittelbaren Abzugsrecht profitieren kann.

Auswirkung auf den Mehrwertsteuerbetrug

Der sogenannte Karussellbetrug tritt in erheblichem Umfang in der gesamten EU auf. Vorläufige Schätzungen der Größe des Karussellbetrugs liegen gemäß dieser Analyse im Bereich von 45 bis 53 Milliarden Euro jährlich.

Von den Optionen 1 ("begrenzte Verbesserung der derzeitigen Vorschriften ') und 3 ("Reverse-Charge nach dem Warenfluss "), sind keine wesentlichen Änderungen zu erwarten, die das gegenwärtige Ausmass des MwSt-Betrugs reduzieren würden. Aus Sicht einer Person, die Mehrwertsteuerbetrug begehen will, ergeben sich im Falle der Implementierung einer dieser Optionen deshalb beim Karussell- oder Umgehungsbetrug weder positive noch negative Veränderung.

Für Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") wurde festgestellt, dass sie ein gewisses zusätzliches Betrugspotenzial bergen könnte. Dies deshalb, da der Mitgliedstaat des Leistungsempfängers nicht derselbe ist wie der Mitgliedstaat, in dem die Steuer gemeldet wird. Dadurch haben die Steuerbehörden der betroffenen Mitgliedstaaten eingeschränkte Möglichkeiten, das Auftreten von Betrug zu identifizieren und zu verhindern.

Obwohl unter Option 2 ("dem Warenfluss folgende Besteuerung") und Option 5 ("Besteuerung nach dem Vertragsverhältnis“) Karussellbetrug nicht völlig ausgeschlossen werden kann, ist zu erwarten, dass er deutlich zurückgeht. Das Ausmaß dieses Rückgangs hängt von einer Reihe von Faktoren ab, von denen einer die Höhe des Preisaufschlags[60] ist, den die Unternehmen auf ihre Einkäufe anwenden.

Nach Schätzungen dieser Studie und unter Annahme eines einheitlichen Preisaufschlags auf grenzüberschreitenden Lieferungen durch Unternehmen in der EU[61], könnte durch die Umsetzung jeder dieser beiden Optionen das Karussellbetrugsvolumen auf geschätzte 8 Milliarden Euro, also um EUR 41 Mrd. (83%), schrumpfen. Dies entspricht 4.53% der gesamten Mehrwertsteuereinnahmen und 0.31% des BIP in der EU.

Tabelle 2 zeigt die finanziellen Auswirkungen jeder Option auf die Steuerbehörden der EU-Mitgliedstaaten im Hinblick auf die zu erwartende Veränderung der Verwaltungskosten, des Cashflows und des MwSt-Betrugs.

Tabelle 2: Geschätzte Netto-Auswirkungen (in Mio. EUR)

Optionen	Option 1	Option 2	Option 3	Option 4	Option 5
Umsetzung					
Admin. Aufwand – Umsetzung	-79	-239	-88	-154	-230
Wiederkehrend					
Admin. Aufwand – jährlich	-35	-182	-43	-82	-236
Auswirkung auf Cash flow	-	2,397	-	-	2,397
Auswirkung auf MwSt-Betrug	-	41,130	-	-	41,130
Netto-Auswirkung[62]	-35	43,345	-43	-82	43,290

Quelle: EY

Wirtschaftliche Analyse

Aus einer wirtschaftlichen Perspektive ist die Annahme für die Optionen 1, 3 und 4, dass sich die Befolgungskosten zwar reduzieren werden, wogegen der Mehrwertsteuerbetrug konstant bleibt. Auf dieser Grundlage zeigt die Analyse, dass diese Optionen einen relativ kleinen aber positiven Effekt auf die Wirtschaft der EU hätten.

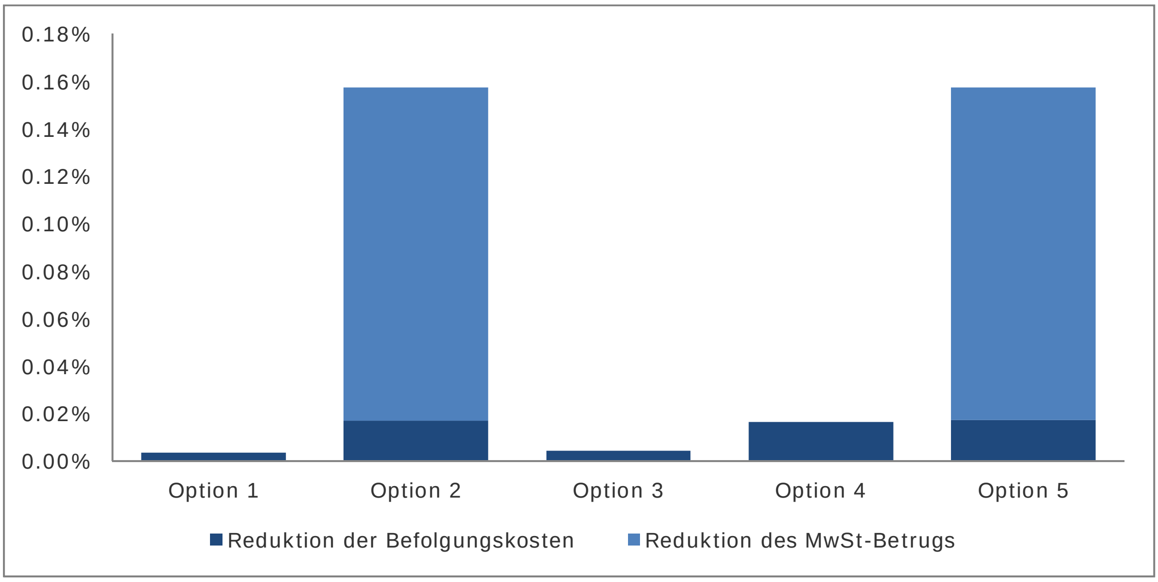
Die Optionen 2 ("dem Warenfluss folgende Besteuerung") und 5 ("Besteuerung nach dem Vertragsverhältnis“) lassen im Gegensatz zu den anderen Optionen reduzierte Befolgungskosten und einen Rückgang des Mehrwertsteuerbetrugs erwarten. Es ist zu erwarten, dass diese zusätzliche Annahme der EU-Wirtschaft zusätzliche Impulse

[60] Die Differenz zwischen dem Ankaufs- und dem Verkaufspreis einer Ware oder einer Dienstleistung.
[61] Gerechnet wurde mit dem 20%-igen Preisaufschlag für die verarbeitende Industrie. Dies gestützt auf das Arbeitspapier der Europäischen Zentralbank: Markups in der Eurozone und in den USA im Zeitraum 1981-2004: ein Vergleich der 50 Sektoren.
[62] Die Nettoauswirkung zieht nur die jährlichen Kosten in Betracht und schliesst somit die Implementierungskosten aus.

verleihen wird, was mit Option 1 ("begrenzte Verbesserung der geltenden Vorschriften), Option 3 ("dem Warenfluss folgendes Reverse-Charge-System“) und Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") nicht zu erreichen wäre.

Folglich schneiden die Optionen 2 ("dem Warenfluss folgende Besteuerung") und 5 ("Besteuerung nach dem Vertragsverhältnis“) aus Sicht des Einflusses auf die EU-Wirtschaft am besten ab. Aufgrund der Modellsimulierungen erwarten wir, dass jede dieser beiden Optionen das EU BIP im Vergleich zum heutigen Stand über einen Zeitraum von 3 Jahren (2014 bis 2016) um 18,5 Milliarden Euro erhöhen wird.

Abbildung 1: Unterschiede im 3-Jahres kumulativen Pro-Kopf-Wachstum des realen BIP in der EU



Quelle: EY

Trotzdem muss in diesem Zusammenhang erwähnt werden, dass die wirtschaftliche Analyse die Optionen 2 ("dem Warenfluss folgende Besteuerung") und 5 ("Besteuerung nach dem Vertragsverhältnis“) in erster Linie deshalb positiv bewertet, da sie davon ausgeht, dass die zu erwartenden zusätzlichen Steuereinnahmen aus der Reduzierung des MwSt-Betrugs zur Senkung der Mehrwertsteuersätze verwendet werden. Wird der Einfluss der Betrugsverminderung auf das wirtschaftliche Ergebnis ignoriert, ist zu erwarten, dass die drei Optionen 2, 4 und 5 alle denselben Einfluss auf das reale BIP Wachstum haben werden.

Einen Vorbehalt bezüglich der Resultate gibt es insofern, als die Einsparungen der Befolgungskosten und der Rückgang des MwSt-Betrugs durchaus höher sein könnten; dies aus dem Grund, weil die geschätzten Einsparungen bei den Befolgungskosten nicht berücksichtigen, dass in den Folgejahren die Einsparungen aufgrund einer verbesserten Effizienz nochmals steigen könnten, während die Schätzung des MwSt-Betrugsvolumens den Rückgang des Umgehungsbetrugs nicht berücksichtigt.[63] So gesehen ist die Schätzung der Auswirkungen auf die Wirtschaft eher konservativ.

Legislative Beurteilung

Aufgrund dieser Analyse kommt die Studie zum Schluss, dass es keine signifikanten gesetzestechnischen Hindernisse bei der Implementierung einer der fünf Optionen gäbe.

[63] Vgl. Abschnit7.3.

Beurteilung des Mehrwertsteuer-Reportings

Die Analyse beurteilte auch, wie sich die MwSt-Deklarationspflichten verändern, welche die Optionen für verschiedene Lieferketten mit sich bringen. Sodann wurde untersucht, ob die MwSt-Deklarationspflichten insgesamt zu- oder abnehmen würden.

Alle Optionen, mit Ausnahme der Option 3 ("dem Warenfluss folgendes Reverse-Charge-System"), führen entweder zu keinen oder leicht höheren oder aber leicht geringeren Deklarationspflichten ,, je nachdem, welche Lieferkette (B2B Lieferung, Reihengeschäfte usw.) in Betracht gezogen werden.

Für Option 3 ("dem Warenfluss folgendes Reverse-Charge-System") gilt, dass sie entweder zu keinen Veränderungen führt oder dann wahrscheinlich zu erhöhten Deklarationspflichten unter den jeweiligen Lieferketten führt.

Die Analyse überprüfte auch, ob vier Problematiken im Zusammenhang mit dem aktuellen Modell, die in Bezug auf den B2B Handel für Unternehmen als problematisch identifiziert wurden, angemessen berücksichtigt wurden. Diese vier Probleme sind:

- Der Mangel an Konsistenz in Bezug auf die Nachweise, die benötigt werden, um eine B2B innergemeinschaftliche Lieferung von der Steuer zu befreien;
- Die Möglichkeit des Lieferanten, für die Mehrwertsteuer in mehreren EU-Mitgliedstaaten registrieren zu müssen aufgrund der mangelnden Harmonisierung und Umsetzung der Abruf- und Konsignationslager-Vereinfachungen;
- Die fehlende Konsistenz der Mitgliedstaaten in der Umsetzung der Reihengeschäfte-Vereinfachungsregel; und
- Die Schwierigkeit bei der Feststellung, welche Lieferung bei einem Reihengeschäft (mit vier oder mehr Parteien) als steuerbefreite innergemeinschaftliche Lieferung gelten soll.

Option 3 ("dem Warenfluss folgendes Reverse-Charge-System") beantwortet keine der der legislativen Fragen, die in dieser Studie identifiziert wurden. Option 1 ("begrenzte Verbesserung der derzeitigen Vorschriften ') beantwortete ebenfalls die meisten Probleme, ausser die Frage der Konsistenz der Regeln, die auf Dreiecksgeschäfte angewendet werden. Option 2 ("dem Warenfluss folgende Besteuerung"), Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") und Option 5 ("Besteuerung nach dem Vertragsverhältnis") beantwortet die vier legislativen Fragen, die in Bezug auf das aktuelle Modell identifiziert wurden.

Administrationskosten der Mitgliedstaaten

Bei der Analyse der Optionen aus der Perspektive der Mitgliedstaaten setzt sich Option 1 ("begrenzte Verbesserung der geltenden Vorschriften") mit den geringsten Administrationskosten durch, da diese Option die tiefsten Einführungskosten aufweist. Dies dürfte von der Tatsache herrühren, dass einige Mitgliedstaaten verschiedene Elemente dieser Option bereits umgesetzt haben.

In Bezug auf die Arbeitskosten bei der Verwaltung erwartet eine Mehrheit der Befragten bei den übrigen Optionen einen Bedarf an zusätzlichen Vollzeitäquivalenten im Jahr der Implementierung. Für die Folgejahre ist ausschliesslich bei Option 5 ("Besteuerung nach dem Vertragsverhältnis") eine weitere Zunahme von Vollzeitäquivalenten zu erwarten.

Bei den übrigen Kosten ausser Arbeitskosten wurde die Implementierung von IT-Systemen als wichtigster Kostenfaktor unter Option 2 ("dem Warenfluss folgende Besteuerung"), Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") und Option 5 ("Besteuerung nach dem Vertragsverhältnis") genannt.

Weiter wurde für die Optionen 2 und 5 eine Cash Flow Analyse durchgeführt, da bei diesen Optionen die Steuerbehörden neu MwSt auf grenzüberschreitenden B2B

Warenflüssen erheben würden, welche zuvor von der Steuer befreit waren. Unter Hinzuziehen des Handelsvolumens zwischen den Mitgliedstaaten im Jahr 2013 erwarten wir diesbezüglich einen Cash Flow Vorteil für die Mehrheit der Mitgliedstaaten.

Dies liegt daran, dass die Mitgliedstaaten die MwSt einnehmen und für eine gewisse Zeit behalten können, bevor die Unternehmen in ihrem Mitgliedstaat mittels ihrer MwSt-Erklärung die Rückerstattung der bezahlten MwSt geltend machen.

Fazit

Für die Beurteilung der Frage, welche Option, wenn überhaupt, einer vertieften Analyse zugeführt werden sollte, wurde in Betracht gezogen, wie jede einzelne Option bei den verschiedenen Beurteilungskriterien abschneidet.

Im Hinblick auf das grundlegende Ziel einer Senkung der Befolgungskosten beim grenzüberschreitenden Handel erzielt Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") die deutlichste Kostenreduktion. Auch Option 3 ("dem Warenfluss folgendes Reverse-Charge-System“) erfüllt dieses Ziel, wenn die finanziellen Einsparungen auch nicht ganz so signifikant sind. Option 2 ("dem Warenfluss folgende Besteuerung") und Option 5 ("Besteuerung nach dem Vertragsverhältnis“) erfüllen das Ziel für KMU-Typ 2 Unternehmen und große Unternehmen, aber führen zu höheren Befolgungskosten für KMU-Typ 1 Unternehmen. Auf aggregierter Basis sind die erzielten Einsparungen jedoch immer noch besser als bei Option 3 ("dem Warenfluss folgendes Reverse-Charge-System“). Option 1 ("begrenzte Verbesserung der derzeitigen Vorschriften") wird nur für einen kleinen Prozentsatz von Unternehmen vorteilhaft sein, etwa 13%, und auf aggregierter Basis sind die finanziellen Auswirkung deutlich kleiner als bei den anderen Optionen.

Option 2 ("dem Warenfluss folgende Besteuerung") und Option 5 ("Besteuerung nach dem Vertragsverhältnis“) sind die einzigen Optionen, die das zweite grundlegende Ziel dieser Studie, die Verringerung des Mehrwertsteuerbetrugs in der EU, zu erreichen vermögen. Für beide Optionen schätzen wir die Reduktionsmöglichkeit des Betrugsvolumens auf 41 Milliarden Euro pro Jahr.

Es ist auch erwähnenswert, dass die Option 2 ("dem Warenfluss folgende Besteuerung"), Option 4 ("Angleichung an den Ort der Erbringung von sonstigen Leistungen") und Option 5 ("Besteuerung nach der Vertragsdurchfluss ') die Problematiken mit den Deklarationspflichten, welche unter dem gegenwärtigen Modell als problematisch erachtet werden, zu lösen vermögen. Den anderen Optionen gelingt dies nicht in allen Fällen.

Tabelle 3 zeigt, welche Optionen in jedem der analysierten Kriterien stark abgeschnitten hat. Ein Häkchen wurde gesetzt, um anzuzeigen, welche der fünf Optionen stark abschnitt in den Bereichen Reduktion der Befolgungskosten, Reduktion des Mehrwertsteuerbetrugs, Senkung der Verwaltungskosten, Senkung der deklarationspflichten und positive wirtschaftliche Auswirkungen.

Tabelle 3: Vergleich der möglichen Optionen

Policy Options	Befolgungs-kosten	MwSt-Betrug	Administrative Kosten	Deklarations-pflichten	Wirtschaftliche Auswirkungen
Option 1			✓		
Option 2		✓		✓	✓
Option 3					
Option 4	✓			✓	
Option 5		✓		✓	✓

Quelle: EY

1 Background and objectives

1.1 Introduction

This document contains the feasibility and economic study for "Implementing the 'destination principle' to intra-EU B2B supplies of goods". The study has been commissioned by the Directorate General Taxation and Customs Union (DG TAXUD).

1.2 Background to the study

Since 1967, the EU has been committed to a system of Value Added Tax (VAT) based on the principle of taxation in the Member State of origin. However, under current arrangements for taxation of trade between Member States introduced in Council Directive 91/680/EEC[64] put in place in 1993, most goods transactions are taxed at the destination. These arrangements were transitional and were originally enacted for a period of four years with the intention to replace them with definitive arrangements based on the origin principle. This transitional period was further extended in the Council Directive 2006/112/EC.

In its "Communication on the Future of VAT"[65], the Commission services concluded that there was no longer political support for keeping an origin system of taxation as the preferred taxation model. It was recognised however that there were fundamental issues with the current taxation model. It is therefore looking towards devising alternative concepts for a properly functioning destination based EU system of VAT.

The guiding principles in determining a new, alternative taxation policy will be, first, that doing business across the EU must be as simple and as safe as engaging in purely domestic activities and, second, that businesses' VAT compliance costs in the EU must be reduced. In any event, engaging in intra-EU trade must not generate additional costs. In addition, the alternative taxation policy must have the ability to counter/reduce VAT fraud.

1.3 Fundamental issues with the existing system of taxation

There are two fundamental issues relating to the existing destination-based system which should be addressed by the proposed policy options, these are as follows:

The first issue under the current EU VAT system relates to the additional obligations associated with VAT compliance for cross-border trade; the number of VAT compliance obligations which must be met are numerous and differ per Member State. As a result, compliance costs associated with cross-border trade can be significant and often higher than VAT compliance costs for domestic trade. Moreover, the complexities associated with cross-border trade and VAT compliance means that it can be difficult for businesses to obtain legal certainty with regards to the VAT treatment of their transactions.

These costs, obligations and lack of legal certainty can deter businesses from seeking to trade across the EU. For many small and medium businesses in particular, these factors can act as an obstacle to engaging in cross-border trade. In light of this, any proposed policy option must ensure that the compliance cost for businesses wishing to engage in the EU trade of goods is reduced.

The second issue concerns existing levels of VAT fraud within the EU through fraudulent transactions such as MTIC ('Missing Trader Intra-Community') fraud and carousel fraud. Often the fraudulent parties will disappear before the cost to the VAT system can be recouped.

This VAT fraud represents a cost to Member States through lost tax revenue. In addition, it may also generate costs for businesses that inadvertently and unknowingly

[64] Council Directive (91/680/EEC) of 16 December 1991.
[65] Communication from the Commission to The European Parliament, The Council and The European Economic and Social Committee on the future of VAT dated 6 December 2011.

become involved in a fraudulent supply chain and may need to bear the unpaid VAT and any relevant penalties. Therefore any proposed policy option must ensure that the level of fraud arising from the B2B cross-border sale of goods is reduced.

These two issues have been identified as the fundamental areas which require redress under a revised taxation system in the EU. It is intended that by addressing these issues, the cost/burden of cross-border trade within the EU may be reduced for businesses and the scale of VAT fraud may also fall. Ultimately, the aim of the proposed taxation policies is to decrease the costs faced by businesses and Member States in relation to cross-border trade within the EU.

Each of the five proposed policy options intends to address these issues.

This study seeks to analyse how each option addresses these issues. Furthermore, as part of this study, the options have been analysed alongside other objectives of a properly functioning tax system. These other objectives have been provided in section 1.4 to this report.

1.4 Scope of study

This study assesses the issues related to intra-EU supplies in comparison with domestic supplies under the current taxation model and then seeks to assess the impact of the implementation of each of the five proposed alternative options from a legislative, practical implementation, compliance cost, administrative cost and economic standpoint.

The assessment also evaluates the impact that the proposed changes would have on the functioning of the VAT system in general and the associated costs and benefits. It was conducted from the point of view of taxable persons and Member States' Tax Authorities and covers the following:

For taxable persons (acting as suppliers and/or customers):

1. Compliance costs[66] (identified as the fundamental issue to address for businesses);
2. Cash flow implications; and
3. Legal certainty.

For Member States:

1. Administrative costs[67];
2. Cash flow implications; and
3. Impact on VAT fraud (identified as the fundamental issue to address for Member States).

Finally, the economic effects of the implementation of the options in terms of quantifying the effects on macroeconomic variables such as cross-border trade, export prices, Gross Domestic Product (GDP) and employment are also evaluated.

1.5 Proposed policy options

The Commission services and the stakeholders examined in detail the workings of thirteen different VAT policy options and their associated benefits as well as any

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[66] Compliance costs will include costs related to activities such as: obtaining a VAT registration, completion of periodic VAT returns, dealing with a VAT audit, obtaining customer's VAT registration details, completing EC Sales Lists (recapitulative statements), and obtaining proof of the intra-EU movement of goods.

[67] Administrative costs will include costs relating to activities such as: processing VAT registrations, undertaking VAT audits, reviewing VAT returns, reviewing EC Sales Lists (recapitulative statements), helpline and written query handling, and the implementation of new legislation.

negative aspects with a view to selecting a shortlist of options for which further analysis would be undertaken. Five options were selected to be further examined:

1.5.1 Option 1: 'Limited improvement of current rules'

This involves improving the current rules without modifying them fundamentally.

This option seeks to reduce the compliance obligations and costs for businesses engaged in particular cross-border transaction types, namely call-off and consignment stock transactions and chain transactions, as well as extending the use of a range of simplifications already contained within the legislation.

It seeks to address VAT fraud by clarifying the documentary evidence required to support the exemption of an intra-community supply. In addition, it also considers implementing a requirement for the customer to sign a document declaring receipt of the goods in the Member State of delivery.

1.5.2 Option 2: 'Taxation following the flow of the goods'

This involves adapting current rules whilst still following the flow of the goods with the supplier charging the VAT of the Member State of destination.

This option aims to reduce compliance obligations and costs for businesses engaged in cross-border trade by utilising a single One-Stop Shop (OSS) return through which the supplier can not only account for VAT due on sale, but also offset against this VAT incurred on purchases in other Member States.

It also seeks to address levels of VAT fraud by making VAT accountable on the dispatch of the goods, rather than the self-accounting that currently occurs on the receipt.

1.5.3 Option 3: 'Reverse charge following the flow of goods'

This involves adapting current rules whilst still following the flow of goods with the customer applying the reverse charge mechanism in the Member State of destination.

This option aims to reduce compliance obligations and costs for businesses engaged in cross-border trade by harmonising the terminology associated with transactions and the method through which VAT is accounted for.

No additional measures against VAT fraud are considered under this option.

1.5.4 Option 4: 'Alignment with the place of supply of services'

This option aims to reduce compliance obligations and costs for businesses engaged in cross-border trade by harmonising the place of supply for services and goods. The customer will apply the reverse charge in its Member State of establishment.

Various anti-fraud measures may be implemented under this option. For example, there may need to be specific mention on the invoices and/or on the recapitulative statement about the location of the goods. Furthermore, the treatment of the sale as B2B may become exclusively dependent on the provision of a valid VAT number by the customer to the supplier.

1.5.5 Option 5: 'Taxation following the contractual flow'

This involves alignment with the contractual flow, with the supplier charging VAT of the Member State where the customer is established.

This option aims to reduce compliance obligations and costs for businesses engaged in cross-border trade by utilising a single One-Stop Shop (OSS) return through which the supplier can not only account for VAT due on sale, but also offset against this VAT incurred on purchases in other Member States. It also seeks to address levels of VAT fraud by making VAT accountable on the dispatch of the goods, rather than the self-accounting that currently occurs on the receipt.

1.6 Report structure

The remainder of this report is structured in eight further sections as follows:

- Section 2 examines in detail the five proposed VAT policy options;
- Section 3 describes the methodology adopted in assessing the impact of the VAT policy options;
- Section 4 provides a legislative analysis of the current and proposed VAT policy options;
- Section 5 illustrates the reporting obligations under the VAT policy options
- Section 6 details the potential cost impact of the VAT policy options on EU businesses;
- Section 7 details the potential impact of the VAT policy options on Member States' Tax Authorities;
- Section 8 evaluates the impact of the VAT policy options on the economy; and
- Section 9 presents a conclusion of the analysis conducted.

A number of annexes provide further supporting detail to the main report.

2 Details of the options

2.1 Narrative detail of the options

A brief overview of the five alternative taxation models proposed by the European Commission is set out below. Full details of each option can be found in Annex A.

Option 1: 'Limited improvement of current rules'

This improves the current rules without modifying them fundamentally.

This option seeks to harmonize the VAT treatment applied to call-off and consignment stock arrangements, and also chain transactions across the EU.

There are a number of associated simplification measures which will become compulsory, including: the domestic reverse charge for supplies carried out by non-established taxable persons, the possibility to appoint a tax representative for non-established liable taxable persons, purchases exempted in the framework of intra-EU trade, and the exempt supply of goods which are intended to be placed under warehousing arrangements.

Lastly, in order to combat fraud, the supplier will need to hold a number of non-contradictory commercial documents to certify transport or dispatch to another Member State.

Consideration is also given to the introduction of a standardised proof of movement document declaring receipt of the goods.

Option 2: 'Taxation following the flow of the goods'

This follows the supply (movement) of the goods with the supplier charging the VAT of the Member State of destination.

The supplier is obligated to account for VAT, and if they are not established in the Member State of taxation they will report the VAT due using a One-Stop Shop (OSS) mechanism. There is a single VAT registration that enables the supplier to report and account for all VAT on sales made within the EU and at the same time offset against this VAT incurred on purchases within the EU.

The place of supply of the goods is where the goods are located at the time when transportation ends; where they are not transported, the place of supply is where the goods are located when the supply takes place.

This option will require either the:

- Standardisation of the definitions of products eligible for reduced rates; or
- Application of the standard rate to all B2B supplies (domestic and intra-EU).

There are two simplification measures that will allow the supply to be subject to the reverse charge procedure (supplies to Certified Taxable Persons (CTP), and supplies between members of the same corporate family). A further simplification is envisaged, namely the introduction of a pan-European VAT group where supplies between members are disregarded. However this is outside the scope of this study.

In addition, this option could be extended to cover B2C supplies of goods by non-established suppliers, and even B2B and B2C supplies of services by non-established suppliers too. However, the impact of this possible extension is also outside the scope of this study.

In order to combat fraud the customer will be required to report all purchases from non-resident suppliers (together with the supplier's VAT number).

Finally, when the transport of goods is not organised by or on behalf of the supplier, the customer will have to provide the supplier with the name of the Member State of arrival of the goods within ten workings days.

Option 3: 'Reverse charge following the flow of goods'

This adapts the current rules whilst still following the supply (movement) of the goods with the customer applying the reverse charge mechanism.

A single transaction (supply of goods) will replace the two taxable supplies on the movement of goods (movement and acquisition). The customer receiving the supply of goods is required to account for the VAT via the reverse charge mechanism.

There are no associated simplification measures.

Option 4: 'Alignment with the place of supply of services'

This aligns with the rules governing the place of supply of services with the customer applying the reverse charge mechanism.

The place of supply will be where the customer has established its business. However, where the goods are provided to a fixed establishment of the business customer, and this is in a Member State other than that where he has established his business, the place of supply will be where the fixed establishment is located. In the absence of a fixed establishment, the permanent address or usual residence will serve as the place of supply. The customer will be obliged to provide the supplier with a VAT number in the Member State of taxation.

A simplification measure will be introduced whereby supplies to Certified Taxable Persons would not require a recapitulative statement.

Lastly, in order to combat fraud, the location of the goods will need to be mentioned on the invoice/recapitulative statement.

Option 5: 'Taxation following the contractual flow'

This follows the contractual flow of goods with the supplier charging the VAT of the Member State of establishment of the customer. This is irrespective of whether or not goods are transported; the place of supply of goods will be where the contracting party (the customer) is established. If the supplier is not established in the Member State of taxation, he will report the VAT due using the One-Stop Shop mechanism.

If the contracting party reallocates the cost to another establishment of the contracting party, that will be treated as a deemed supply and this entity will be required to account for and report the VAT due, once again using the One-Stop Shop Mechanism, if they are not already registered for VAT in the Member State of taxation.

This option will require either the:

- Standardisation of the definitions of products eligible for reduced rates; or
- Application of the standard rate to all B2B supplies (domestic and intra-EU).

There are two simplification measures that will enable the supply to be subject to the reverse charge procedure (supplies to Certified Taxable Persons, and supplies between members of the same corporate family). A further simplification measure is envisaged, namely the introduction of a pan-European VAT group where supplies between members are disregarded, however this is outside the scope of this study. Finally, in order to combat fraud the customer will be required to report all purchases from non-resident entrepreneurs.

2.2 Tabular summary of the options

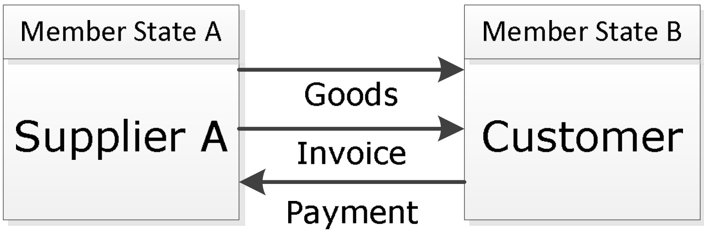
Using the following scenario in Figure 2 of a typical cross-border transaction, this study assesses the similarities and/or differences between the five options.

Assumptions of the scenario:

- Supplier is established in Member State A;
- Customer is established in Member State B; and
- The goods are despatched from Member State A to Member State B.

The supplier in Member State A arranges for the goods to be delivered to Member State B, which is also where the customer is established.

Figure 2: B2B sale of goods



Source: EY

As can be seen from Table 4 below, the options have a number of similarities. Under Option 2 ('taxation following the flow of goods') and Option 5 ('taxation following the contractual flow'), the supplier is responsible for charging VAT whilst in Option 1 ('limited improvement of current rules'), Option 3 ('reverse charge following the flow of goods') and Option 4 ('alignment with the place of supply of services') the obligation for accounting for the VAT due falls on the customer.

Option 4 ('alignment with the place of supply of services') and Option 5 ('taxation following the contractual flow') deem the place of taxation to be where the customer is established, whilst Option 1 ('limited improvement of current rules'), Option 2 ('taxation following the flow of goods') and Option 3 ('reverse charge following the flow of goods') deem the place of taxation to be the Member State where the goods are transported/delivered.

Options 1, 2, 4 and 5 have no additional requirements. This is on the basis that the One-Stop Shop return also includes domestic VAT reporting obligations.

Table 4 summarises the similarities and/or differences between the five policy options using a typical cross-border transaction.

Table 4: Summary of the main features of the options

Criteria	Option 1	Option 2	Option 3	Option 4	Option 5
Implementation of Destination Principle	Utilises existing taxation model	Supplier charges VAT of the Member State of Destination (Member State B) If customer is a CTP, or they are a member of the same corporate family as the supplier they will account for VAT via the reverse charge	Customer self-accounts for VAT in Member State of destination (Member State B) using the reverse charge mechanism	Customer self-accounts for VAT in Member State B (place of establishment) using the reverse charge mechanism	Supplier charges VAT of Member State B (place of establishment) If customer is a CTP, or they are a member of the same corporate family as the supplier they will account for VAT via the reverse charge
Place of supply	Follows actual flow of goods – where the goods are located at the time when transportation ends (Member State B)	Follows actual flow of goods – where the goods are located at the time when transportation ends (Member State B)	Follows actual flow of goods – where the goods are located at the time when transportation ends (Member State B)	Follows customer's place of establishment (Member State B)	Follows where the contracting party (customer) is established (Member State B)
Mechanism used to account for VAT	Customer's VAT return in Member State B – acquisition tax	Supplier's One-Stop Shop return in Member State A	Customer's VAT return in Member State B – reverse charge mechanism	Customer's VAT return in Member State B – reverse charge mechanism	Supplier's One-Stop Shop return in Member State A
Reporting	Existing VAT return	One-Stop Shop return	Existing VAT return – If not already registered, customer will have an obligation to register for VAT in the Member State of taxation	Existing VAT return	One-Stop Shop return
Recapitulative statements (EC Sales List)	Required	Obligation to submit is removed	Required	Required (unless the customer is a Certified Taxable Person)	Obligation to submit is removed
Additional reporting obligations	There may be an additional requirement where the customer has to document and sign a form to prove transport	▪ Customer required to report all purchases from non-resident entrepreneurs. ▪ When transport of goods is not organised by or on behalf of the supplier, the customer shall provide the supplier with the name of the Member State of arrival of the goods within ten working days.	N/A	Location of goods to be mentioned on invoice/recapitulative statement	▪ Customer required to report all purchases from non-resident entrepreneurs.

Criteria	Option 1	Option 2	Option 3	Option 4	Option 5
Simplification measures and additional considerations	▪ Harmonisation of the call-off and consignment stock simplifications across the EU, and harmonisation of the treatment of chain transactions across the EU. ▪ Introduction of domestic reverse charge for B2B supplies by non-established taxable persons. ▪ Appointment of a tax representative. ▪ Ability to exempt with credit purchases that are related to intra community supplies. ▪ Ability to exempt with credit purchases that are to be placed under a warehousing regime, and supplied within this location.	▪ Reverse charge mechanism for supplies to Certified Taxable Persons. ▪ Reverse charge mechanism for supplies between members of the same corporate family. Either: ▪ Definitions of products eligible for a reduced rate could be standardised and provided via a web portal; or ▪ Supplies of goods B2B (both domestic and cross-border) would be subject to the standard rate of VAT.	N/A	▪ Introduction of a Mini One Stop Shop (MOSS) for goods supplied to a non-EU customer but staying within the EU, and for any other supplies for which the supplier is liable to pay VAT in a Member State where they are not established.	▪ Reverse charge mechanism for supplies to Certified Taxable Persons. ▪ Reverse charge mechanism for supplies between members of the same corporate family. Either: ▪ Definitions of products eligible for a reduced rate could be standardised and provided via a web portal; or ▪ Supplies of goods B2B (both domestic and cross-border) would be subject to the standard rate of VAT.

Source: EY

2.3 Assumptions made in relation to the implementation of the five policy options

In order to provide an analysis of each option, the report has been prepared on the basis of a number of assumptions. These assumptions predominantly concern the mechanism through which the policy options will be implemented, as well as some of the practical implications associated with each option. These have been documented below:

- 'Establishment' for VAT purposes is defined as 'the place where the functions of the business's central administration are carried out', as laid out under the Implementing Regulations[68] for Directive 2006/112/EC.
- 'Fixed establishment' for VAT purposes is defined as 'any establishment characterised by a sufficient degree of permanence and a suitable structure in terms of human and technical resources to enable it to receive and use the services supplied to it for its own needs', as laid out under the Implementing Regulations[69] for Directive 2006/112/EC.
- The legislative changes prescribed under each of the five alternative taxation models will require the current taxation legislation to be revised and changed. For the purposes of this study, it is assumed that it will be possible to implement this legislative change and that other potential barriers (e.g.: domestic or treaty provisions) can be overcome. Although the pre-existing legal treaties within the EU may prove obstructive from a practical point of view, this is outside the scope of this report.
- Under each of the five policy options, budgetary relations between different Member States are likely to play a role in determining how a model is implemented in practice. This is outside the scope of this report and, as such, the quantitative benefit and/or cost analysis of this has not been included.

There are specific assumptions that have been made in relation to each of the options. These are detailed in Annex A.

[68] Article 10 of Council Implementing Regulation 282/2011/EU of 15 March 2011.
[69] Article 11 of Council Implementing Regulation 282/2011/EU of 15 March 2011.

3 Methodology

The assessment has been evaluated in terms of the impact that the proposed changes would have on the functioning of the VAT system in general and the associated legislative, business compliance, tax administration, cash flow and VAT fraud implications. This is done in comparison with what is currently applicable under the current taxation model.

Moreover, the economic impacts of the implementation of the options in terms of quantification of the effects on macroeconomic variables have been evaluated.

The methodology described in this section underpins the approach to estimating the impact of each policy option.

The methodology is based on the following steps:

- Primary and secondary data collection across all EU Member States (businesses and tax authorities) to inform the technical, legislative, compliance cost, administration cost and economic analysis; and
- Analysis of data collected to develop useful qualitative (technical, legislative, etc.) and quantitative insights and inform assumptions and parameters in the macro econometric vector autoregressive (VAR) model[70].

This approach has been selected based on the nature of the information available and the appropriate analysis techniques. It has been developed specifically for this study and tailored accordingly to ensure that each element of the analysis is suitable for the particular aims of the study.

3.1 Data Collection

This study relies on primary and secondary data collection efforts including data collected from businesses and Member States' Tax Authorities in the EU to carry out assessments and inform variables/assumptions in the economic model.

The purpose of this is to bring to light information from businesses and Member States on the "As Is" VAT compliance and administration issues as well as their likely response to hypothetical VAT policy changes.

The table below details the data instruments utilised as well as their purpose.

Table 5: Data collection instruments

Data collection instruments	Description
Business Survey	Issued to businesses across all 28 Member States to determine the cost of compliance relating to the current "As Is" scenario, as well as the monetary and non-monetary impact of the VAT policy options.
Tax experts' survey	Issued to tax experts across all 28 Member States to obtain technical and compliance cost information as it applies to the policy options.
Member State Survey	Issued to Tax Authorities in all 28 Member States to understand potential impact of the policy options on costs of administration and certain activities, as well as understand the make-up of the VAT Gap.
"As Is"/"To-be" Legislative Matrix	Issued to tax experts across all 28 Member States with the aim of illustrating the VAT treatment of a selection of goods transactions under the existing approach and from the approach of the policy options.

Source: EY

[70] VAR models are used to capture the historical relationships between multiple time series. The approach adopted is to use these historical relationships to make forecasts, while adjusting for changes implied by different VAT options.

3.1.1 Business Survey

A survey of businesses across all 28 Member States was conducted in order to establish the compliance obligations of businesses regarding the “As Is” situation and the associated compliance costs, as well as how these obligations would change under each of the proposed policy options. See Annex B for details of the survey template.

The survey itself was published through Survey Monkey, an online survey tool. It consisted of a total of 32 questions which were categorised as follows:

- Section 1: Trade related information. This section involved basic questions, the answers to which are included in respondents’ VAT returns and EC sales list for the period of 1 January 2013 to 31 December 2013.
- Section 2: VAT information. This section requested information in relation to the costs businesses incur in order to comply with the VAT legislation. The information was required to gain an understanding of how the business managed its VAT compliance obligations and the associated current costs.
- Section 3: Estimation of detailed cost information. As some of the options require businesses to undertake additional tasks, this section sought to obtain information in relation to how certain VAT compliance costs for businesses might change under the different taxation models.

As part of the process of verifying the data received from the survey, additional information was collected from businesses that had completed the survey.

Interviews were held with seven different businesses: three based in the UK, one based in Germany, two based in Poland, and one based in Sweden.

The purpose of the interviews was to discuss in detail the expected benefits and costs of each of the five policy options. The business representatives were asked to comment on whether they associated each option with an overall cost or benefit and, where possible, to quantify the value of these costs or benefits. They were also asked to provide comments on any further costs/benefits that they foresaw under each of the five options. These comments are included in Annex D.

Due to the low response rate overall (146 responses) and limited or no responses in some Member States, reliance placed on the results was limited to understanding the current compliance costs for businesses.

3.1.2 Tax experts’ survey

The tax experts’ survey examines technical and compliance cost information as it applies to the policy options. See Annex B for details of the survey template.

Tax experts[71] from all EU countries participated in the survey. Between them, these professionals provide tax compliance and tax advice services to hundreds of small, medium and large businesses.

The purpose was to collect data on the expected percentage change in relation to the amount of time spent on VAT compliance by a business with respect to each of the five policy options in comparison to the current state.

Under each option, the specific benefits and costs of the option for businesses were listed. Against each benefit/cost, the tax experts were asked to provide an estimate of the percentage decrease or increase in the annual number of hours spent dealing with VAT compliance for that business resulting from the specific benefit/cost. They were asked to provide this percentage for both the initial year of implementation (‘Year 1’) and for any year after that (‘Ongoing’) for each of the five policy options.

[71] This is a network of EY indirect tax experts in the EU Member States responsible for providing responses to the EU indirect tax experts’ survey.

The survey aimed to obtain information relating to three defined types of businesses: Type 1 SMEs, Type 2 SMEs and Large Businesses.

The criteria for defining the three business types are documented in Table 6.

Table 6: Criteria for defining business types

Criteria	Type 1 SME	Type 2 SME	Large businesses
1. Annual Turnover	Less than EUR 50 million	Less than EUR 50 million	More than 50 EUR million
2. Employees	Less than 250 employees	Less than 250 employees	More than 250 employees
3. Establishment	Only one EU State	Only one EU State	Numerous EU States
4. VAT Registration	Single VAT registration in Member State of establishment	VAT registration in more than one (but less than 6) Member States	VAT registration in 6 or more Member States
5. Trade	Predominantly domestic trade and has begun trading outside its Member State	Domestic and intra-EU trade	Domestic and intra-EU trade
6. Invoices	Less than 50 Accounts Payable and Accounts Receivable invoices per month for each VAT registration	Less than 50 Accounts Payable and Accounts Receivable invoices per month for each VAT registration	More than 50 Accounts Payable and Accounts Receivable invoices per month for each VAT registration

Source: EY

These business types were selected because the survey respondents identified them as being the three company types to consider in determining the scale of any cost changes under the five VAT policy options. These company types are also likely to be the ones engaged in cross-border trade and thus impacted by the proposed options.

Micro businesses[72] were excluded on the basis that they are unlikely to engage in cross-border trade hence rendering them irrelevant for the purposes of this analysis.

As well as providing compliance cost information, tax experts were asked to provide any necessary relevant additional comments, where appropriate, in relation to the proposed policy options.

3.1.3 Member State survey

The Member State survey was distributed to all 28 Tax Authorities across the EU. See Annex B for details of the survey template. The aim of the survey was to collect data on the current VAT administrative burden and how that will change under each of the proposed VAT policy options. In addition, questions were asked to evaluate the size of elements of VAT fraud that could be impacted with the introduction of some of the options.

Prior to the design and circulation of the Member State surveys, interviews were conducted with the Tax Authority representatives from six Member States (Belgium, France, Italy, Poland, Sweden and the UK). The purpose of these interviews was to gain a clearer understanding of what data could be expected to be received in relation to questions on VAT administration activities, VAT administrative costs and potential impact of changes to VAT legislation on certain activities.

The Member States' survey consisted of a standardised set of questions comprising:

- The current VAT fraud gap that arises from intra-EU B2B trade;
- The current labour and non-labour costs associated with intra-EU B2B VAT administration;

[72] The European Commission defines a micro-business as one which has fewer than ten employees and a turnover or balance sheet total of less than €2 million. For the purposes of this analysis, we also include the assumption that these businesses do not engage in cross-border trade.

- An assessment of how costs associated with dealing with VAT administration are expected to change with the potential introduction of the VAT policy options; and
- An expectation of how each Member State intends to resource any additional labour requirements.

3.1.4 "As Is"/"To Be" legislative matrix

The "As Is" and "To Be" analysis templates were prepared with the aim of illustrating the VAT treatment of a selection of common types of goods transactions both from an existing approach ("As Is" analysis), and from the approach of the five policy options ("To Be" analysis).

The VAT treatment for the following scenarios was analysed within the templates:

- Domestic supply of goods;
- Intra-EU supply of goods;
- Transfer of own goods between Member States;
- 'Call-off stock' and 'consignment stock' scenarios;
- Installed goods;
- Triangular supply of goods; and
- Chain transaction involving four or more parties in the supply of goods.

Existing legislation contained within the Council Directive 2006/112/EC, was used as the basis to construct the "As Is" analysis template while the material produced by the European Commission detailing the VAT policy options was used to inform the "To Be" analysis. The "As Is" template includes, for example, sections on the conformity of local legislation with EU legislation and details of where differences exist.

The "To Be" template on the other hand enquires about any existing legislative conditions in Member States which could be capable of obstructing the legislative change proposed under each option.

Each policy option was analysed side-by-side, so as to enable direct comparisons to be made and to make it more apparent where differences in VAT treatment between the options exist.

3.1.5 Secondary data collection

A comprehensive review of relevant publicly available economic and business data was undertaken which was used to complement the primary data collection exercise.

The relevant economic data on the EU has been collected primarily from Eurostat, covering the period 2000-2013. For data not available on Eurostat, alternative resources, such as the World Bank, OECD, UNECE[73], National Statistics Office Databases as well as Bloomberg were explored.

3.1.6 Literature review

A literature review was conducted which encompassed: (i) a review of literature screened by the Commission services; and (ii) a desk top literature research exercise to identify any additional studies/reports which will help complement the approach adopted in this study.

In addition, some of these studies helped to give assurance as to the reasonableness of some of the methods applied in this study.

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[73] United Nations Economic Commission for Europe.

3.2 Primary data, legislative, practical and economic analysis

The data collected was analysed to develop qualitative (legislative, practical, etc.) and quantitative insights and inform assumptions in the economic model. Some of these analyses included:

3.2.1 Primary data analysis

The results of the study are based on data collected from businesses, Tax Authorities and tax experts in all EU Member States. Primary data collected via surveys was analysed with a view to developing insights into the current VAT compliance systems of businesses and the VAT administration processes in EU Member States and how they will respond to the introduction of policy changes. The purpose of this analysis was to highlight trends and draw attention to areas of importance.

An understanding of how the VAT compliance burden of businesses will change as a result of the introduction of the five policy options was sought. Furthermore, an analysis of the surveys was conducted using statistical measures to highlight the impact of policy options on businesses. These measures include:

- A frequency distribution of the compliance cost estimates to identify the range of cost estimates that were most or least prevalent amongst respondents; and
- The median[74] compliance cost estimates outlined by the survey respondents with respect to how costs will change under each of the policy options.

Using the survey of Tax Authorities, an analysis was conducted to:

- Quantify the size of the VAT fraud gap with a view to assessing the impact each of the policy options will have on its magnitude; and
- Assess how the administrative costs will change as a result of these VAT policy options.

3.2.2 Macroeconomic impact analysis

The macroeconomic impact of each policy option was obtained as the difference between the “As Is” and the “To Be” forecasts of the selected macroeconomic indicators. These forecasts were estimated using the VAR approach.

The VAR approach relies on the assumption that the current levels of the macroeconomic variables can be predicted using the past history of these variables. Based on this approach, the movements in the variables (real GDP growth, real exports growth, real consumption growth and employment growth) can be explained by the past growth rates as well as the changes in the aggregate price and export price levels. In order to assess the impact of the policy options, the underlying relationships between the macroeconomic variables for the EU are identified by fitting a VAR model to the relevant historical data.

To analyse the macroeconomic impact of each policy option, the results of the primary data analysis were used as the input for the changes in the export price and the consumption price levels. Specifically, it is assumed that (1) the savings gained from the reduction in the compliance costs due to the implementation of the policy options will augment the competitiveness of the suppliers, driving the dispatch price levels down and (2) the improved tax recovery due to decreased fraud will be returned to the consumers in the form of a consumption tax cut, decreasing overall price levels in the future. This way, the “As Is” price levels’ forecasts were updated to reflect the findings from the primary data analysis for each policy option.

These assumptions provide one of a number of plausible scenarios for how governments and businesses will react to increased VAT revenues and reduced compliance costs respectively.

[74] Median is the number separating the higher half of a data sample, a population, or a probability distribution, from the lower half.

Having obtained a different set of price forecasts, the forecasts of the macroeconomic indicators conditional on the updated price forecasts were considered for a period of 12 quarters. These forecasts were then compared to the indicators' forecasts from the "As Is" analysis to evaluate the incremental impact of the policy options. A detailed description of this methodology is included as Annex E in this report.

3.3 Limitations of the study

There are a number of difficulties associated with the collection of detailed compliance cost information for businesses and Member States' Tax Authorities. Such methodological issues have become apparent in previous studies on compliance costs[75]. As such, there are inherent limitations in gathering this information.

Furthermore, for the purposes of this study, there are a number of limitations that it is pertinent to draw attention to as these may impact the results and conclusions obtained. These include:

- The findings are highly sensitive to the opinions of a sample of business respondents, tax officials and the tax experts on questions that do not cover every possible detail and element that might be required in order to fully assess the implications of the current and proposed policy options.
- The implementation of Options 2 and 5 are considered to have similar impacts in terms of compliance and administrative costs for businesses and Member States' Tax Authorities and therefore any differences between these two options may be due to perception bias.
- Technical and legislative implications of the "To Be" options have been identified based on the literature provided in relation to the details and mechanisms for each proposed option. Any legislative implications arising from factors not explicitly stated in the narrative for each option are not considered.
- This study focuses predominantly on the economic impact of each of the five policy options. Political implications of implementing the options in different Member States are not considered.
- Legislative conditions beyond those of the immediate tax legislation affected by the alternative policy options are not considered.
- Certain aspects of the policy options may shift the legal, political or economic patterns within the EU in a manner which goes beyond the specific scope of this report.
- There are a number of assumptions about what firms will do with savings in compliance costs. While some will invest, some may reduce prices or perhaps increase rewards to shareholders. However, since this is a cross-border exercise, the focus is on cross-border trade and a plausible assumption is that in an increasingly global market, this saving will be used to boost competitiveness via dispatch price reductions.
- It is impossible to predict how each EU Member State will deal with increased tax revenues from a reduction in VAT fraud. Therefore, an assumption – revenue neutrality through a reduction in the VAT rate – is one which is considered a possibility.
- Data provided by Eurostat in relation to intra-EU trade statistics is subject to specific limitations, namely that the calculation and reporting method used by Member States to report figures may differ throughout the EU.

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[75] European Commission publication 'Compliance costs related to cross-border activity' (2014) sought to quantify compliance costs related to tax on individual cross-border activities. Local tax experts were surveyed in order to obtain this information. Another European Commission publication, 'A review and evaluation of methodologies to calculate tax compliance costs' (2013), reviewed and analysed a variety of methodologies used to measure tax compliance costs borne by businesses and individuals within the EU.

4 Legislative analysis of the current and proposed policy options

Provided below is a summary of the technical/practical issues identified in relation to the current VAT treatment of cross-border B2B supplies of goods, as well as the five proposed policy options.

Definition of options - reminder

Option 1: ‘Limited improvement of current rules’

Option 2: ‘Taxation following the flow of the goods’

Option 3: ‘Reverse charge following the flow of the goods’

Option 4: ‘Alignment with the place of supply of services’

Option 5: ‘Taxation following the contractual flow’

4.1 “As Is” Analysis

Currently for B2B cross-border transactions, there are two transactions: an intra-community dispatch and an intra-community acquisition. As this is a B2B transaction (commonly evidenced by the purchaser providing the supplier with his VAT number), the supplier should not levy local VAT on this sale; instead this should be treated as an exempt with credit supply. The purchaser is required to account for acquisition VAT via the VAT return in the Member State of arrival.

VAT experts in all 28 Member States considered that, in general, there were no significant differences between the EU Directive and the local VAT legislation.

There were however certain areas where Tax Authorities have applied the rules differently across the EU. These relate to the following areas:

- The documents required in order to evidence a B2B intra community supply.
- The conditions that are required to be met in order for the simplified triangulation rule to apply.
- The treatment of chain transactions.
- The treatment of call-off and consignment stock.

These issues are in line with the comments regarding harmonisation raised in the European Commission’s ‘Communication on the Future of VAT’ (2011) which highlighted the importance of “standardising VAT obligations”.

These areas are covered in more detail below.

4.1.1 Evidence required for intra community supply

Member States apply varying levels of checks, controls and documents that are required in order for a supplier to exempt a B2B intra community supply.

The majority of Member States require the supplier to ensure the VAT number of the customer exists and it is valid. For example, this is the approved treatment in France[76]. Other countries, such as Denmark, do not have a standard requirement in relation to the evidence required for the removal of the goods. We understand that the Danish Tax Authorities are awaiting a joint EU approach on this before releasing any guidance.

[76] However, please note that the Supreme Tax Court in France has ruled that there is no obligation to check the customer’s VAT number unless the supplier has a suspicion of fraud (case-law of Supreme Tax Court, 25 February 2011, n° 312290, 8e and 3e s.-s, Sté Abacus Equipement Electronique). This is also reflected in the ECJ’s decision in C-587/10 Vogtländische Straßen- and Tief- und Rohrleitungsbau GmbH Rodewisch (VSTR).

In contrast, some Tax Authorities are very prescriptive in the conditions that are required to be met in order for the supplier to exempt his intra community supply. For example, in Greece, one of the conditions is that the supplier is required to provide a declaration in which he certifies that the VAT number of the buyer is valid and that there has been no total or partial cancellation of the transaction.

Similarly, the Slovakian Tax Authorities require the exemption of the intra community supply to be supported by various documents including, where appropriate, the requirement to retain the name and surname of the driver providing the transport and the registration number of the vehicle.

This lack of harmonisation (and lack of certainty) results in an increased risk when trading across-borders within the EU.

4.1.2 Consignment Stock and call-off stock

As can be seen from the summary table in Annex C, in relation to call-off stock 22 Member States have introduced some form of simplification, whilst only 7 of the 28 Member States have introduced a simplification measure in relation to consignment stock.

The VAT accounting treatment to be applied to call-off stock can vary between Member States, for example in Malta, the call-off stock simplification can only be operated where the supplier has received written authorisation from the local Maltese VAT office.

Implementation of the consignment stock simplification can also vary whether it has been officially implemented into legislation or not. For example, in Denmark the consignment stock simplification has not been implemented in legislation but it may be possible for a supplier to obtain a special concession to avoid the obligation to VAT register as a result of such supplies. On the other hand, in Ireland the consignment stock simplification will only be applied provided certain conditions are met, namely that there are less than 3 customers of the supply and that the stock is held for a maximum of 3 months.

Therefore there is continuing uncertainty with regards to the tax treatment to be applied when undertaking such transactions, and frequently there is a need for suppliers to register for VAT in multiple Member States.

This lack of legislative harmonisation with regards to call-off stock and consignment stock was also highlighted by the ‘Consignment Stocks Sub-Groups’ paper (2013) which identified issues surrounding the harmonisation of the definitions of the fictitious intra-community supply and when the taxable event occurs in these type of transactions.

4.1.3 Triangulation

From our review of the “As Is” matrices, there appears to be very little consistency in how Article 141 of the Directive has been implemented in local legislation. In particular, a significant number of Member States consider whether the intermediate supplier is VAT registered and/or established in either the Member State of dispatch and/or arrival when determining whether the simplification can be applied. Some examples are provided below.

Under Belgium’s VAT legislation, the customer in the Member State of arrival is required to account for VAT on the intermediate supplier’s behalf irrespective of whether the intermediate supplier is already VAT registered in Belgium. However, in Bulgaria under the current VAT legislation, if this same scenario arose, the simplification triangulation rule could not be applied.

In France, where the intermediate supplier is VAT registered and/or established in either of these Member States, the simplified triangulation procedure cannot be applied.

In Germany, the simplified triangulation rules can be applied where the intermediate supplier is VAT registered but not established in the Member State of arrival.

Due to the differences in approach there is an increased risk of non compliance across the Member States. Triangulation transactions are open to challenge by Tax Authorities, especially where businesses may have sought to embed rules within their accounting software in order to automate VAT compliance accounting processes.

4.1.4 Chain transactions

There are currently no legal definitions set out in the VAT Directive that clearly stipulate how to determine which transaction in a cross-border chain of transactions is deemed to be domestic and which should be considered to be the intra-community supply.

The rules applied by the Member States are currently derived from case law; for example, C-245/04 EMAG Handel Eder OHG, C-430/09 Euro Tyre Holding BV, C-587/10 Vogtländische Straßen- and Tief- und Rohrleitungsbau GmbH Rodewisch (VSTR).

In light of this, there is a lack of clarity and consistency regarding how the current rules should be applied in relation to chain transactions. It appears to be common practice that consideration is paid to items such as the VAT number used, as well as the contractual and transport arrangements, etc. in determining which supply constitutes the intra community supply.

Where these items conflict, it is not clear which one should be the decisive factor. In most cases the incoterms[77] that are used were identified as being indicative but not definitive. However, due to the lack of binding procedures, there is an increased risk across the various Member States that supply chains are open to challenge by Tax Authorities.

4.1.5 Additional registration considerations

Some Member States apply varying levels of registration and reporting obligations and controls (beyond the normal VAT registration requirements) on specific B2B intra community supplies.

For example, in Hungary, effective from 1 January 2015, a new administrative obligation for taxpayers engaged in the carriage of goods by road has been implemented – the Electronic Road Freight Control System ("EKAER") database. Taxpayers engaged in the carriage of goods by road are required to register in order to be issued with an EKAER number under which they will have to report specific transactions to the Tax Authority. There are significant penalties for failure to comply with this.

In contrast, other Tax Authorities do not require such a reporting obligation. Therefore, this lack of harmonisation (and lack of certainty) results in an increased risk for businesses when trading across-borders within the EU.

4.2 "To Be" Analysis

Overall, no significant obstructions were identified in any of the Member States that would prevent any of the five options being implemented. In determining this, only the technical aspects of the legislation were considered.

However, a number of issues were identified, which should be considered prior to any new legislation being implemented. Some of the comments in relation to the options are provided below.

[77] Incoterms (international commerce terms) are internationally recognised standard trade terms often used in sale contracts.

4.2.1 Option 1: 'Limited improvement of current rules'

4.2.1.1 Bad debt Relief

The Romanian and Spanish local legislation allow for established taxable persons to reclaim output tax previously paid to the Tax Authorities that has not been received from the customer, subject to certain conditions being met (referred to as "bad debt relief"). However, under the current legislation in these two Member States, non-established taxable persons are not entitled to use the bad debt relief provisions; as such, they are at a disadvantage when compared to those established taxable persons.

If this option is implemented, consideration should be given to whether the Directive can provide that where Tax Authorities allow taxable persons to apply for bad debt relief, that this is uniformly applied in respect of both established and non-established taxable persons.

4.2.1.2 Electronic VAT registration

Not all Member States are currently able to accept the electronic VAT registration of taxable persons; for example, this is the case in Cyprus and Malta. On the basis that all Member States have had to prepare for the electronic registration of taxable persons for the Mini One Stop Shop from 1 October 2014 in time for the change in place of supply rules from 1 January 2015, it is anticipated that Member States will be able to make registering electronically available in all cases.

4.2.1.3 Chain transactions

Option 1 provides that the supply that receives the intra community exemption may change depending on whether a VAT number of the Member State of departure is provided to the supplier.

For example, the exempt intra EU supply is presumed to be the supply of goods to the person arranging the transport of the goods (the buyer). However, where the buyer provides the supplier with a VAT number in the Member State of departure of the goods, then the first supply will instead be domestic, and the subsequent supply by the buyer to his customer will be the exempt intra EU supply.

Currently, in relation to cross-border chain transactions, there are different rules applied across the various Member States. For example, in Austria, the exempt intra community supply of goods is considered to apply to the supply made to the taxable person arranging the transport.

4.2.2 Option 2: 'Taxation following the flow of the goods'

4.2.2.1 Bad debt Relief

As stated in section 4.2.1.1 for Option 1, under Romanian and Spanish local legislation, non-established taxable persons are not entitled to use the bad debt relief; as such, they are at a disadvantage to those established taxable persons.

Therefore, where there is a supply of goods by a non-established supplier and VAT is accounted for on the One-Stop Shop return, the supplier would be adversely impacted if they do not receive the payment from the recipient of the goods.

If this option is implemented, consideration should be given to whether the Directive provides that where Tax Authorities allow for taxable persons to apply for bad debt relief, that this is uniformly applied across established and non-established taxable persons. Furthermore, it is preferable that the conditions to claim bad debt relief should be harmonised across the Member States in order to minimise the risk of suppliers incorrectly claiming bad debt relief as applied in the Member State of taxation.

4.2.2.2 Electronic VAT registration

As provided in section 4.2.1.2, not all Member States are currently able to accept the electronic VAT registration of taxable persons. In advance of new legislation being implemented, Member States will need to ensure that registrations can be carried out electronically.

4.2.2.3 Tax Guarantee

In Slovakia newly registered VAT payers are required to pay a tax guarantee (ranging from EUR 1,000 to EUR 500,000). This could be a significant cash flow disadvantage for those suppliers who register under the One-Stop Shop in Slovakia.

4.2.2.4 Harmonisation of rules

In order for this option to operate effectively, harmonisation of some rules is required. A number of these are likely to have been identified already as a result of a review carried out in relation to the Mini One Stop Shop return that has been introduced for business to consumer supplies of electronic services in 2015.

The items identified that may require consistency across all Member States are as follows:

- The One-Stop Shop return should be submitted at the same time in all Member States. In Slovenia there are different submission dates for returns (depending on whether there have been solely domestic transactions and/or additional intra community transactions). Furthermore, it may be preferable to have monthly submissions of the One-Stop Shop return on the basis that this may reduce any fraudulent activity.
- The time of supply rules should be aligned in all Member States in order to ensure that VAT is accounted for consistently across the EU.
- The rules regarding the storage of invoices, and the duration these and other records are required to be maintained should be consistent across all Member States. For example, in the UK records are required to be kept for six years whereas in Lithuania, the requirement is ten years.
- The exchange rate applied to the various currencies that may need to be included on an invoice should be applied consistently (for example, the European Central Bank exchange rate could be used).
- Certain Member States operate a payment on account system (also referred to as interim payments) where large tax payers (above a certain threshold) are required to make regular payments of the VAT to the Tax Authorities. Where the One-Stop Shop return is not submitted on a monthly basis, the threshold for any payments on account that may be due should be applied consistently across all Member States.
- In relation to the standardisation of the reduced rates, this has been identified as likely to cause difficulty. This is because each Member State has its own reduced rate or rates and the goods these are applied to can vary between Member States.
- Consideration should be given to how to ensure that the definition of related parties is consistent across the Member States. In Croatia there is currently no definition of related parties.
- Where harmonisation is not possible then the legislation/rules applicable in the Member State where the business has a One-Stop Shop registration should prevail.

4.2.3 Option 3: ‘Reverse charge following the flow of goods’

4.2.3.1 Electronic VAT registration

As provided in section 4.2.1.2, not all Member States are currently able to accept the electronic VAT registration of taxable persons. In advance of new legislation being implemented, Member States will need to ensure that registrations can be carried out electronically.

4.2.4 Option 4: 'Alignment with the place of supply of services'

4.2.4.1 Electronic VAT registration

As provided in section 4.2.1.2, not all Member States are currently able to accept the electronic VAT registration of taxable persons. In advance of new legislation being implemented, Member States will need to ensure that registrations can be carried out electronically.

4.2.4.2 Fixed establishment

There is a need to have a robust view of the definition of what a fixed establishment is. Whilst the Implementing Regulations[78] sought to define what would be considered a fixed establishment (and incorporated case law in doing so), businesses still have difficulty in determining whether a fixed establishment exists.

Tax Authorities in the various Member States continue to have different interpretations of when a fixed establishment is deemed to exist. For example, in Spain a rented surface in a warehouse would be considered by the Tax Authorities to be sufficient in determining that a fixed establishment exists.

4.2.4.3 Movement of the goods

In order to demonstrate why the goods are not taxed in a particular Member State, tax experts in Bulgaria have commented that revenue authorities will in all likelihood still insist that evidence of the movement of the goods (and not just the location of the customer) should be retained by businesses.

4.2.4.4 Mini One Stop Shop

This option provides for customers who are not established in the EU to register in the EU under a Mini One Stop Shop in order to account for VAT on goods purchased in the EU that remain in the EU.

Certain Member States have implemented simplifications for such scenarios. For example, in the French Tax Guidelines, non EU established enterprises can avoid a VAT registration in France where they purchase and resell the goods in France provided that the supplier collects the French VAT that would have been payable by the non EU operator.

4.2.5 Option 5: 'Taxation following the contractual flow'

4.2.5.1 Fixed establishment

The place of supply under this option is where the contracting party is established. If this option is chosen, in order to ensure that businesses are able to determine where the place of supply is, there would need to be a robust unified view across the EU of what the definition of establishment is for these purposes.

[78] Article 11(1) of Council Implementing Regulation (EU) No. 282/2011 of 15 March 2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax, OJ L 77 of 23 March 2011.

5 VAT reporting under the policy options

As part of the assessment of the practical implications of each of the proposed policy options, the reporting obligations for businesses and administrative obligations of Member States should also be considered. In order to assess this, a number of different transaction types have been analysed to determine how the reporting/administration requirements may change under the proposed policy options. This includes three variations on direct B2B cross-border trade (Scenarios A, B and C in which the Member State of establishment of the customer and supplier vary). Furthermore, some of the less common transaction types such as call-off and consignment stock, triangulation and chain transactions are also considered.

In determining whether businesses have a reduced, the same, or an increased reporting requirement under these transactions, only the ongoing VAT/OSS return reporting requirements for each of the parties involved has been reviewed.

The study also assesses whether the policy options address the legislative issues identified with the current “As Is” model as provided in section 4.1.

Definition of options - reminder

Option 1: ‘Limited improvement of current rules’

Option 2: ‘Taxation following the flow of the goods’

Option 3: ‘Reverse charge following the flow of the goods’

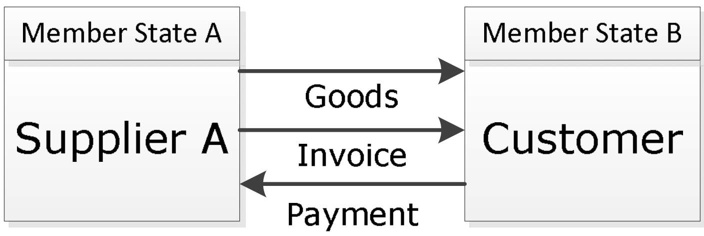
Option 4: ‘Alignment with the place of supply of services’

Option 5: ‘Taxation following the contractual flow’

5.1 B2B cross-border sale of goods – Scenario A

Figure 3 represents the supply chain for a normal B2B cross-border supply of goods.

Figure 3: B2B cross-border sale of goods – Scenario A



Source: EY

The VAT return reporting requirements in relation to B2B cross-border sale of goods (scenario A) are discussed in Table 7.

Table 7: VAT return reporting requirements for B2B cross-border supply of goods – Scenario A

	Supplier A	Customer	Member States
“As Is” scenario	Supplier A treats the supply of the goods as an exempt intra-EU supply.	The customer accounts for acquisition VAT on the supply in Member State B.	Member State A Tax Authority assumes responsibility for audit of supplier’s VAT return. Member State B Tax Authority assumes responsibility for audit of customer’s VAT return. EC Sales List data is to be collected and retained.
Option 1	No change from the	No change from the	No change from the

	Supplier A	Customer	Member States
	treatment under the “As Is” scenario.	treatment under the “As Is” scenario.	treatment under the “As Is” scenario.
Option 2	Supplier A will levy VAT at the rate applicable in Member State B (as the Member State of destination). They will account for this through their OSS return.	The customer will incur domestic VAT on the supply from Supplier A. This is recoverable on their domestic VAT return. If the customer is a CTP, or they are a member of the same corporate family as the supplier the customer may account for VAT via the reverse charge.	Member State A Tax Authority assumes responsibility for audit of supplier’s OSS return. Member State B Tax Authority assumes responsibility for audit of customer’s VAT return. EC Sales List data for goods no longer needs to be collected and retained.
Option 3	No VAT levied by supplier A.	The customer will account for VAT through the reverse charge mechanism in Member State B.	No change from the treatment under the “As Is” scenario.
Option 4	No VAT levied by supplier A.	The customer will account for VAT through the reverse charge mechanism in Member State B on the basis that it is established in Member State B.	No change from the treatment under the “As Is” scenario.
Option 5	Supplier A will levy VAT at the rate applicable in Member State B (where the customer is established). They will account for this through their OSS return.	The customer will incur domestic VAT on the supply from Supplier A. This is recoverable on their domestic VAT return. If the customer is a CTP, or they are a member of the same corporate family as the supplier the customer may account for VAT via the reverse charge.	Member State A tax authority assumes responsibility for audit of supplier’s OSS return. Member State B Tax Authority assumes responsibility for audit of customer’s VAT return. EC Sales List data on goods no longer needs to be collected and retained.

Source: EY

Reporting obligations

For this transaction type, under scenario A, there is a change in the way it is reported under Options 2, 3, 4 and 5. However, there is no increase in overall requirement with regards to the reporting of VAT under any of the options.

For example, under Option 2, instead of treating the sale as an exempt intra community supply on its VAT return, the supplier will be required to levy VAT of the Member State of destination and report this on its One-Stop Shop return. Therefore, whilst there is a change in the way the transaction is reported on an ongoing basis, there is no overall increase in the return reporting process. (If the anti-fraud measure is introduced where the customer has to report the supplier’s registration number, this would lead to an increase in the return reporting for the customer).

Specific issues addressed

As identified in section 4.1.1, one of the issues that arises from the current “As Is” VAT treatment applied to this type of transaction is the lack of consistency regarding the evidence required to exempt a B2B intra community supply.

Option 1 seeks to clarify the documentation required. The provision of a list of acceptable documents is helpful and increases certainty regarding what constitutes an acceptable evidence. However, no consideration is given to how easy it is to obtain/retain such documentation.

In relation to Option 2, it is assumed that where the supplier arranges the transportation of the goods, they will hold sufficient evidence to prove the movement of the goods to another Member State and where the customer arranges the transportation, it is sufficient for the supplier to simply be informed of the name of the Member State of arrival to support the place of taxation.

Under Option 4, the actual destination of the goods will continue to be monitored, this will be evidenced by the customer providing the supplier with their VAT number relating to the Member State of arrival (or establishment where there is no fixed establishment in the Member State of arrival).

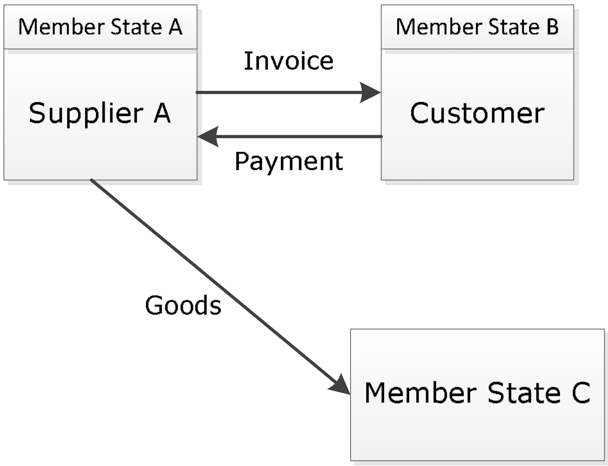
Under Option 5, retention of evidence is not required as the movement of the goods within the EU is no longer monitored, as such the sale by the supplier is on par with a domestic transaction (i.e. VAT is charged).

It is considered that under Option 3 the issue identified above will remain.

5.2 B2B cross-border sale of goods – Scenario B

Figure 4 represents the supply chain for a B2B cross-border supply of goods where the goods are transported from the Member State of the supplier to a Member State other than where the customer is established.

Figure 4: B2B cross-border supply of goods – Scenario B



Source: EY

The VAT return reporting requirements in relation to B2B cross-border sale of goods (scenario B) are discussed in Table 8.

Table 8: VAT return reporting requirements for B2B cross-border supply of goods – Scenario B

	Supplier A	Customer	Member States
"As Is" scenario	Supplier A treats the supply of the goods as an exempt intra-EU supply.	The customer will account for acquisition VAT on the supply in Member State C. This may require the customer to register for VAT in Member State C.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT return. Member State C Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data for goods is to be collected and retained.
Option 1	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.
Option 2	Supplier A will levy VAT at the rate applicable in Member State C (as the Member State of destination). They will	The customer will incur VAT at the rate applicable in Member State C on the supply from Supplier A. This	Member State A Tax Authority assumes responsibility for audit of supplier's OSS return.

	Supplier A	Customer	Member States
	account for this through their OSS return.	will be recoverable through their OSS return. If the customer is a CTP, or they are a member of the same corporate family as the supplier the customer will account for VAT via the reverse charge.	Member State B Tax Authority assumes responsibility for audit of customer's OSS return. EC Sales List data for goods no longer needs to be collected and retained.
Option 3	No VAT levied by supplier A.	The customer will account for VAT through the reverse charge mechanism in Member State C. This may require the customer to register for VAT in Member State C.	No change from the treatment under the "As Is" scenario.
Option 4	No VAT levied by supplier A.	The customer will account for VAT through the reverse charge mechanism in Member State B on the basis that it is established in Member State B, has no establishment in Member State C and is not delivering goods to its own customers in Member State C.	No change from the treatment under the "As Is" scenario.
Option 5	Supplier A will levy VAT at the rate applicable in Member State B (where the customer is established). They will account for this through their OSS return.	The customer will incur domestic VAT (at the rate applicable in Member State B) on the supply from Supplier A. This is recoverable on their domestic VAT return in Member State B[79]. If the customer is a CTP, or they are a member of the same corporate family as the supplier the customer will account for VAT via the reverse charge.	Member State A tax authority assumes responsibility for audit of supplier's OSS return. Member State B Tax Authority assumes responsibility for audit of customer's return. EC Sales List data for goods no longer needs to be collected and retained.

Source: EY

Reporting obligations

Similar to the basic B2B cross-border transaction (Scenario A), there is a change in the way this transaction is reported under Options 2, 3, 4 and 5. However, there is a decrease in obligations relating to the reporting of VAT under Options 2, 4 and 5 and the customer is no longer required to register for VAT in Member State C.

Specific issues addressed

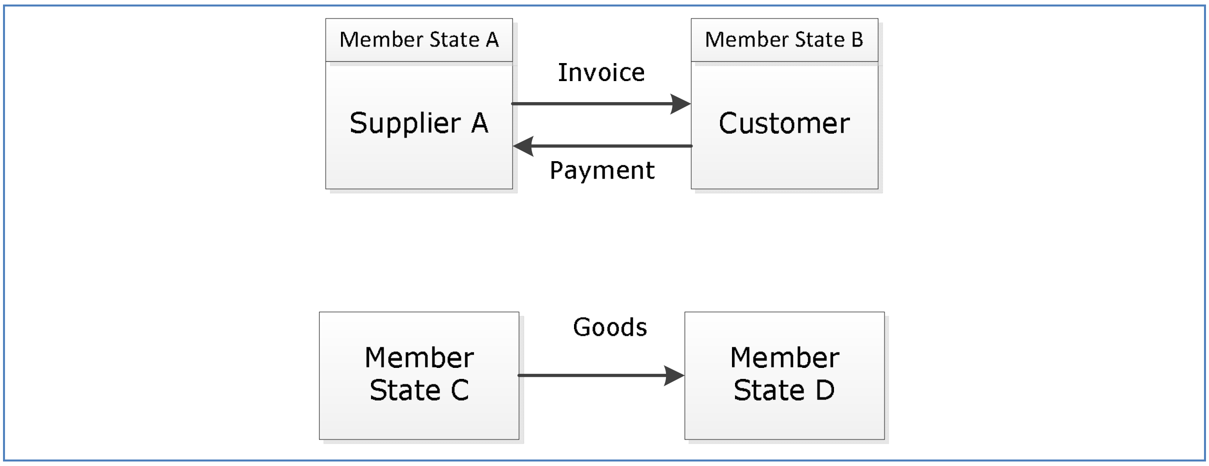
Similarly to the B2B cross-border supply in section 5.1, the issue of the lack of consistency regarding the evidence required to exempt a B2B intra community supply under the current "As Is" scenario is addressed, in part, by Options 1, 2, 4 and 5 (for the reasons stated in section 5.1). However, it is considered that under Option 3 this issue will remain.

[79] Please note that where the customer also has an establishment in Member State C, and it reallocates the cost of the goods to this establishment, this will be considered to be a deemed supply of goods by the customer. As such, the customer will be required to account for VAT (via the OSS return) on its deemed supply of the goods to its establishment in Member State C (unless the customer has CTP status in which case the reverse charge will apply).

5.3 B2B cross-border sale of goods – Scenario C

Figure 5 represents the supply chain for a B2B cross-border supply of goods where the goods are transported from a different Member State to where the supplier is established to a Member State other than where the customer is established.

Figure 5: B2B cross-border supply of goods – Scenario C



Source: EY

The VAT return reporting requirements in relation to B2B cross-border sale of goods (scenario C) are discussed in Table 9.

Table 9: VAT return reporting requirements for B2B cross-border supply of goods – Scenario C

	Supplier A	Customer	Member States
"As Is" scenario	The supplier will have an obligation to be registered for VAT in Member State C. Supplier A treats the supply of the goods as an exempt intra-EU supply.	The customer will account for acquisition VAT on the supply in Member State D. This may require the customer to register for VAT in Member State D.	Member State C Tax Authority assumes responsibility for audit of supplier's VAT return. Member State D Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 1	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.
Option 2	Supplier A will levy VAT at the rate applicable in Member State D (as the Member State of destination). They will account for this through their OSS return.	The customer will incur VAT at the rate applicable in Member State D on the supply from Supplier A. This will be recoverable through its OSS return. If the customer is a CTP, or they are a member of the same corporate family as the supplier the customer will account for VAT via the reverse charge.	Member State A Tax Authority assumes responsibility for audit of supplier's OSS return. Member State B Tax Authority assumes responsibility for audit of customer's OSS return. EC Sales List data for goods no longer needs to be collected and retained.
Option 3	No VAT levied by supplier A.	The customer will account for VAT through the reverse charge mechanism in Member State D. This may require the customer to register for VAT in Member State D.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT return. Member State D Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.

	Supplier A	Customer	Member States
Option 4	No VAT levied by supplier A.	The customer will account for VAT through the reverse charge mechanism in Member State B on the basis that it is established in Member State B[80].	Member State A Tax Authority assumes responsibility for audit of supplier's VAT return. Member State B Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 5	Supplier A will levy VAT at the rate applicable in Member State B (where the customer is established). They will account for this through their OSS return.	The customer will incur domestic VAT (at the rate applicable in Member State B) on the supply from Supplier A. This is recoverable on their domestic VAT return in Member State B[81]. If the customer is a CTP, or they are a member of the same corporate family as the supplier the customer will account for VAT via the reverse charge.	Member State A Tax Authority assumes responsibility for audit of supplier's OSS return. Member State B Tax Authority assumes responsibility for audit of customer's return. EC Sales List data for goods no longer needs to be collected and retained.

Source: EY

Reporting obligations

Similar to the other basic B2B cross-border transaction (Scenarios A and B), there is a change in the way this transaction is reported under Options 2, 3, 4 and 5. However, there is an overall decrease in relation to the reporting of VAT under Options 2, 4 and 5 as the supplier will no longer have a requirement to be registered in Member State C and the customer is no longer required to be registered in Member State D.

There may, however, be an increase in reporting requirements under Option 5 if there is a cost reallocation for the goods by the customer in Member State B to an establishment in Member State D. This is because the customer will be required to treat this as a deemed supply.

Specific issues addressed

Similarly to the B2B cross-border supply in section 5.1, the issue of the lack of consistency regarding the evidence required to exempt a B2B intra community supply under the current "As Is" scenario is addressed, in part, by Options 1, 2, 4 and 5 (for the reasons stated in section 5.1). However, it is considered that under Option 3 this issue will remain.

5.4 Other types of B2B transactions

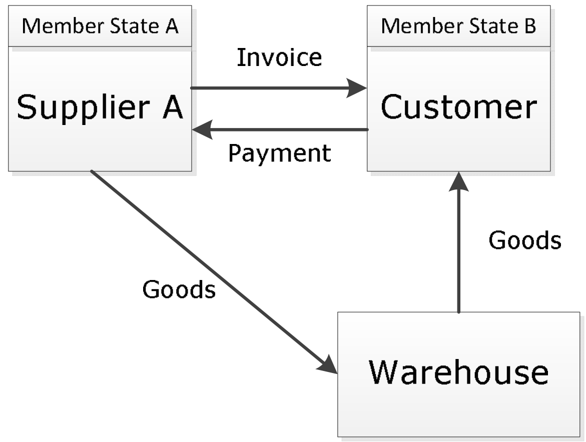
5.4.1 Call off and consignment stock transactions

Figure 6 represents the supply chain for a call-off stock or consignment stock transaction. Call-off and consignment stock is where the supplier arranges for the transportation of the goods and holds a stock of goods in a country where they are not established. Ownership of the goods is transferred when the customer removes them from the warehouse. The warehouse is located in Member State B in this example.

[80] Should the customer have a fixed establishment in Member State D or have its own customer in Member State D, Supplier A's customer will be required to account for VAT via the reverse charge in Member State D as opposed to Member State B.

[81] Please note that where the customer also has an establishment in Member State D, and it reallocates the cost of the goods to this establishment, this will be considered to be a deemed supply of goods by the customer. As such, the customer will be required to account for VAT on its deemed supply of the goods to its establishment in Member State D (unless the customer has CTP status in which case the reverse charge will apply).

Figure 6: Call-off and consignment stock transaction



Source: EY

The VAT return reporting requirements in relation to call-off and consignment stock transactions are discussed in Table 10.

Table 10: VAT return reporting requirements for call-off stock and consignment stock transactions

	Supplier A	Customer	Member States
"As Is" scenario	Where Member State B implements the call-off or consignment stock simplification, Supplier A treats the movement as an exempt intra-EU supply. Where Member State B does <u>not</u> implement the call-off or consignment stock simplification, Supplier A treats the movement of goods as a deemed supply to Member State B and has a registration and reporting obligation within Member State B. The onward supply of the goods is treated as a domestic supply within Member State B.	Where Member State B implements the call-off or consignment stock simplification, the customer accounts for acquisition VAT upon removal of the goods from the warehouse. Where Member State B does <u>not</u> implement the call-off or consignment stock simplification, the customer receives a domestic supply of goods within Member State B.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT reporting obligations in Member State A. Member State B Tax Authority assumes responsibility for audit of supplier's VAT reporting obligations in Member State B (if applicable). Member State B Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 1	Supplier A treats the movement of the goods as an exempt intra-EU supply[82].	The customer accounts for acquisition VAT on the intra-EU supply upon removal of the goods from the warehouse.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT return. Member State B Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 2	Supplier A will treat the movement of goods as a deemed supply to Member State B. They will self-assess VAT at the rate applicable in Member State B. The onward supply of the goods will be	The customer will receive a domestic supply of goods within Member State B. This is recoverable on their domestic VAT return.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT reporting obligations in Member States A. Member State B assumes

[82] This is on the basis that the simplification applies to both call-off stock and consignment stock transactions under Option 1.

	Supplier A	Customer	Member States
	treated as a domestic supply within Member State B. Both transactions will be reported via a OSS return.		responsibility for the audit of the customer's return. EC Sales List data no longer needs to be collected and retained.
Option 3	Where Member State B implements the call-off or consignment stock simplification, Supplier A will treat the movement as a supply subject to the reverse charge mechanism in Member State B. Where Member State B does <u>not</u> implement the call-off or consignment stock simplification, Supplier A will treat the movement of goods as a deemed supply to Member State B and will have a registration and reporting obligation within Member State B. The onwards supply of the goods will be treated as a domestic supply within Member State B.	Where Member State B implements the call-off or consignment stock simplification, the customer will self-account for VAT through the reverse charge mechanism upon removal of the goods from the warehouse. Where Member State B does <u>not</u> implement the call-off or consignment stock simplification, the customer will receive a domestic supply of goods within Member State B. This VAT is recoverable on their domestic VAT return.	No change from the treatment under the "As Is" scenario.
Option 4	No VAT levied by Supplier A.	The customer accounts for VAT on the goods through the reverse charge mechanism in Member State B on the basis that it is established in Member State B.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT reporting obligations in Member State A. Member State B Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 5	Supplier A will levy VAT at the rate applicable in Member State B on the basis that the customer is established there. This will be reported via the OSS return.	The customer will receive a domestic supply of goods within Member State B. This is recoverable on their domestic VAT return.	Member State A Tax Authority assumes responsibility for audit of supplier's VAT reporting obligations in Member States A. Member State B assumes responsibility for the audit of the customer's return. EC Sales List data no longer needs to be collected and retained.

Source: EY

Reporting obligations

For this transaction type, there will be a change in the way the transaction is reported by Supplier A under all of the options. However Options 1, 2, 4 and 5 will result in a reduction in reporting requirements.

Specific issues addressed

As discussed in section 4.1.2, one of the issues that arise from the current "As Is" model is the possibility of the supplier having to register for VAT in multiple EU Member States.

Option 1 will make the call off stock simplification mandatory across all Member States. This would avoid Supplier A registering in the Member State of destination of the goods; instead, the customer would self-account for the VAT. Option 1 also includes the possibility to extend the simplification to consignment stock.

Under Option 2, the supplier will need to self-assess VAT on the movement of own goods, and then account for VAT when the goods are removed from stock. However the requirement to have multiple VAT registrations is removed as they can account for the VAT due via a single OSS return. As VAT is now due on the supply, from the perspective of the customer this will feel like any other domestic purchase.

Option 4 also removes the need for registrations in multiple Member States as the transfer of own goods is no longer considered to be a supply of goods; as such, the customer will self-account for the VAT due.

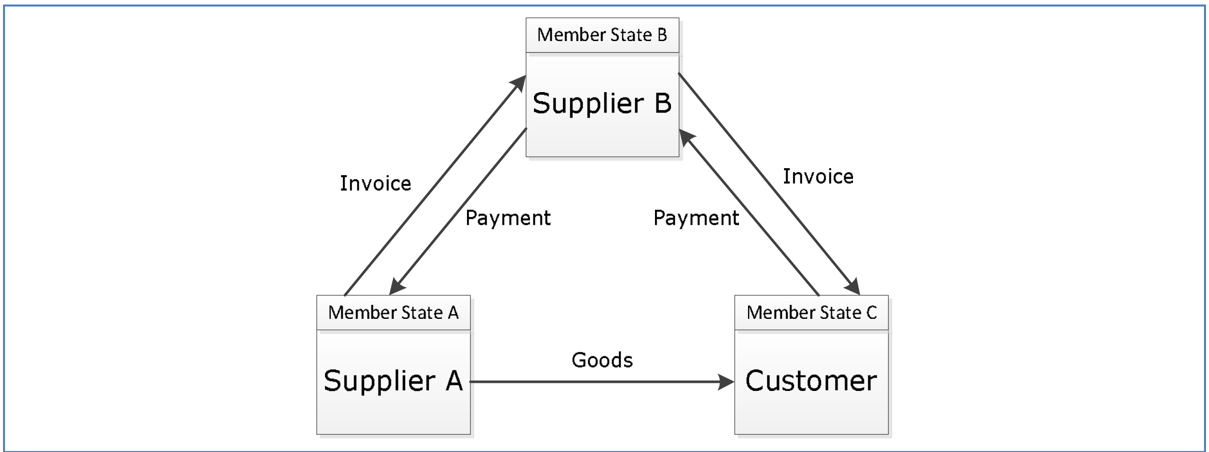
Under Option 5, there is no deemed supply regarding the movement of own goods. For both the supplier and for the customer this is akin to a domestic transaction, with the supplier accounting for VAT via a OSS return.

Under Option 3 the issue identified above will remain albeit from the customer's perspective it will be akin to any other domestic transaction.

5.4.2 Triangular transactions

Figure 7 represents the supply chain under a typical triangular transaction where there are three parties in the supply chain. Each is established in different Member States. Either Supplier A or Supplier B arranges for the transportation of the goods which are delivered directly from Supplier A to the customer, but contractual ownership is transferred from Supplier A to Supplier B, and from Supplier B to the customer.

Figure 7: Triangular transaction



Source: EY

In this scenario, since the intermediate supplier (Supplier B) is in effect supplying the goods to the customer, the intermediate supplier may have a VAT reporting obligation within Member State C as it acquires goods there. Under the "As Is" scenario, EC legislation removes this reporting obligation provided certain conditions are met.

In relation to the narrative provided for each of the policy options there is no specific guidance as to how triangular transactions should be treated. Table 11 provides a possible interpretation of how the different policy options should be applied to a triangular transaction, as detailed in Figure 7 above.

Table 11: VAT return reporting requirements for triangular transactions

	Supplier A	Supplier B	Customer	Member States
"As Is" scenario	Supplier A treats the supply of the goods as an exempt intra-EU supply.	Where the conditions for the triangulation simplification are met, Supplier B falls under the simplification provisions and does	Where the conditions for the triangulation simplification are met, the customer accounts for VAT in respect of the supply from Supplier B.	Member State A Tax Authority assumes responsibility for audit of supplier A's VAT return. Member State B/C Tax Authority

	Supplier A	Supplier B	Customer	Member States
		not have a reporting obligation within Member State C. Where the conditions for the triangulation simplification are not met, Supplier B has a reporting obligation within Member State C and needs to account for acquisition VAT in Member State C. The onwards supply of the goods is treated as a domestic supply within Member State C.	Where the conditions for the triangulation simplification are not met, the customer receives a domestic supply from Supplier B within Member State C.	assumes responsibility for audit of supplier B's VAT return. Member State C Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 1	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.	No change from the treatment under the "As Is" scenario.
Option 2	Supplier A will treat the supply to Supplier B as an intra-EU supply and charge VAT at the rate applicable in Member State C (as the Member State of destination). Supplier A will account for this through their OSS return. If Supplier B is a CTP, or they are a member of the same corporate family as Supplier A then Supplier B will account for VAT via the reverse charge.	Supplier B will treat the supply to the customer as an intra-EU supply and charge VAT at the rate applicable in Member State C (as the Member State of destination). Supplier B will account for this through their OSS return and at the same time can recover the VAT incurred on the supply from Supplier A. If the customer is a CTP, or they are a member of the same corporate family as Supplier B then the customer will account for VAT via the reverse charge.	The customer will receive a supply from Supplier B with VAT of Member State C payable (unless it is CTP registered in which case the customer will account for the VAT via the reverse charge).	Member State A Tax Authority assumes responsibility for audit of supplier A's OSS return. Member State B Tax Authority assumes responsibility for audit of supplier B's OSS return. Member State C Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data no longer needs to be collected and retained.
Option 3	No VAT levied by Supplier A.	Supplier B shall have a reporting obligation within Member State C and will need to account for VAT through the reverse charge mechanism in Member State C. The onward supply of the goods will be treated as a domestic supply within Member State C.	The customer will receive a domestic supply from Supplier B within Member State C. This VAT is recoverable on their domestic VAT return.	Member State A Tax Authority assumes responsibility for audit of Supplier A's VAT return. Member State C Tax Authority assumes responsibility for audit of Supplier B's and the customer's VAT return. EC Sales List data to be collected and retained.
Option 4	No VAT levied by Supplier A.	Supplier B will account for under the reverse charge mechanism in Member State B on the basis that it does	The customer will account for VAT under the reverse charge mechanism in Member State C.	Member State A Tax Authority assumes responsibility for audit of supplier A's VAT return. Member State B Tax

	Supplier A	Supplier B	Customer	Member States
		not have an establishment in Member State C. No VAT levied by Supplier B on its supply to the customer.		Authority assumes responsibility for audit of supplier B's VAT return. Member State C Tax Authority assumes responsibility for audit of supplier B and the customer's VAT return. EC Sales List data is to be collected and retained.
Option 5	Supplier A will charge VAT at the rate applicable in Member State B (where Supplier B is established). Supplier A will account for this through their OSS return. If Supplier B is a CTP, or they are a member of the same corporate family as Supplier A then Supplier B will account for VAT via the reverse charge.	Supplier B will charge VAT at the rate applicable in Member State C (where the customer is established). Supplier B will account for this through their OSS return, and can at the same time recover the VAT incurred on the supply from Supplier A. If the customer is a CTP, or they are a member of the same corporate family as Supplier B then the customer will account for VAT via the reverse charge.	The customer will receive the supply from Supplier B with VAT of Member State C levied (unless it is CTP registered in which case the customer will account for the VAT via the reverse charge).	Member State A Tax Authority assumes responsibility for audit of supplier A's OSS return. Member State B Tax Authority assumes responsibility for audit of supplier B's OSS return. Member State C Tax Authority assumes responsibility for the audit of the customer's VAT return. EC Sales List data no longer needs to be collected and retained.

Source: EY

Reporting obligations

For this transaction type, there is a change in the way it is reported under Options 2, 3, 4 and 5. There is no increased change in requirement with regards to the reporting of VAT under any of the options for Supplier A or the customer however, Supplier B may be impacted.

Specific issues addressed

As identified in section 4.1.3, one of the issues that arises from the current "As Is" VAT treatment of this transaction flow is the lack of consistency in how Member States have implemented the triangulation simplification rule.

Under Options 2 and 5 there is no longer a requirement to consider whether the triangulation simplification is applicable, nor the possible requirement to register for VAT in the Member State of destination. As such, one of the areas that currently cause businesses concern under the current taxation model has been removed.

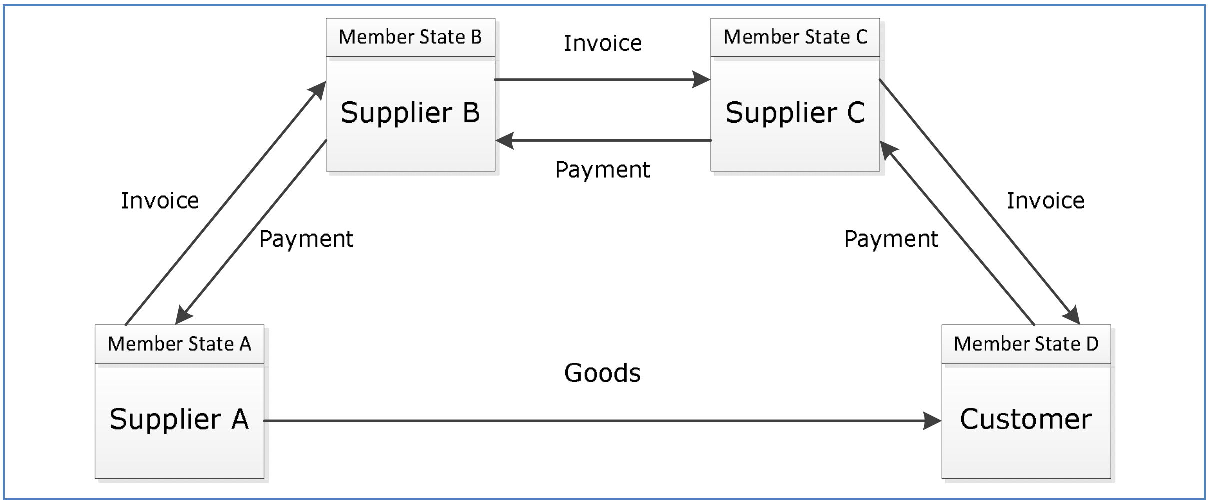
From a customer's perspective Options 2, 3 and 5 will be akin to any other domestic transaction.

In light of this, it is considered that under Option 1 the issue identified above will remain, whilst in relation to Option 3 the intermediary supplier will be liable to register for VAT in the Member State of destination.

5.4.3 Chain transactions

Figure 8 represents the supply chain under a typical chain transaction where there are four parties in the supply chain, each established in a different Member State. For the purposes of this analysis, it has been assumed that either Supplier A or Supplier B arranges for the transportation of the goods. The goods are delivered directly from Member State A to the customer in Member State D. However, the contractual ownership of the goods transfers from Supplier A to Supplier B, from Supplier B to Supplier C, and from Supplier C to the customer.

Figure 8: Chain transaction



Source: EY

Under the "As Is" scenario, the exempt intra-EU supply will typically be treated as the supply made to the party organising the transport of the goods. For example, if Supplier B organises the transport of the goods, Supplier A will treat the supply to Supplier B as an exempt intra-community supply between Member State A and Member State B. The onwards supply by Supplier B and Supplier C, and from Supplier C to the customer, will constitute a domestic supply within Member State D. A registration obligation will therefore arise for Supplier B and Supplier C in Member State D.

In relation to the narrative provided for Options 2, 3, 4 and 5, there is no guidance regarding how chain transactions should be treated. Table 12 provides a possible interpretation of how chain transactions may be dealt with under each of the policy options. We have assumed that the suppliers do not have an establishment in Member State D and that they are not registered for VAT in the Member State of their respective customer.

Table 12: VAT return reporting requirements for chain transactions

	Supplier A	Supplier B	Supplier C	Customer	Member States
"As Is" scenario	Typically, the exempt intra-EU supply shall be the supply made to the party organising the transport of the goods. On the assumption that Supplier B organises the transport of the goods, Supplier A shall treat the supply of goods to Supplier B as an exempt	On the assumption that Supplier B organises the transport of the goods, Supplier B will need to account for acquisition VAT in Member State D on the supply from Supplier A. The onwards supply of goods to Supplier C will constitute a domestic supply in Member State D and Supplier B will have a	On the assumption that Supplier B organises the transport of the goods, Supplier C will receive a domestic supply in Member State D from Supplier B. The onwards supply of goods to the customer will constitute a domestic supply in Member State D. Supplier C will have a reporting obligation for both supplies in Member State D.	On the assumption that Supplier B or C organises the transport of the goods, the customer will receive a domestic supply in Member State D.	Member State A Tax Authority assumes responsibility for audit of supplier A's VAT return. Member State D Tax Authority assumes responsibility for audit of Supplier B and Supplier C's VAT returns under their Member State D VAT registrations. Member State D Tax Authority

	Supplier A	Supplier B	Supplier C	Customer	Member States
	intra-EU supply.	reporting obligation in Member State D.			assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 1	The first supply in the chain of transactions is assumed to be the exempt intra-EU supply. Supplier A shall treat the supply of goods to Supplier B as an exempt intra-EU supply.	The first supply in the chain of transactions is assumed to be the exempt intra-EU supply. Supplier B will need to account for acquisition VAT in Member State D on the supply from Supplier A. The onwards supply of goods to Supplier C will constitute a domestic supply in Member State D and Supplier B will have a reporting obligation in Member State D.	The first supply in the chain of transactions is assumed to be the exempt intra-EU supply. Supplier C will receive a domestic supply in Member State D from Supplier B. The onwards supply of goods to the customer will constitute a domestic supply in Member State D. Supplier C will have a reporting obligation for both supplies in Member State D.	The first supply in the chain of transactions is assumed to be the exempt intra-EU supply. The customer will receive a domestic supply in Member State D.	No change from the treatment under the "As Is" scenario.
Option 2	Supplier A will charge VAT at the rate applicable in Member State D (as the Member State of destination). Supplier A will account for this through their OSS return. If Supplier B is a CTP, or they are a member of the same corporate family as Supplier A then Supplier B will account for VAT via the reverse charge.	Supplier B will charge VAT at the rate applicable in Member State D (as the Member State of destination). Supplier B will account for this through their OSS return, and at the same time recover the VAT incurred on the supply from Supplier A. If Supplier C is a CTP, or they are a member of the same corporate family as Supplier B then Supplier C will account for VAT via the reverse charge.	Supplier C will charge VAT at the rate applicable in Member State D (as the Member State of destination). Supplier C will account for this through their OSS return, and at the same time recover the VAT incurred on the supply from Supplier B. If the customer is a CTP, or they are a member of the same corporate family as Supplier C then the customer will account for VAT via the reverse charge.	The customer will receive a domestic supply from Supplier C (unless it is CTP registered in which case the customer will account for the VAT via the reverse charge).	Member State A Tax Authority assumes responsibility for audit of supplier A's OSS return. Member State B Tax Authority assumes responsibility for audit of Supplier B's OSS return. Member State C Tax Authority assumes responsibility for audit of Supplier C's OSS return. EC Sales List data no longer needs to be collected and retained.
Option 3	No VAT levied by the supplier.	Supplier B will need to account for VAT through	Supplier C will incur VAT of Member State D on receipt	The customer will receive a domestic supply	No change from the treatment under the "As

	Supplier A	Supplier B	Supplier C	Customer	Member States
		the reverse charge mechanism in Member State D. Supplier B will therefore have a reporting obligation in Member State D. The onward supply of the goods will be treated as a domestic supply within Member State D.	of the supply from Supplier B. The onward supply of the goods will be treated as a domestic supply within Member State D, and as such Supplier C will leave a reporting obligation in Member State D.	of goods within Member State D.	Is" scenario.
Option 4	No VAT levied by Supplier A on the supply to Supplier B.	Supplier B will account for VAT under the reverse charge procedure in Member State B on the basis that it has no establishment in Member State D. No VAT levied by Supplier B on the supply to Supplier C.	Supplier C will account for VAT under the reverse charge procedure in Member State C on the basis that it has no establishment in Member State D. No VAT levied by Supplier C on the supply to the customer.	Customer will account for VAT under the reverse charge procedure in member State D.	Member State A Tax Authority assumes responsibility for audit of supplier A's VAT return. Member State B Tax Authority assumes responsibility for audit of Supplier B's VAT return. Member State C Tax Authority assumes responsibility for audit of Supplier C's VAT return. Member State D Tax Authority assumes responsibility for audit of customer's VAT return. EC Sales List data is to be collected and retained.
Option 5	Supplier A will charge VAT at the rate applicable in Member State B (where Supplier B is established). Supplier A will account for this through their OSS return. If Supplier B is a CTP, or they are a member of the same corporate family as Supplier A then Supplier B will	Supplier B will charge VAT at the rate applicable in Member State C (where Supplier C is established). Supplier B will account for this through their OSS return, and at the same time recover VAT incurred on the supply made by Supplier A. If Supplier C is a CTP, or they	Supplier C will charge VAT at the rate applicable in Member State D (where the customer is established). Supplier C will account for this through their OSS return, and at the same time recover VAT incurred on the supply made by Supplier B. If the customer is a CTP, or they are a member of the same corporate family as Supplier C	The customer will receive supply from Supplier C with VAT of Member State D levied (unless it is CTP registered in which case the customer will account for the VAT via the reverse charge).	Member State A Tax Authority assumes responsibility for audit of supplier A's OSS return. Member State B Tax Authority assumes responsibility for audit of Supplier B's OSS return. Member State C Tax Authority assumes responsibility for audit of Supplier C's

	Supplier A	Supplier B	Supplier C	Customer	Member States
	account for VAT via the reverse charge.	are a member of the same corporate family as Supplier B then Supplier C will account for VAT via the reverse charge.	then the customer will account for VAT via the reverse charge.		OSS return. EC Sales List data does not need to be collected and retained.

Source: EY

Reporting obligations

For this transaction type, there is a change in the way it will be reported under Options 2, 3, 4 and 5. Irrespective of the change in reporting, this should lead to a net effect of zero for Supplier A and the customer and a reduced reporting obligation for Suppliers B and C under Options 2, 4 and 5.

This has arisen due to the removal of reporting requirements in Member State D for Suppliers B and C under Options 2, 4 and 5.

Specific issues addressed

As identified in section 4.1.4, one of the issues from the current “As Is” VAT treatment of this transaction flow arises due to the difficulty in determining which supply should be treated as the exempt intra-community supply, and potential multiple registration obligations in either the Member State of despatch or the Member State of destination for the intermediary suppliers.

Option 1 seeks to address this by providing details on which supply should be treated as the exempt intra community supply thereby removing uncertainty; however the potential requirement for multiple registrations still exists. Under Options 2 and 5 multiple registration obligations are removed through the use of the OSS. These are also removed under Option 4.

In light of the above, it is considered that under Option 3 the issue identified above will remain, albeit from an end customer perspective it will feel like a domestic transaction.

5.5 Conclusion

In Table 13, a summary has been provided which assesses whether the options address the main legislative issues identified with the current “As Is” taxation model (“Yes”/”No”) and also assesses whether the reporting obligations for all parties in the supply chain are:

- Less onerous reporting obligations (denoted by a ‘+’);
- Nil effect (denoted by a ‘0’);
- More onerous obligations (denoted by a ‘-’).

Table 13: Summary of which options address the issues under the "As Is" model

		Option 1 - limited improvement of current rules		Option 2 - taxation following the flow of the goods		Option 3 - reverse charge following the flow of the goods		Option 4 - alignment with the place of supply of services		Option 5 - taxation following the contractual flow	
Transaction type	Legislative Requirement	Requirement Met?	Reporting Obligations	Requirement Met?	Reporting Obligations	Requirement Met?	Reporting Obligations	Requirement Met?	Reporting Obligations	Requirement Met?	Reporting Obligations
B2B cross-border supply (scenarios A, B and C)	Consistency of evidence required to exempt an intra-community B2B supply	Yes	0	Yes	+*	No	0	Yes	0	Yes	+*
Call-off and consignment stock	Removal of the need to register in multiple Member States and consistency of application of rules as they apply to call-off and consignment stock transactions.	Yes	+**	Yes	-***	No	-***	Yes	+**	Yes	-***
Triangular transaction	Consistency of rules as they apply to triangular suppliers.	No	0	Yes	+**	No	-***	Yes	+**	Yes	+**
Chain transaction	Consistency regarding which supply within the chain to be treated as the intra-EU supply and/or the removal of the need for one or more of the parties to register in multiple Member States.	Yes	0	Yes	+	No	0	Yes	+	Yes	+

Source: EY

* *Reporting obligation for customer reduced since no intra-EU acquisition need be reported.*

** *Reporting obligation reduced for supplier where call-off stock/consignment stock simplification not already in place in a Member State. Where simplification is already in place, there is nil effect on reporting obligations. The same logic is applicable according to how the triangulation simplification is utilised by the Member State.*

*** *Reporting obligation increased for supplier where call-off stock/consignment stock simplification is already in place in a Member State. Where simplification is not already in place, there is nil effect on reporting obligations. The same logic is applicable according to whether the triangulation simplification is utilised by the Member State.*

As provided in Table 13, on an ongoing return reporting basis, all of the options result in an overall reduced reporting obligation with the exception of Option 3, which could result in an overall potential increase.

The four current taxation issues would effectively be removed if Option 2, 4 or 5 is implemented. Furthermore, in relation to Options 2 and 5, the transactions would feel akin to a domestic transaction as the supplier will levy VAT and the customer will incur the VAT and seek to recover it. If Option 3 is implemented, the issues identified with the current taxation model would remain, and in relation to call off/consignment, triangular and chain transaction arrangements, the obligations on the supplier may be more onerous.

6 Impact of policy options on businesses

One of the fundamental issues recognised under the “As Is” taxation model is the level of compliance costs for businesses engaging in intra-EU trade, specifically that the compliance costs of engaging in cross-border trade is higher than those associated with engaging in domestic transactions[83].

This study seeks to identify whether any of the proposed policy options will result in an overall increase or decrease to the current compliance costs associated with the B2B trade of goods across the EU.

Therefore, in an effort to understand how businesses in the EU will be impacted from a compliance cost perspective as a result of the introduction of the proposed policy options, the following assessments were conducted:

- Quantification of the impact on VAT compliance costs for businesses in EU Member States resulting from these policy options; and
- Analysis of the impact on the cash flow of businesses resulting from a change in the system.

6.1 Baseline – current compliance costs

In order to understand the impact of the policy options for businesses, the compliance costs for businesses under the existing taxation model were assessed.

Information regarding cross-border VAT compliance costs and intra-EU exports was obtained for businesses via the Business Survey. Based on this data, it was estimated that the proportion of intra-EU B2B VAT compliance costs to intra-EU B2B net sales of businesses is approximately 0.62%. This estimate was employed in the calculation of the aggregate EU monetary cost changes for each business type.

As part of the analysis of the ’As Is’ scenario in the EU and using the Business Survey, the difference in VAT compliance costs between trading domestically and engaging in intra-EU trade has also been analysed.

It was estimated that on average, the VAT cost of compliance per euro of turnover is 11% higher for intra-EU trade compared with the corresponding VAT compliance per euro of turnover for domestic trade. This is likely to be due to the more complicated nature of cross-border VAT compliance compared to domestic VAT compliance.

6.2 Quantification of the impact on compliance costs of businesses

Approach

In order to quantify how compliance costs[84] for businesses in the EU will be impacted as a result of the introduction of the proposed policy options, a tax experts’ survey was carried out. This assessment was conducted via administering a survey to tax experts in all EU Member States. Between them, these experts provide tax compliance and tax advice services to hundreds of businesses - small, medium and large.

These experts were asked to provide estimates of how compliance costs would change under the proposed policy options.

In order to ensure representation of all business sizes, the assessment covered three distinct business types.[85] These business types form the basis of the analysis presented in this section. The tax experts’ survey evaluated, on average, how each of the business types would be impacted by the policy options from a compliance cost perspective. Defining typical businesses for analysis and survey purposes is a reliable

[83] This is corroborated by the Business Survey which identifies VAT compliance costs associated with intra-EU trade as being 11% higher than compliance costs associated with domestic trade.
[84] For a definition of ‘compliance costs’, please see the glossary of terms.
[85] SME Type 1, SME Type 2 and large businesses are explained in Section 3.

approach that has been used in several reports in the past such as the “Paying Taxes” report published for several years by PwC and the World Bank Group.

Specific areas which will have implications for businesses’ compliance costs were identified. Following that, the experts were asked to provide an estimate of the percentage change in the annual number of hours spent dealing with VAT compliance of these areas. They were asked to provide this percentage for both the initial year of implementation (‘Year 1’) and for the years after that (‘Ongoing’) for each of the three types of business. For illustration purposes, the highest increase from a compliance cost or benefit perspective has been included.

In estimating compliance cost reductions, the study adopts the arithmetic average of the estimates provided by the respondents to the tax experts’ survey in order not to assign weights to the views of respondents. This is in contrast to the GDP weighted average approach employed for the estimation of the EU aggregate compliance cost estimates from the same data source.

The intra-EU compliance costs per euro of exports were estimated using data from the Business Survey. The analysis showed that 0.62[86] cents per euro of exports is expended on businesses’ VAT compliance costs. To estimate the aggregate monetary impact of each policy option, the arithmetic average of the compliance cost change expectations provided in the tax experts’ survey was applied to the overall intra-EU exports.

Results

The results presented in this section are based on 28 responses, each one representing the expected change in compliance costs for the selected business types for each Member State.

6.2.1 Option 1: ‘Limited improvement of current rules’

Specific areas of cost reductions or increases

Five aspects of this option that result in a reduction in compliance costs were identified. These are:

1. The clarification of the treatment of chain transactions;
2. The harmonisation of the consignment stock simplification across all Member States;
3. The harmonisation of the call-off stock simplification across all Member States;
4. The introduction of the domestic reverse charge for B2B supplies by non-established taxable persons; and
5. The harmonisation of acceptable documents to evidence the B2B cross-border sale of goods.

The possible requirement for a new form of documentary evidence of the intra EU goods movement to be signed by the customer was identified as an area that may result in a cost increase.

In relation to the introduction of a domestic reverse charge for B2B supplies by non-established taxable persons, this may result in a reduction in the number of VAT registrations that businesses will be required to hold in other Member States. This was identified as resulting in a reduction of costs for all types of businesses from both a year 1 and an ongoing cost perspective. For example, for SME Type 2 businesses, it

[86] See Annex E for details

was estimated that it would result in a cost reduction of 15% in year 1 and an ongoing cost saving of 11%[87].

Overall results

As shown in Table 14, according to the survey, the impact of the changes related to Option 1 vary dependent on the entity size and trade profile. For SME Type 1 businesses the average ongoing cost reduction was estimated as 5%, for SME Type 2 businesses it was estimated as 29%, and for large businesses it could result in a reduction of up to 37% in compliance costs. The impact is more limited in SME Type 1 businesses; this is a reasonable outcome as their exposure to B2B intra-EU trade is lower.

Table 14 shows the anticipated net percentage and monetary costs changes under Option 1 for each business type as well as an "all business" aggregate.

Table 14: Limited improvement of current rules net cost impact

Option 1	SME Type 1		SME Type 2		Large Business		All Businesses[88]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Max	-90%	-75%	-90%	-75%	-90%	-75%	-90%	-75%
Min	15%	10%	10%	58%	4%	2%	9%	15%
Median	0%	-2%	-38%	-30%	-35%	-34%	-22%	-21%
Average	-4%	-5%	-36%	-29%	-40%	-37%	-25%	-23%
Cost impact (EUR m)[89]	-36	-46	-151	-121	-383	-355	-571	-522

Source: EY

A number of respondents to the tax experts' survey suggested there would be an overall increase in costs for businesses in respect of Option 1. This is due to the possible requirement for businesses to keep specific documentary evidence signed by the customer proving that the goods have been transported. In their view, the potential costs in complying with this additional obligation outweighed the reduction in costs in the other areas identified.

Reduction in overall results

The cost reduction estimate of Option 1 is only relevant for businesses that undertake call-off, consignment or chain transactions. The tax experts had been specifically asked to assume that these business types did undertake these types of transactions when providing their responses. The extent to which existing simplification measures have already been implemented within each Member State has been taken into account by the experts in providing their response to the survey.

A reasonable proxy to use as an indicator of the percentage of businesses that undertake call-off, consignment or chain transactions may be the percentage of businesses operating as Non-Resident Traders (NRTs). This is on the basis that NRTs may be operating in another Member State because of consignment stock, call-off stock or chain transactions. Analysis of NRT data produces a proxy estimate of 13%[90] of businesses engaged in these transaction types within the EU (however, this is likely

[87] Tax experts' survey.
[88] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.
[89] The implementation of this option would only affect 13% of businesses across EU. The monetary estimates in the table are adjusted for this.
[90] This figure is calculated based on the average share of total goods acquired within each EU Member State by non-resident traders based in that Member State. This uses figures provided by Eurostat.

to be an over estimate as there are likely to be a number of other reasons as to why an NRT is operating in other Member States).

Therefore, Option 1 could benefit up to approximately 13% of businesses. Given this, the aggregate monetary impact of this option is estimated to result in a compliance cost reduction for businesses of EUR 571 million and EUR 522 million in year 1 and annually post implementation.

6.2.2 Option 2: 'Taxation following the flow of the goods'

Specific areas of cost reductions or increases

With respect to Option 2, four areas that may result in cost reductions were identified. These are:

1. Non-established suppliers may no longer need to register for VAT in other Member States and submit local VAT returns;
2. The obligation to submit an EC Sales List is removed;
3. Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed for goods and thus businesses will not need to research whether a supply is reduced-rated) – *scenario 1*; and
4. Standardisation of reduced VAT rates for goods – (a web portal is made available publicising all information on reduced rates) – businesses will have a single reference point thus reducing time spent researching the VAT treatment to be applied and having greater certainty as to the VAT rate applicable to the supply – *scenario 2*.

Please note that scenarios 1 and 2 are mutually exclusive.

In contrast, five aspects where there may be additional cost implications were also identified. These are:

1. Non-established suppliers will need to account for VAT through the OSS return, which will entail new accounting systems, processes and controls;
2. Introduction of the Certified Taxable Person (CTP) simplification – for suppliers, they will need to check if a customer has CTP status. Businesses will also need to go through the registration process if they wish to utilise this relief;
3. Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed). This will have negative cash flow implications – *scenario 1*;
4. Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates) – businesses will incur time checking this portal – *scenario 2* ; and
5. Potential requirement to include the VAT number of the supplier on the VAT return of the customer.

As expressed by the experts, the removal of the obligation for non-established suppliers to register for VAT and complete VAT returns for Member States (other than where they are established) would result in the most significant cost reduction for businesses. It is estimated that this cost reduction would be biggest for SME Type 2 businesses (approximately 30% on average[91]).

In contrast, the costliest additional compliance requirement would be borne by businesses that currently only have VAT registration requirements in one Member State (typically SME Type 1 businesses). For such entities, the completion of the OSS would create an additional cost burden.

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[91] Source: Tax experts' survey

Businesses may also experience additional costs in determining the correct VAT rate to charge in each Member State. This is applicable under scenario 2, where businesses would need to check a web based portal to verify the goods that are subject to the reduced VAT rate. Experts expect that this additional requirement may increase the compliance burden for businesses. However, this additional compliance cost is likely to be offset by the benefits presented by the portal which may include fewer VAT audits and a reduced likelihood of receiving penalties. For example, for SME Type 2 businesses, the net impact of this scenario was estimated as a cost reduction of 1% in year 1 and 2% annually after the first year.

Overall results

As shown in Table 15, the impact of the changes on compliance costs relating to Option 2 vary dependent on the entity size and trade profile. For SME Type 1 businesses the average annual ongoing cost increase would be 5% and 6% for scenarios 1 and 2 respectively.

For SME Type 2 and large businesses it could result in an average annual cost reduction of up to 18% and 12%, respectively for scenario 1 and up to 17% and 11%, respectively for scenario 2.

The monetary impact of the implementation of scenario 1 is estimated to increase business costs by EUR 386 million in year 1, but result in a net business decrease of costs by EUR 1,114 million annually post implementation. Similarly, scenario 2's cost impact is estimated to increase business costs by EUR 428 million; however, business costs are estimated to decrease by EUR 938 million annually after the year of implementation.

Table 15 shows the anticipated net percentage and monetary costs changes under Option 2 for each business type as well as an "all business" aggregate.

Table 15: Taxation following the flow of the goods net cost impact

Option 2	SME Type 1		SME Type 2		Large Business		All Businesses[92]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Scenario 1								
Max	50%	45%	65%	23%	65%	65%	59%	49%
Min	-57%	-60%	-57%	-86%	-55%	-60%	-56%	-65%
Median	12%	5%	-9%	-17%	-9%	-17%	-1%	-8%
Average	14%	5%	-7%	-18%	-5%	-12%	2%	-6%
Cost impact (EUR m)	981	350	-225	-580	-369	-885	386	-1,114
Scenario 2								
Max	55%	45%	65%	20%	60%	60%	59%	47%
Min	-57%	-60%	-58%	-81%	-58%	-55%	-58%	-62%
Median	15%	7%	-6%	-13%	-9%	-14%	1%	-5%
Average	15%	6%	-7%	-17%	-5%	-11%	3%	-5%
Cost impact (EUR m)	1,051	420	-225	-548	-369	-811	457	-938

Source: EY

[92] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

6.2.3 Option 3: 'Reverse charge following the flow of the goods'

Specific areas of cost reductions or increases

As provided in the tax experts' survey, in relation to Option 3 the following aspect was identified as resulting in a reduction in compliance costs:

- Application of the reverse charge mechanism.

Conversely, the following aspect where there may be an additional cost implication was also identified:

- Businesses must update the format of their invoices to state that their supplies are subject to the reverse charge.

The application of the reverse charge mechanism for businesses is expected to result in VAT compliance cost savings for SME Type 2 and large businesses of approximately 9% in the first year and annually afterwards, while SME Type 1 businesses are estimated to benefit from cost reductions of approximately 5% in in the first year and annually post implementation.

However, the additional cost that will accrue as a result of the additional compliance elements of this option (updating the format of the invoices) is estimated to result in approximately a 6% increase in the compliance cost in year 1 across all business types. For example, where a business has a functioning system (such as a tax engine) the update would be simple. However, where a business either has an old system that requires hard coding (which may be the case for SMEs who do not have sophisticated IT systems) or there are multiple systems to update, this could represent a significant cost for that particular business.

Overall results

According to the tax experts' survey, when the various benefits and the additional costs are aggregated the average impact of the changes related to Option 3 vary dependent on the entity size and trade profile. For SME Type 1 businesses, the average ongoing cost reduction would be 3%, for SME Type 2 businesses it is estimated as 7%, and for large businesses the cost reduction estimate is also 7%. In aggregate, the implementation of this option is estimated to result in a cost reduction of EUR 318 million and EUR 952 million in year 1 and annually respectively.

Table 16 shows the anticipated net percentage and monetary costs changes under Option 3 for each business type as well as an "all business" aggregate.

Table 16: Reverse charge following the flow of the goods net cost impact

Option 3	SME Type 1		SME Type 2		Large Business		All Businesses[93]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Max	-15%	-20%	-20%	-25%	-20%	-25%	-18%	-23%
Min	10%	10%	10%	5%	15%	5%	12%	7%
Median	0%	-3%	-1%	-5%	-2%	-6%	-1%	-5%
Average	0%	-3%	-3%	-7%	-3%	-7%	-2%	-5%
Cost impact (EUR m)	0	-210	-97	-225	-221	-516	-318	-952

Source: EY

[93] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

6.2.4 Option 4:'Alignment with the place of supply of services'

Specific areas of cost reductions or increases

In relation to Option 4 two aspects were identified which may result in cost reductions:

1. Harmonisation of supply of goods rules with the rules on the supply of services; and

2. Introduction of a Mini One-Stop-Shop (MOSS).

In contrast, the following two aspects were identified which may lead to cost increases:

1. Customers will be required to submit a recapitulative statement of the purchases of goods for which they are liable to pay the VAT in their Member State; and

Customers will be required to provide their VAT number to their supplier. It was recognised that this option would remove the current requirement to evaluate an invoice to determine if it related to goods or services in order to apply the correct VAT treatment. This would result in a cost reduction for businesses. However, for VAT reporting purposes, it is noted that currently in the EU there is a requirement to identify and differentiate between the supplies/purchases of goods and services. If this requirement remains, this would effectively negate a significant benefit under this option.

Overall results

When the costs associated with the compliance simplifications and additional compliance requirements are aggregated, the experts estimate that on average there will be reductions in the current VAT compliance costs for all business types. For SME Type 1 businesses the average year 1 and ongoing costs would be decreased by 4% and 5% respectively.

Businesses across the EU are estimated to reduce their costs by EUR 2,620 million and EUR 2,690 million on aggregate in year 1 and annually thereafter.

Table 17 shows the anticipated net percentage and monetary costs changes under Option 4 for each business type as well as an “all business” aggregate.

Table 17: Alignment with the place of supply of services net cost impact

Option 4	SME Type 1		SME Type 2		Large Business		All Businesses[94]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Max	-34%	-43%	-105%	-95%	-78%	-69%	-65%	-63%
Min	20%	20%	68%	53%	38%	38%	36%	34%
Median	-1%	-1%	-17%	-15%	-23%	-20%	-13%	-12%
Average	-4%	-5%	-20%	-20%	-23%	-23%	-15%	-15%
Cost impact (EUR m)	-280	-350	-644	-644	-1,696	-1,696	-2,620	-2,690

Source: EY

6.2.5 Option 5: 'Taxation following the contractual flow'

Specific areas of cost reductions or increases

As provided in the tax experts' survey, in relation to Option 5, four aspects that may result in reductions in compliance costs were identified. These are:

[94] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

1. Non-established suppliers may no longer need to register for VAT in other Member States and submit local VAT returns;
2. The obligation to submit an EC Sales List is removed;
3. Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed and thus businesses will not need to research whether a supply is reduced-rated) – *scenario 1*; and
4. Standardisation of reduced VAT rates – (a web portal is made available publicising all information on reduced rates) – businesses will have a single reference point thus reducing time spent researching the VAT treatment to be applied as well as having greater certainty as to the VAT rate applicable to the supply – *scenario 2*.

Please note that scenarios 1 and 2 are mutually exclusive.

On the other hand, five areas where there may be additional cost increases were also identified. These are:

1. Non-established suppliers will need to account for VAT through the OSS return, which will entail new accounting systems, processes and controls;
2. Introduction of the Certified Taxable Person (CTP) simplification – for suppliers, they will need to check if customer has CTP status. Businesses will also need to go through the registration process if they wish to utilise this relief;
3. Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed). This will have negative cash flow implications – *scenario 1*;
4. Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates) – businesses will incur time checking this portal – *scenario 2*; and
5. Potential requirement to include the VAT number of the supplier on the VAT return of the customer.

The benefits and costs identified above are comparable with Option 2 ('Taxation following the flow of the goods'). However, the place of supply rule differs between the two options. Also, insignificant differences in compliance costs expectations between the two options provided by survey respondents may be due to differences of opinion.

The most significant additional compliance cost element associated with Option 5 relates to the establishment of the OSS. On the other hand, the subsequent compliance simplification of this option is estimated to provide the most significant cost reduction results arising from the removal of VAT registration and submission of regular VAT returns in other Member States.

Overall results

According to the experts, the impact of the changes in compliance costs relating to Option 5 vary dependent on the entity size and trade profile. For SME Type 1 businesses the average annual ongoing costs would increase by 3% and 5% for scenarios 1 and 2 respectively. However, for SME Type 2 and large businesses it could result in an average annual ongoing cost reduction of up to 18% and 13%, respectively for scenario 1 and up to 17% and 11% for scenario 2.

The implementation of scenario 1 is estimated to result in a monetary cost saving of EUR 1,328 million annually, while in year 1, the impact on businesses is estimated to be limited. Scenario 2 is estimated to increase business compliance costs by EUR 460 million in year 1 however, business costs are estimated to decrease by EUR 1,008 million annually thereafter.

Table 18 shows the anticipated net percentage and monetary costs changes under Option 5 for each business type as well as an "all business" aggregate.

Table 18: Taxation following the contractual flow net cost impact

Option 5	SME Type 1		SME Type 2		Large Business		All Businesses[95]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Scenario 1								
Max	50%	40%	28%	25%	65%	65%	52%	48%
Min	-57%	-60%	-65%	-81%	-65%	-56%	-62%	-62%
Median	8%	5%	-9%	-19%	-4%	-19%	0%	-9%
Average	11%	3%	-10%	-18%	-6%	-13%	0%	-8%
Cost impact (EUR m)	770	210	-322	-580	-442	-959	6	-1,328
Scenario 2								
Max	55%	45%	50%	25%	60%	60%	56%	48%
Min	-57%	-60%	-81%	-86%	-80%	-71%	-71%	-69%
Median	12%	6%	-6%	-14%	-5%	-16%	2%	-7%
Average	14%	5%	-7%	-17%	-4%	-11%	3%	-6%
Cost impact (EUR m)	981	350	-225	-548	-295	-811	460	-1,008

Source: EY

6.3 Cash Flow Analysis

6.3.1 Overview

Cash flow implications are likely to occur under some of the policy options. For example, under Option 1, the implementation of the harmonisation of the call-off, chain and consignment stock simplifications across all Member States may result in a positive cash flow impact for some businesses. This is due to businesses no longer being required to record the movement of their goods to other Member States and account for VAT on the sale to their customer once the goods are sold. Instead, when the goods are moved, the customer in the other Member State will self-assess the VAT on their local VAT return.

However, this particular cash flow effect will only impact a small population of businesses since only approximately 13% of businesses engage in call-off/consignment stock transactions. As a result, the overall effect of the cash flow implications under Options 1, 3 and 4 is assumed to be negligible, particularly when considered in comparison with cash flow implications under Options 2 and 5 as these two options will affect <u>all</u> sales of B2B goods, and not just specific transaction types such as call-off and consignment stock. For this reason, this analysis focuses on the cash flow impact under Options 2 and 5 only.

Under the "As Is" scenario, businesses currently do not pay VAT in their Member State when purchasing goods from other Member States. Subject to certain conditions being met[96], suppliers will treat the cross-border sale of goods as exempt with credit for deduction.

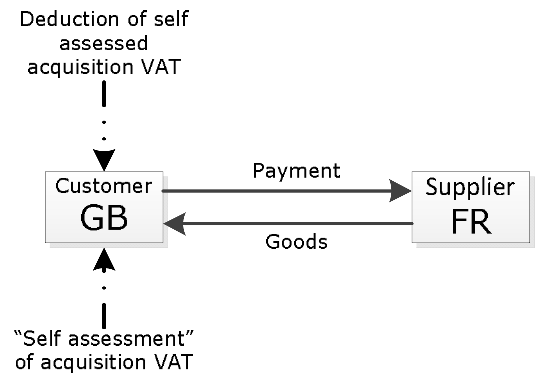
[95] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

[96] The conditions vary between Member States, but generally include the following requirements: a valid customer VAT identification number of another Member State, the goods are transported to another Member State, and supplier obtains and keeps valid commercial evidence that the goods have been removed from Member State.

At present, a customer acquiring goods from another Member State will self-assess the acquisition VAT due, and at the same time recover it to the extent that they are entitled to do so.

Figure 9 below demonstrates how the VAT cash flow mechanism operates under the current "As Is" scenario for businesses trading cross-border.

Figure 9: "As Is" scenario



Source: EY

As demonstrated in the scenario above, the customer will "self-assess" for the acquisition VAT on those goods at the rate applicable in the UK. Assuming that the Customer is a fully taxable business, the self-assessed VAT is offset by the simultaneous deduction of the VAT. As this is typically carried out on the same return, this is essentially an accounting entry on the VAT return resulting in a net nil impact with no cash flow implications.

Under the OSS mechanism for Options 2 and 5, a non-established supplier will charge the VAT at the rate applicable in either the Member State of destination of the goods or the Member State where his customer is established (the 'Member State of taxation'). The Member State of the supplier will collect this VAT and transfer it to the Member State Tax Authority of taxation.

The extent of the cash flow implications for businesses and Member States, whether positive or negative, is dependent on a number of factors:

- Average remittance time for payments to businesses from their local Tax Authority;
- Local VAT rates;
- The value of VAT payable to other Member States by the business; and
- Interest rates applicable to businesses on saving/borrowing.

In calculating the cash flow cost or benefit to businesses that may arise under Option 2 and Option 5, a number of assumptions were made:

<u>OSS return</u>

1. 30 days is the usual credit period granted to businesses across the EU and businesses take advantage of the full 30 days. This VAT period for the business ends at the same time as payment is made to the supplier (i.e., suppliers are paid on the 30th day of the month).
2. Businesses account for VAT on a cash accounting basis.
3. Businesses report VAT on a monthly basis.

4. The OSS return will be submitted on the 20th day following the reporting month[97] and businesses submit the OSS return on this date.

5. The OSS return details output VAT due in relation to those Member States where the supplier is not established; also they are entitled to offset input VAT incurred in other Member States.

6. The Tax Authority collecting the VAT will have ten days from the end of the period in which the payment of VAT was received from the business to remit this VAT to the Tax Authority in the Member State of Taxation[98].

7. For simplicity, the impact of weekends on the time frame has been ignored and all months are assumed to have 30 days.

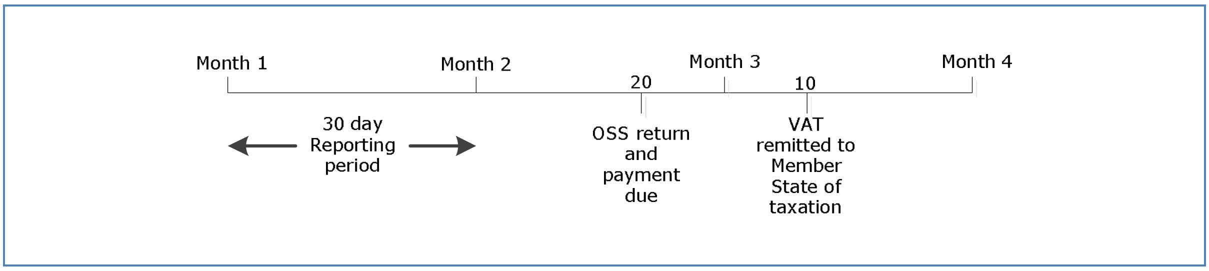
8. Businesses in a net repayment position will be reimbursed by their Tax Authorities (as opposed to being given credit to offset against future output tax liability).

<u>Domestic VAT return</u>

1. The domestic return details output VAT due in relation to domestic sales. Businesses are entitled to offset input VAT incurred in their Member State of establishment from both resident and non-resident enterprises.

Figure 10 below demonstrates the typical timeline for reporting obligations for a business operating under the One-Stop Shop system. This timeline is used to analysing the cash flow impact for businesses under Option 2 and 5.

Figure 10: Cash flow timeline



Source: EY

6.3.2 Cash flow implications – businesses

In order to quantify the cash flow implications for businesses, we have examined three different examples, based on different trade profiles of three businesses[99].

6.3.3 Example one – Business A: Net payer of VAT on OSS return for EU goods

Place of taxation: France

Place of establishment of supplier (Business A): UK

Value of input VAT incurred in Member States other than that of establishment: EUR 0 million/month

Value of intra-EU dispatches: EUR 0.5 million per month

Under this scenario, Business A receives more VAT on its sales of goods to other EU Member States than it incurs VAT on purchases of goods in those other EU Member States.

On the basis that France is the Member State of taxation, the supplier will charge French VAT amounting to EUR 100,000 (20% VAT on EUR 0.5 million) on its supplies

[97] This is in line with the uniform reporting deadline as provided under the current MOSS system.
[98] This is in line with the uniform payment deadline as provided under the current MOSS system.
[99] For the purposes of the cash flow examples, it is assumed that no simplification measures are exercised by either the supplier or customer in each of the scenarios (for example, the CTP status simplification).

to its French customer. From the date of receiving payment of the VAT from the French business, Business A could potentially hold the VAT for 20 days until they have to remit it to the UK Tax Authorities via their OSS return.

Based on the VAT rate in France, the VAT payable to the UK Tax Authorities would be EUR 100,000. Assuming a 5%[100] interest rate for EU businesses, the cash flow benefit would equate to EUR 278.[101]

6.3.4 Example two - Business B: Net repayment of VAT on OSS for EU goods

Place of taxation: France

Place of establishment of supplier (Business B): UK

Value of purchases in France: EUR 2 million per month

Value of sales in France: EUR 0 per month

Under this scenario, Business B incurs more VAT on purchases of goods in other EU Member States than it receives from sales of its goods in other EU Member States.

From the date of payment of the VAT to the EU supplier, Business B will not receive the repayment of the French VAT from the UK Tax Authorities until 35 days have passed.[102] This will remain the same regardless of which Member State they acquire goods from.

The French VAT payable is EUR 400,000 (20% VAT on EUR 2 million). Based on an assumed interest rate for EU businesses of 5%, the cash flow cost to Business B from having to fund this VAT for this period of 35 days will be EUR 1,944[103].

6.3.5 Example three – Business C: Domestic Return

Place of taxation: UK

Place of establishment of supplier (Business C): UK

Place of establishment of supplier: The Member state where the goods are purchased by Business C

Value of intra-EU acquisitions: EUR 2 million per month

On the basis that Business C does not make B2B supplies to EU customers, it will not be registered for the OSS. It will incur UK VAT on all its acquisitions which it will recover on its domestic UK VAT return. From the date of payment of the VAT to the EU supplier, the VAT it has incurred on its intra EU purchases will negatively impact its cash flow for 37 days[104]. This will remain the same regardless of which Member State it acquires goods from.

The local VAT rate applicable on the acquisitions into the UK will be 20%. Therefore VAT payable will be EUR 400,000. Based on an assumed interest rate for EU businesses of 5%, the cash flow cost to Business C from having to fund this VAT for this period of 37 days will be EUR 2,055[105].

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[100] According to Monetary Financial Institutions, interest rates on new euro-denominated loans to euro area non-financial corporations, floating rate and initial rate fixation period of up to three months of loans up to EUR 250,000 is currently 4.5%. This was rounded up to 5% in our calculations. Source: http://sdw.ecb.europa.eu/reports.do?node=1000002883.

[101] The equation used is as follows: Cash flow cost=20/360*€100,000*5%

[102] The 35 days is calculated based on the assumption that the average time for remittance of a VAT refund from the UK Tax Authorities, following submission of a OSS return, is 15 days from the 20th day following the end of the VAT period.

[103] The equation used is as follows: Cash flow cost=35/360*€400,000*5%

[104] In the UK, the business will submit its domestic VAT return on the seventh day following the month after the end of the VAT period (i.e., 37 days after payment). At this point the UK business will net the UK VAT incurred on its intra EU purchase against the output tax payable on its UK sales.

[105] The equation used is as follows: Cash flow cost=37/360*€400,000*5%

From the examples provided, where a business is in a position that it receives more VAT on EU sales than it incurs on EU purchases, it will benefit from positive cash flow; the opposite is true for a business that incurs more VAT on intra-EU purchases than it receives on intra-EU sales.

Furthermore, where a business is not registered for the OSS, whilst it can recover the VAT it incurs on its EU purchases on its local VAT return, it will also have a cash flow cost.

The cash flow difference arises because businesses are either incurring or receiving VAT that they do not incur/receive under the current “As Is” scenario. As such, it follows that a cash flow benefit for a supplier corresponds to a cash flow disadvantage for the EU customer.

Based on the three examples outlined above, the cash flow impact of Option 2 and Option 5 can be summarised as follows:

1. For businesses that are in a net payment position on the OSS (for example, Business A), the extent of the positive cash flow is determined by the filing period of the OSS return. If the filing deadline is uniformly applied, all businesses in the same net payment position will have the same cash flow benefit. Evidently, if the filing deadline is not uniformly applied, the cash flow benefit will vary according to their local Member State filing deadline. For example, filing deadlines can vary from 10 days to 54 days following the reporting month. The longer the filing period for net recipients of EU VAT, the greater the cash flow benefit will be.

   Therefore, if either of the options is implemented, consideration should be paid to having a uniform filing deadline for the OSS return.

2. In comparison, for businesses that are in a net repayment position on their OSS return (for example, Business B), the extent of the negative cash flow is determined with reference to the filing period plus the average expected time it takes for Tax Authorities to remit any repayments of VAT.

   As shown in Example 2 in Table 19, if a business is established and submits its OSS return in Luxembourg, as opposed to a similar business in Ireland, it would be at a significant disadvantage in relation to the cash flow cost.

3. Finally, for businesses that incur VAT on EU purchases but do not make any EU B2B sales and are thus not registered for the OSS (for example, Business C), the extent of the cash flow cost will be the length of the filing deadline in their Member State. This is on the basis that the business is in a net payment on its domestic VAT return. Alternatively, if the business is in a net repayment on its domestic return, the cash flow cost will be the local VAT reporting deadline plus the average remittance time.

Under examples 2 and 3, the loss that arises as a result of a negative cash flow impact on businesses corresponds to a gain for Tax Authorities (as they are collecting the VAT) and financial institutions that fund the businesses. The cash flow impact of Options 2 and 5 on Tax Authorities is provided in section 7.

Table 19 details the filing deadlines and cash flow impact of each of the three examples detailed above, from the perspective of each Member State assuming a set value of EUR 100,000 on their VAT return.

Table 19: Cash flow impact based on EUR 100,000 of VAT per return

	Example 1 - Cash Flow Benefit		Example 2 - Cash Flow Cost				Example 3 - Cash Flow Cost	
	OSS filing deadline (days)	Impact (EUR)	OSS filing deadline (days)	Average remittance time (days)	Total number of days	Impact (EUR)	VAT return filing deadline (days)	Impact (EUR)
Austria	20	278	20	15	35	486	45	625
Belgium	20	278	20	60	80	1,111	20	278
Bulgaria	20	278	20	30	50	694	14	194
Croatia	20	278	20	60	80	1,111	20	278
Cyprus	20	278	20	120	140	1,944	40	556
Czech Republic	20	278	20	30	50	694	25	347
Denmark	20	278	20	21	41	569	25	347
Estonia	20	278	20	60	80	1,111	20	278
Finland	20	278	20	11	31	431	42	583
France	20	278	20	40	60	833	54	750
Germany	20	278	20	45	65	903	10	139
Greece	20	278	20	270	290	4,028	20	278
Hungary	20	278	20	75	95	1,319	20	278
Ireland	20	278	20	14	34	472	23	319
Italy	20	278	20	150	170	2,361	16	222
Latvia	20	278	20	30	50	694	20	278
Lithuania	20	278	20	30	50	694	25	347
Luxembourg	20	278	20	1,278	1,298	18,028[106]	15	208
Malta	20	278	20	150	170	2,361	45	625
Netherlands	20	278	20	30	50	694	30	417
Poland	20	278	20	60	80	1,111	25	347
Portugal	20	278	20	60	80	1,111	40	556
Romania	20	278	20	45	65	903	25	347
Slovakia	20	278	20	30	50	694	25	347
Slovenia	20	278	20	21	41	569	30	417
Spain	20	278	20	150	170	2,361	20	278
Sweden	20	278	20	11	31	431	26	361
United Kingdom	20	278	20	15	35	486	37	514

Source: EY

[106] The relatively large cash flow impact on Luxembourg is based on the average remittance time for repayment of VAT due to businesses by the Luxembourg Tax Authorities. The time frame for a repayment of VAT in Luxembourg is between 3 to 5 years (3.5 years on average) unless the business has a special agreement with the Tax Authorities for the VAT to be reimbursed on a monthly basis (such agreements are not common). Whilst recent legislative changes in Luxembourg allow for some businesses in a credit position to recover VAT at an earlier date, local tax experts have advised that this does not occur commercially for the majority of businesses. This is principally because the amount in question is not material or because the refund request usually entails the assessment of the related return(s) by the VAT administration before giving right to the refund.

Reduction of cash flow effect

Businesses that are heavily engaged in intra-community trade are far more likely to be affected by the cash flow implications of Options 2 and 5 than businesses that engage primarily in domestic trade; for the latter businesses, the cash flow impact will be negligible.

Furthermore, the adoption of any simplification measures will reduce the cash flow impact of Options 2 and 5. For example, a customer receiving goods with certified taxable person (CTP) status would not be charged VAT on an intra-community supply, rather the customer would self-account for the VAT due via the reverse charge mechanism. This is not dissimilar to the "As Is" model, and would therefore reduce the impact of cash flow of Options 2 and 5.

To understand and estimate what impact the CTP simplification could have on the overall cash flow, an appropriate proxy was used. The proxy used was the proportion of businesses that have applied for Authorised Economic Operator (AEO) status compared with the number of businesses that have an Economic Operator Registration and Identification (EORI) number. Businesses that engage in the import and export of goods are required to obtain an EORI number. These businesses are able to apply for AEO status in order to benefit from simplifications of the customs controls upon entry or exit of the goods from the EU.

It is anticipated that if a business registers for CTP status, the business would benefit from simplifications in relation to the purchase and sales of goods within the EU. Applying the AEO proxy, approximately 0.3% of businesses within the EU would potentially register for CTP status[107]. Therefore, whilst this would reduce any cash flow benefit or cost, it is likely to be limited.

Extension of OSS return

Based on the narrative provided by the Commission (see Annex A) for Options 2 and 5, it is envisaged that the OSS return could be combined with a domestic VAT return into a single return. If this occurs, the majority of businesses would be in a net payment position on the return due to the VAT to be accounted for on total sales being higher than the VAT incurred on purchases. If this is the case, the cash flow calculation will only need to take into account the filing deadline.

This is because the average remittance time from the Tax Authority is no longer applicable in the cash flow calculation as no repayment to the business will be made (due to the netting off of total input tax to total output tax).

As a result, if the OSS and domestic returns are combined, the overall cash flow effect will be reduced.

Furthermore, if a full clearing system is introduced where VAT liabilities in Member States can be offset with VAT refunds in other Member States, this should also reduce the overall cash flow effect of Options 2 and 5.

6.4 Additional points for consideration

In addition to compliance and cash flow costs and benefits for businesses, there are a number of practical issues which also require consideration in relation to each of the five proposed policy options.

Under Option 1, in order for businesses to benefit from a reduction in ongoing costs of compliance, all EU Member States are required to be in agreement on the improvements to the current regime in order to ensure that there is legal certainty on the new legislation.

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[107] This figure is based on the proportion of businesses that have been issued certificates to verify their AEO status (15,034 as of 15 January 2015) to the number of businesses currently registered in the EORI scheme (4,486,452). Source: European Commission.

Furthermore, in relation to the domestic reverse charge under Option 3, whilst this should reduce (in some circumstances) the requirement to have a VAT registration in that Member State, this could result in an issue with respect to the recovery of input tax. For example, if a business continues to have a VAT registration in a particular Member State, and incurs local input tax but did not have any output tax to account for, the repayment of this input tax in certain Member States will be problematic. This represents a cash flow issue for the business and in some cases an absolute cost.

Moreover, where a business does not retain a VAT registration but instead recovers the VAT through the Electronic Cross-border Refund Scheme (formerly referred to as the “8th Directive”), the requirement in certain Member States (for example, Spain) to manually enter each invoice creates a cost for businesses under Option 1.

Under Options 2 and 5, if either option is to be implemented, many businesses would look to third party providers to update accounting systems so that they could account for the VAT appropriately. Due to the complexity of the OSS return, prior to these options being implemented, it should be examined whether it is possible for providers of such accounting packages to upgrade and make changes to the VAT reporting functionality so as to accommodate the completion of the OSS return. If this is not possible, the increase of time spent complying with the OSS requirement should not be underestimated.

Under Options 2 and 5, businesses are likely to have to update contracts with customers and suppliers in order to reflect the new place of supply rules.

Regarding Option 4, one of the benefits is the removal of reviewing invoices in order to identify whether it relates to goods or services so as to apply the appropriate place of supply rules. However, the majority of Member States require businesses to separately report supplies/purchases of goods and services. Therefore, in these Member States, the requirement to review the invoices and differentiate between it being in relation to a supply/purchase of goods or a supply/purchase of services would remain. This would effectively remove a significant benefit of this option. If Option 4 is implemented, this requirement may need to be reviewed.

6.5 Conclusion

The results of the tax experts’ survey indicate that the implementation of Option 1 would result in the largest VAT compliance cost savings for businesses. However, the implementation of this option will only impact a limited number of businesses; approximately 13% of the business community would benefit (this is also likely to be an over representation). This is reflected in the monetary impact reflected in Table 20.

Taking this into consideration, Option 4 is estimated to generate the highest compliance cost reductions for all types of businesses analysed. This was also corroborated by feedback from businesses as part of the interview stage (please see Annex D for more information).

A notable observation of the tax experts’ survey was that the implementation of the OSS under Options 2 and 5 could result in cost increases for SME Type 1 businesses in the year of implementation and annually post implementation. However, with respect to SME Type 2 and large businesses cost reductions are expected in the year of implementation as well as on an ongoing basis.

Furthermore, businesses are likely to either have a cash flow benefit or cash flow cost. This will depend on the trade profile of businesses, filing deadlines and, in the case of net repayment traders, remittance timeframes. Where there is a cash flow cost, it is expected that this will be offset by the compliance cost savings the business would enjoy as a result of the implementation of these options.

Table 20 shows a summary of the anticipated net percentage and monetary costs changes under each policy option for each business type as well as an “all business” aggregate.

Table 20: Summary of the cost impacts of policy options

Summary	SME Type 1		SME Type 2		Large Business		All Businesses[108]	
Net cost impact	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Option 1[109]	-4%	-5%	-36%	-29%	-40%	-37%	-25%	-23%
Option 2 (scenario 1)	14%	5%	-7%	-18%	-5%	-12%	2%	-6%
Option 2 (scenario 2)	15%	6%	-7%	-17%	-5%	-11%	3%	-5%
Option 3	0%	-3%	-3%	-7%	-3%	-7%	-2%	-5%
Option 4	-4%	-5%	-20%	-20%	-23%	-23%	-15%	-15%
Option 5 (scenario 1[110])	11%	3%	-10%	-18%	-6%	-13%	0%	-8%
Option 5 (scenario 2[111])	14%	5%	-7%	-17%	-4%	-11%	3%	-6%
Monetary impact (million EUR)								
Option 1[112]	-36	-46	-151	-121	-383	-355	-571	-522
Option 2 (scenario 1)	981	350	-225	-580	-369	-885	386	-1,114
Option 2 (scenario 2)	1,051	420	-225	-548	-369	-811	457	-938
Option 3	0	-210	-97	-225	-221	-516	-318	-952
Option 4	-280	-350	-644	-644	-1,696	-1,696	-2,620	-2,690
Option 5 (scenario 1)	770	210	-322	-580	-442	-959	6	-1,328
Option 5 (scenario 2)	981	350	-225	-548	-295	-811	460	-1,008

Source: EY

[108] The overall business impact is calculated as weighted average of SME Type 1 (39.8%), SME Type 2 (18.3%) and Large Business (41.9%) in the EU in 2013. The percentage of businesses in the EU in terms of GVA is reported in brackets. Source: Eurostat, Enterprise and Industry.

[109] The implementation of this option would only affect approximately 13% of businesses across the EU.

[110] Scenario 1 related to the situation where a standard VAT rate is applied to all intra-EU supplies of goods (i.e., reduced rate is removed).

[111] Scenario 2 relates to a situation where the definitions of products eligible for reduced VAT rates are standardised.

[112] The cost impact reported reflect the fact that only 13% of businesses benefit from the implementation of this option.

7 Impact of policy options on EU Member States' Tax Authorities

The implementation of an alternate 'destination' based taxation model in relation to intra-EU B2B supplies of goods is likely to have an impact on all Tax Authorities across the EU.

This section presents:

- A measure of the impact on administrative costs for EU Member States resulting from these policy options;
- The impact on the cash flow of tax authorities resulting from a change in the system; and
- The extent to which the proposed policy options can help to combat MTIC fraud, and further implications of the policy options for fraud levels.

7.1 Impact on Tax Authorities administrative costs

This analysis is based on survey responses received from 25 EU Member States Tax Authorities. The survey helps to assess the current administrative burden and how this would vary for each proposed policy option.

The scale of administrative costs depends on a wide range of factors, including the number of businesses registered for VAT, the complexity of the tax, structure of tax rates, frequency of reform, and efficiency of the tax authority. In order to estimate the impact the policy options will have on the magnitude of Member States' administrative costs, the current and expected levels of the costs were assessed.

7.1.1 Baseline – current administrative burden

The current VAT administrative labour costs were derived from the product of the number of staff and average compensation aggregated with the non-labour costs.

7.1.1.1 Full Time Equivalents (FTEs)

Tax Authorities were asked to provide an estimate of the FTEs currently employed in all of their tax offices and the number of FTEs employed dealing specifically with VAT administration. According to the survey responses, the number of FTEs employed by the Tax Authorities varies from c. 350 to c. 110,000. The average size of tax administration in the EU is around 20,400 FTEs, while the median is 6,500 FTEs.

Respondents were also asked to estimate the proportion of FTEs that are responsible for dealing with VAT and intra-EU VAT administration. For the majority of Member States, around 25% of FTEs employed deal with VAT. 22% of this total deals specifically with intra-EU VAT administration while the average size of the VAT administration is around 3,000 FTEs within the sample.

7.1.1.2 Labour and non-labour costs

In order to assess the current state of administrative labour and non-labour costs, respondents were asked to provide an average cost per hour (compensation) for employees responsible for dealing with VAT. In the context of this study, average cost is the aggregate of the average wage cost and other employee benefits excluding training costs. The average cost per hour reported by the respondents varied significantly across the EU between EUR 4 and EUR 57 with a median value of EUR 10.5. Based on the survey results, the monetary value of the labour costs associated with VAT administration is estimated at approximately EUR 1,730[113] million in the EU.

In addition, Member States' non-labour costs associated with the administration of VAT were also considered. These included external consultancy, IT systems and staff

[113] This estimate is based on the assumption that there are 40 hours per working week and 52 weeks in a year.

training costs. On average, the non-labour costs are EUR 27 million per Member State, or EUR 745 million for the EU.

7.1.2 Assessment of changes in administrative costs due to policy options

Definition of options - reminder

Option 1: 'Limited improvement of current rules'

Option 2: 'Taxation following the flow of the goods'

Option 3: 'Reverse charge following the flow of the goods'

Option 4: 'Alignment with the place of supply of services'

Option 5: 'Taxation following the contractual flow'

In order to assess the impact each proposed policy option will have on the Tax Authorities' administrative burden, a set of questions in relation to the potential administrative labour and non-labour cost changes for each option were asked. Respondents were asked to report estimates of administrative cost changes from the current state in the form of percentages. The responses were then grouped in the following ranges:

- No change – 0% impact
- Increase 1%-5%
- Increase 6%-20%
- Increase 21%-35%
- Increase 35%-100%
- Increase of more than 100%

Each option is analysed in the tables below which illustrate the number of responses in each of the cost increase ranges. Ranges for cost reductions (below 0%) are not included because the proportion of respondents that expect a cost reduction is negligible. The policy options' expected administrative cost changes are discussed below.

7.1.2.1 Option 1: 'Limited improvement of current rules'

As previously discussed, Option 1 improves the current rules without modifying them fundamentally. This option primarily seeks to harmonize the VAT treatment applied to call-off, consignment stock arrangements and chain transactions across the EU. In addition to this, it also standardises the documentation to be held to support the exemption of the intra-community supply and consideration is given to the introduction of a standardised proof of movement document. It is also intended that a number of optional simplification measures will become compulsory.

As shown in Table 21, 63% of the respondents estimated the most significant cost impacts associated with this option are costs associated with IT systems and staff training in the year of implementation. All other non-labour costs are estimated to have a negligible cost impact on tax administrations.

Furthermore, the expectation of over 70% of respondents regarding the implementation and annual labour costs is that Option 1 will not require any considerable changes to the current levels of FTEs employed in VAT administration.

To get a sense of monetary scale, according to a weighting of the expectation of the percentage changes provided by respondents, labour costs for Option 1 across all EU Member States are estimated to increase by EUR 25 million and EUR 9 million with respect to implementation and annual costs respectively. Non-labour costs are also estimated to increase in aggregate by EUR 54 million and EUR 25 million regarding implementation and annual costs respectively. Total compliance costs (labour and non-labour) in the year of implementation are estimated to increase costs by EUR 79 million, while the annual post implementation costs are estimated to increase by EUR 35 million.

Table 21 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 1 for Member States' Tax Authorities.

Table 21: Limited improvement of current rules cost changes

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Weighted value[114] in Mil EUR
Labour (change in the number of FTEs)							
Year 1	10	3	1	0	0	0	25.3
Ongoing	11	3	0	0	0	0	9.3
Non-labour costs							
Consultancy (Year 1)	9	1	1	0	0	0	1.0
Consultancy (Ongoing)	9	2	0	0	0	0	0.5
IT Systems (Year 1)	6	6	0	0	4	0	26.0
IT Systems (Ongoing)	10	3	0	0	2	0	12.2
Staff Training (Year 1)	5	7	1	0	1	0	5.0
Staff Training (Ongoing)	8	5	0	0	0	0	2.3
Other (Year 1)	10	1	0	1	0	0	21.8
Other (Ongoing)	10	1	0	1	0	0	10.2
Total costs[115]							
Year 1	8	4	1	0	1	0	79.1
Ongoing	10	3	0	0	0	0	34.5

Source: EY

7.1.2.2 Option 2: 'Taxation following the flow of the goods'

Option 2 requires the establishment of a One-Stop-Shop (OSS) by Tax Authorities. Under this option, in order to combat fraud, the customer would be required to report all purchases from non-resident entrepreneurs. In addition, there are two simplification measures that will be subject to the reverse charge procedure (supplies to Certified Taxable Persons, and supplies between members of the same corporate family).

40% of Tax Authorities expect Option 2 to have no annual post implementation labour cost impact, while the remaining 60% believe this option will result in a small increase in annual labour costs. However, 40% of respondents expect an increase in labour costs in the year of implementation of the policy of between 6% and 20%. This is shown in Table 22.

[114] These values were derived based on weighting the mid-point of the estimated percentage changes in costs provided. The weighting factor applied is the number of respondents.
[115] Average estimates of responses of costs impacts.

Also, the majority of respondents expect IT system and staff training cost increases in the year of implementation. This is unsurprising given these costs tend to be required when new systems and processes are put in place to support policy changes. To emphasise the importance of IT costs, three Member States estimated IT costs to increase by more than 100%. In monetary terms, the estimated increase in IT implementation costs is EUR 66 million across the EU.

Similarly, in monetary terms, according to a weighting of the expectation of the percentage changes of costs, labour costs for Option 2 across all EU Member States are estimated to increase by EUR 101 million and EUR 121 million in year 1 and annually respectively.

As with labour costs, non-labour costs are also estimated to increase in aggregate by EUR 137 million and EUR 61 million regarding implementation and annual costs respectively across the EU.

Overall, Option 2 is estimated to increase Tax authorities' administrative burden by EUR 239 million in year 1 and by EUR 182 million annually post implementation.

Table 22 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 2 for Member States' Tax Authorities.

Table 22: Taxation following the flow of the goods (Base)

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Weighted value[116] in Mil EUR
Labour (change in the number of FTEs)							
Year 1	5	4	6	0	0	0	101.4
Ongoing	6	4	3	2	0	0	121.0
Non-labour costs							
Consultancy (Year 1)	7	2	1	0	0	0	2.7
Consultancy (Ongoing)	8	2	0	0	0	0	1.2
IT Systems (Year 1)	1	2	4	1	3	3	66.3
IT Systems (Ongoing)	4	3	3	2	2	0	29.5
Staff Training (Year 1)	3	5	1	1	1	2	12.7
Staff Training (Ongoing)	5	4	2	0	0	1	5.6
Other (Year 1)	7	1	2	1	0	0	55.6
Other (Ongoing)	8	1	1	1	0	0	24.8
Total costs[117]							
Year 1	5	3	3	1	1	1	238.7
Ongoing	6	3	2	1	0	0	182.1

Source: EY

[116] These values were derived based on weighting the mid values of the estimated percentage changes in costs provided. The weighting factor applied is the number of respondents.
[117] Average estimates of responses of costs impacts.

In addition to the costs impacts presented in Table 22, Tax Authorities were also asked to provide separate estimates regarding the impact under two scenarios:

- Scenario 1 – Standard rate would be applied to all B2B cross-border transactions, hence there will be no goods subject to a reduced VAT rate; and
- Scenario 2 – Tax Authorities will need to standardise the definitions of products eligible for reduced VAT rate and some costs from establishing a central web portal might arise.

As shown in Table 23, when scenario 1 is evaluated, 40% of respondents estimate no considerable changes to the FTEs currently employed for VAT administration.

In contrast, IT systems (implementation and ongoing) and staff training (ongoing) are expected to increase under this scenario by more than 50% of respondents. However, the rest of the non-labour costs are estimated to remain unchanged.

Table 23 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 2 (scenario 1) for Member States' Tax Authorities.

Table 23: Taxation following the flow of the goods (Scenario 1)

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	7	4	4	0	0	0	71.4
Ongoing	6	4	4	1	0	0	103.7
Non-labour costs							
Consultancy (Year 1)	7	2	1	0	0	0	1.7
Consultancy (Ongoing)	8	2	0	0	0	0	0.5
IT Systems (Year 1)	3	4	3	1	1	2	41.6
IT Systems (Ongoing)	6	4	3	0	1	0	13.2
Staff Training (Year 1)	6	4	1	0	1	1	8.0
Staff Training (Ongoing)	7	4	1	0	0	0	2.5
Other (Year 1)	7	1	2	1	0	0	34.9
Other (Ongoing)	8	1	1	1	0	0	11.1
Total costs							
Year 1	6	3	2	0	0	1	157.6
Ongoing	7	3	2	0	0	0	131.0

Source: EY

Equally, as shown in Table 24, 50% of respondents expect no considerable changes to the FTEs currently employed for VAT administration when scenario 2 is assessed, while the remaining respondents estimate cost increases up to 35%.

As with scenario 1, IT system and staff training are estimated to have the biggest cost impact in the year of implementation. In addition, two Member States anticipate a situation where IT system costs more than double from its current level.

Over 60% of Tax Authorities estimate no additional non-labour costs implication associated with this scenario.

Table 24 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 2 (scenario 2) for Member States' Tax Authorities.

Table 24: Taxation following the flow of the goods (Scenario 2)

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	7	5	3	0	0	0	59.3
Ongoing	8	2	4	1	0	0	97.9
Non-labour costs							
Consultancy (Year 1)	7	2	1	0	0	0	1.7
Consultancy (Ongoing)	8	2	0	0	0	0	0.6
IT Systems (Year 1)	3	2	5	1	1	2	42.1
IT Systems (Ongoing)	6	3	3	1	1	0	14.9
Staff Training (Year 1)	6	4	1	0	1	1	8.0
Staff Training (Ongoing)	7	4	1	0	0	0	2.8
Other (Year 1)	7	2	1	1	0	0	35.3
Other (Ongoing)	8	1	1	1	0	0	12.5
Total costs							
Year 1	6	3	2	0	0	1	146.4
Ongoing	7	2	2	1	0	0	128.7

Source: EY

7.1.2.3 Option 3: 'Reverse charge following the flow of the goods'

Option 3 adapts the current rules whilst still following the flow of the goods with the customer applying the reverse charge mechanism. It is anticipated that the implementation of this option would impact two areas of VAT administration. These are:

- VAT return audit and compliance checks as a result of a new VAT accounting mechanism; and
- Notifying businesses on new policy requirements.

As shown in Table 25, the impact of this option is not substantial in terms of labour and non-labour cost changes, with the exception of anticipated labour cost increases in the year of implementation. A labour cost increase in the year of implementation is predicted by more than 50% of respondents.

With regards to non-labour costs, more than 50% of Tax Authorities estimated that this will remain unchanged in the year of implementation and annually after the year of implementation.

Labour costs for Option 3 across all EU Member States are estimated to increase by EUR 35 million and EUR 24 million in year 1 and annually respectively.

As with labour costs, non-labour costs are also estimated to increase in aggregate by EUR 53 million and EUR 19 million regarding implementation and annual costs respectively across the EU.

Overall, Option 3 is estimated to increase Tax authorities' administrative burden by EUR 88 million in year 1 and by EUR 43 million annually after the year of implementation.

Table 25 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 3 for Member States' Tax Authorities.

Table 25: Reverse charge following the flow of the goods cost changes

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	7	7	1	0	0	0	35.1
Ongoing	11	3	1	0	0	0	23.6
Non-labour costs							
Consultancy (Year 1)	8	2	0	0	0	0	1.0
Consultancy (Ongoing)	9	1	0	0	0	0	0.4
IT Systems (Year 1)	8	2	1	1	2	0	25.8
IT Systems (Ongoing)	9	4	0	0	1	0	9.4
Staff Training (Year 1)	7	4	0	0	2	0	4.9
Staff Training (Ongoing)	9	3	0	0	0	0	1.8
Other (Year 1)	8	1	1	1	0	0	21.6
Other (Ongoing)	8	1	1	1	0	0	7.8
Total costs							
Year 1	8	3	1	0	1	0	88.4
Ongoing	9	2	0	0	0	0	43.0

Source: EY

7.1.2.4 Option 4: 'Alignment with the place of supply of services'

Option 4 aligns the rules governing the place of supply of services with the customer applying the reverse charge mechanism.

Under this option, a simplification measure would be introduced whereby supplies to Certified Taxable Persons would not require a recapitulative statement and, in order to combat fraud, the location of the goods would need to be stated on the invoice/recapitulative statement.

As shown in Table 26, the most significant cost impact, reported by Member States, is expected to be non-labour cost (particularly IT systems) increases in the year of implementation (from 35% to 100%). However, the respondents who expect this increase are in the minority (4 out of 14 respondents). Out of these respondents, one Tax Authority envisages that IT costs will increase by more than 100%. Some cost increases are also expected with regards to staff training in year 1. However, annual administrative non-labour costs are expected to remain unchanged.

Additionally, 60% of Tax Authorities also estimate labour cost increases in the year of implementation. Annual ongoing labour costs, however, are expected to result in no costs increases for tax administrations by more than 50% of respondents.

Labour costs for Option 4 across all EU Member States are estimated to increase by EUR 50 million and EUR 32 million in year 1 and annually respectively.

As with labour costs, non-labour costs are also estimated to increase in aggregate by EUR 104 million and EUR 50 million regarding implementation and annual costs respectively.

Overall, Option 4 is estimated to increase Tax authorities' administrative burden by EUR 154 million in year 1 and by EUR 82 million annually after the year of implementation.

Table 26 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 4 for Member States' Tax Authorities.

Table 26: Alignment with the place of supply of services cost changes

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	6	7	2	0	0	0	50.1
Ongoing	8	6	1	0	0	0	32.3
Non-labour costs							
Consultancy (Year 1)	7	1	2	0	0	0	2.0
Consultancy (Ongoing)	7	2	1	0	0	0	1.0
IT Systems (Year 1)	3	3	3	0	4	1	50.0
IT Systems (Ongoing)	7	3	1	1	2	0	24.2
Staff Training (Year 1)	5	5	0	0	2	1	9.6
Staff Training (Ongoing)	7	4	0	0	0	1	4.6
Other (Year 1)	9	0	1	1	0	0	41.9
Other (Ongoing)	9	1	0	1	0	0	20.3
Total costs							
Year 1	6	3	2	0	1	0	153.6
Ongoing	8	3	1	0	0	0	82.4

Source: EY

7.1.2.5 Option 5: 'Taxation following the contractual flow'

Option 5 aligns with the contractual flows with the supplier charging the VAT of the Member State of establishment of the customer. Under this option, in order to combat fraud, the customer would be required to report all purchases from non-resident entrepreneurs. In addition, there are two simplification measures that will be subject to the reverse charge procedure (supplies to Certified Taxable Persons, and supplies between members of the same corporate family).

Under this option, the majority of Member States (more than 70%) expect an increase in labour costs in the year of implementation and annually post implementation. This is shown in Table 27.

In addition, more than 90% of respondents expect IT system costs increases in the year of implementation, with 21% of these respondents expecting this increase to result in a more than 100% increase. Also, more than 50% of respondents expect staff training cost increases in the year of implementation and annually after the year of implementation.

Table 27 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 5 for Member States' Tax Authorities.

Table 27: Taxation following the contractual flow (Base) – Administrative cost changes

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	4	6	5	0	0	0	92.2
Ongoing	4	6	3	1	1	0	172.8
Non-labour costs							
Consultancy (Year 1)	6	3	1	0	0	0	2.7
Consultancy (Ongoing)	7	3	0	0	0	0	1.2
IT Systems (Year 1)	1	1	6	0	3	3	66.4
IT Systems (Ongoing)	5	2	3	2	2	0	30.7
Staff Training (Year 1)	5	4	0	1	1	2	12.7
Staff Training (Ongoing)	5	4	1	1	0	1	5.9
Other (Year 1)	7	1	1	2	0	0	55.7
Other (Ongoing)	8	1	1	1	0	0	25.8
Total costs							
Year 1	5	3	3	1	1	1	229.7
Ongoing	6	3	2	1	1	0	236.4

Source: EY

As with Option 2, Tax Authorities were also asked to provide separate estimates regarding the impact under two scenarios:

- Scenario 1 – Standard rate would be applied to all B2B cross-border transactions, hence there will be no goods subject to a reduced VAT rate; and
- Scenario 2 – Tax Authorities will need to standardise the definitions of products eligible for reduced VAT rate and some costs from establishing a central web portal might arise.

As shown in Table 28, under scenario 1, the expectation of 40% of respondents regarding implementation and annual ongoing labour costs is that scenario 1 will not require any considerable changes to the FTEs currently employed for VAT administration activities.

Furthermore, 55% of respondents estimate no consultancy, staff training and other non-labour costs increases resulting from the implementation and annual ongoing costs of this scenario. However, a number of Tax Authorities expect some modest IT system related cost increases in the year of implementation and annually post implementation. 15% of these respondents expect IT implementation costs to increase by more than 100%.

Labour costs for Option 5 across all EU Member States are estimated to increase by EUR 92 million and EUR 173 million in year 1 and annually respectively.

As with labour costs, non-labour costs are also estimated to increase in aggregate by EUR 138 million and EUR 64 million regarding implementation and annual costs respectively.

Overall, Option 5 is estimated to increase Tax authorities' administrative burden by EUR 230 million in year 1 and by EUR 236 million annually post implementation.

Table 28 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 5 (scenario 1) for Member States' Tax Authorities.

Table 28: Taxation following the contractual flow (Scenario 1)

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	6	4	4	0	0	0	76.5
Ongoing	5	4	4	1	0	0	111.1
Non-labour costs							
Consultancy (Year 1)	6	2	1	0	0	0	1.9
Consultancy (Ongoing)	7	2	0	0	0	0	0.8
IT Systems (Year 1)	3	2	4	1	1	2	46.5
IT Systems (Ongoing)	5	3	2	2	1	0	19.3
Staff Training (Year 1)	6	3	0	1	1	1	8.9
Staff Training (Ongoing)	6	3	1	1	0	0	3.7
Other (Year 1)	6	1	2	1	0	0	39.1
Other (Ongoing)	7	1	1	1	0	0	16.2
Total costs							
Year 1	5	2	2	1	0	1	172.9
Ongoing	6	3	2	1	0	0	151.1

Source: EY

As with scenario 1, 50% of respondents estimate that there is no requirement for a considerable change in the level of FTEs employed for VAT administration in the year of implementation or annually post implementation under scenario 2. The profile of the anticipated non-labour cost changes is also similar to that of scenario 1 with IT systems implementation having the biggest cost impact.

Table 29 shows the anticipated net percentage and monetary costs changes of administrative costs under Option 5 (Scenario 2) for Member States' Tax Authorities.

Table 29: Taxation following the contractual flow (Scenario 2)

	No Impact	Increase 1-5%	Increase 6-20%	Increase 21-35%	Increase 35-100%	Increase > 100%	Increase in Mil EUR
Labour (change in the number of FTEs)							
Year 1	6	5	3	0	0	0	63.6
Ongoing	7	2	4	1	0	0	104.9
Non-labour costs							
Consultancy (Year 1)	6	2	1	0	0	0	1.8
Consultancy (Ongoing)	7	2	0	0	0	0	0.7
IT Systems (Year 1)	3	2	5	0	1	2	45.5
IT Systems (Ongoing)	6	3	2	1	1	0	17.3
Staff Training (Year 1)	6	3	0	1	1	1	8.7
Staff Training (Ongoing)	6	3	1	1	0	0	3.3
Other (Year 1)	6	1	2	1	0	0	38.2
Other (Ongoing)	7	1	1	1	0	0	14.5
Total costs							
Year 1	5	3	2	0	0	1	157.8
Ongoing	7	2	2	1	0	0	140.7

Source: EY

7.2 Impact on Tax Authorities cash flow

A cash flow evaluation was carried out in order to quantify how EU Member States will be impacted as a result of the introduction of the proposed policy options. Although cash flow impact on Member States is not a primary evaluation criterion, this study nonetheless provides an estimate of the costs or benefits associated with a change in net cash flows resulting from the proposed policy options.

The focus of this section is exclusively on the cash flow impact on Tax Authorities and does not cover the impact on businesses. The "As Is" scenario for Member States is cash flow neutral, on the basis that the self-assessed VAT arising can be included and recovered (to the extent the business is entitled to do so) in the same VAT return. This is also the case for Options 1, 3 and 4.

As a result of the clearing system to be implemented as part of the OSS system under Options 2 and 5, cash flow has been identified as either a particular cost or benefit for Member States.

As with businesses, we have made a number of assumptions in calculating the cash flow cost or benefit to Member States:

<u>OSS return</u>

1. 30 days is the usual credit period granted to businesses across the EU and businesses take advantage of the full 30 days. This VAT period for the business ends at the same time as payment is made to the supplier (i.e., suppliers are paid on the 30th day of the month).
2. The OSS return will be submitted on the 20th day following the reporting month and businesses submit the OSS return and pay any relevant amounts on this date.

3. The OSS returns detail output VAT due in relation to those Member States where the supplier is not established and are entitled to offset input VAT incurred in those Member States.
4. The Tax Authority collecting the VAT will have ten days from the end of the period in which the payment of VAT was received from the business to remit this VAT to the Tax Authority in the Member State of Taxation.
5. For simplicity, the impact of weekends on the time frame has been ignored and assumed that all months have 30 days.

Domestic VAT return

1. The domestic returns details output VAT due in relation to domestic sales. Businesses are entitled to offset input VAT incurred from both resident and non-resident enterprises against this output VAT.

Example 1:

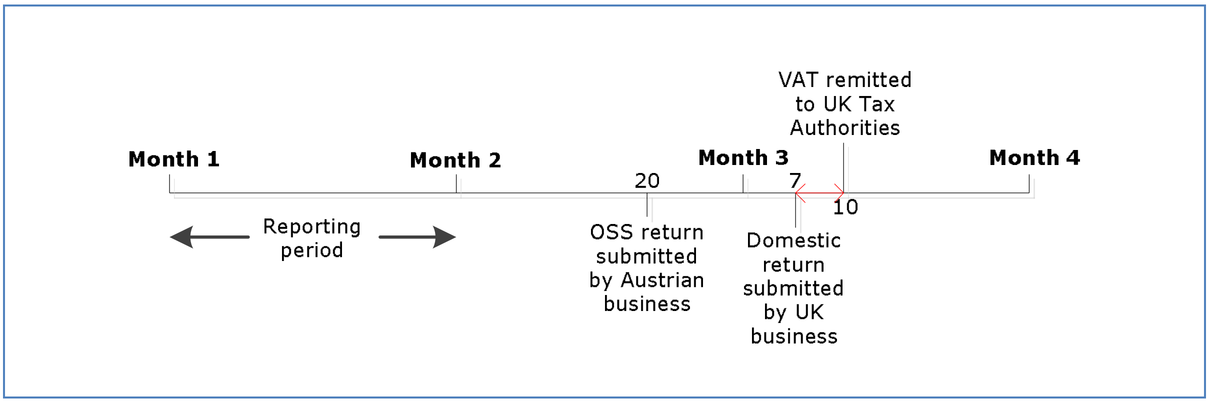
A UK business acquires goods from an Austrian supplier and incurs UK VAT on the supply on the basis that the UK is the Member State of destination (under Option 2) or the UK business is established in the UK (under Option 5).

The UK business would deduct the UK VAT on its domestic VAT return, whilst the Austrian supplier accounts for the UK VAT through its OSS return.

The Austrian supplier has 20 days from the end of the period to remit the UK VAT to the Austrian Tax Authorities who will hold the VAT for 20 days[118] before remitting it to the UK Tax Authorities (i.e., a total of 40 days).

The cash flow differential to the UK Tax Authorities is the difference between the 40 days (when it receives the VAT from the Austrian Tax Authorities) and the UK domestic VAT return filing deadline of 37 days (when the UK business is able to offset the VAT incurred from its intra-EU purchase). The UK Tax Authorities would therefore need to fund the difference for 3 days, resulting in a cash flow cost in relation to the cross-border purchase.

Figure 11: Cash flow timeline for UK Tax Authorities



Source: EY

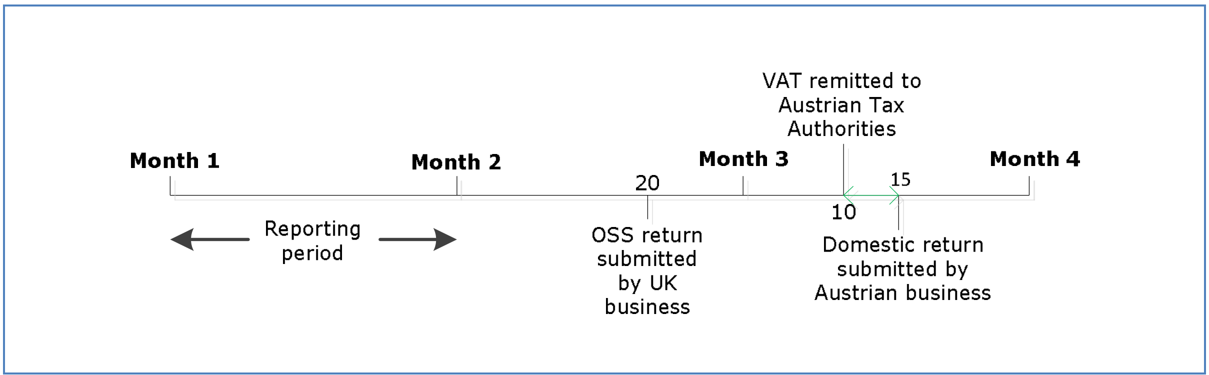
Example 2:

On the other hand, if an Austrian customer acquires goods from the UK supplier and incurs Austrian VAT in the process, this results in a cash flow benefit to the Austrian Tax Authorities.

[118] 20 days is calculated on the basis that the Austrian Tax Authorities will have to remit the VAT to the UK Tax Authorities 10 days after the end of the period in which the payment of VAT was received (eg. 10 days before the end of the month plus 10 days after the end of month). This will be the case for OSS returns across all Member States.

This is because the length of their domestic VAT return filing and payment deadline period is 45 days. This means that the Austrian Tax Authorities can hold the VAT for five additional days after receiving it from the UK Tax Authorities.

Figure 12: Cash flow timeline for Austrian Tax Authorities



Source: EY

Cash flow arising from acquisitions

In relation to acquisitions, it is clear from the examples above that where a Member State has a filing period that is less than 40 days, the Tax Authority will suffer from a cash flow cost. This is due to businesses that incur VAT on intra EU purchases netting off this amount on their domestic return prior to the Tax Authority receiving this VAT from the OSS clearing system.

Alternatively, where a Member State has a filing period that is more than 40 days, the Tax Authority will have a cash flow benefit. This is due to the Tax Authority receiving the VAT due to them from the clearing system prior to the businesses in their Member State accounting for this on their domestic VAT return.

Cash flow arising from dispatches

In relation to dispatches, as Member States will be holding VAT that they would not under the current rules, this will always result in a cash flow benefit.

Therefore, in order to understand the overall impact on a Member State it is necessary to look at the overall cash flow benefit or cost arising from the acquisitions compared to the cash flow benefit on the dispatches. As shown above, where a Member State has a filing deadline of more than 40 days, it will be in a positive cash flow position in relation to acquisitions. Also since it will always be in a positive cash flow position in relation to dispatches (as explained above), the Member State will have an overall positive cash flow impact. This is demonstrated in Table 30 as all Member States with a filing period of greater than 40 days have a positive overall cash flow effect.

A demonstration of how these amounts were calculated is given in the example below.

A net cash flow example for the Czech Republic in relation to its intra EU purchase and supply of goods with Ireland is shown in Table 30.

Table 30: Net Cash flow example for the Czech Republic

Trade flow	Value of goods	VAT rate applied	Number of days relevant	Interest rate[119]	Cash flow impact
Acquisition of goods from Ireland	660,399,949	21% (tax rate of Member State of acquisition)	15[120]	2.5%	(144,462)
Dispatches of goods from the Czech Republic to Ireland	357,749,666	23% (tax rate of Member State of acquisition)	20	2.5%	114,281

Source: EY

In this example for the Czech Republic the net cash flow position in relation to its sales and purchases of EU goods with Ireland is a cash flow cost of EUR 30,181 (114,281 less 144,462). This estimate is provided in Table 30.

In order to calculate the net cash flow position for the Czech Republic, and the other Member States, using the value of acquisitions and dispatches from Eurostat for the calendar year 2013, similar calculations were carried out in order to provide an overall total for each Member State[121].

Where the Member State Tax Authority has a cash flow cost, this would be reflected in a benefit to financial institutions that provide the funds to meet the temporary cash flow needs of the Tax Authorities. Also, for the same level of cash flow needs, Tax Authorities will be able to access funds at lower interest rates in comparison to businesses.

Furthermore, based on the narrative provided by the Commission (see Annex A) for Options 2 and 5, it is envisaged that Member States may only transfer the net VAT due to each Member State after offsetting any VAT that they are owed. This is likely to mitigate some of the cash flow implications of Options 2 and 5.

Finally, the majority of Member States will have an overall cash flow benefit if Options 2 or 5 are introduced. As can be seen from the results, there is limited asymmetry between countries based on trade patterns within the EU. Instead, the overall cash flow benefit for Member States arises as a result of either having a filing period that is greater than 40 days or the fact that the cash flow benefit on its dispatches outweighs the cash flow cost incurred on its acquisitions. Table 31 below provides detail of the individual and aggregate cash flow impact for each Member State based on their trade levels with every other Member State, utilising the methodology described above.

[119] This is lower than the interest rate applied to businesses on the assumption that Member States will be able to obtain more favourable rates of borrowing than businesses.

[120] The number of days here for each Member State will depend on the filing deadline. In the Czech Republic, the filing deadline is 25 days after the reporting end. As the Czech Republic will not receive the VAT on the acquisitions until 40 days after the reporting period, this represents a cash flow cost of financing this VAT for 15 days (40 less 25).

[121] In order to quantify the impact for all Member States in relation to the OSS, we examined the treatment of a B2B cross-border movement of goods between Member States (and not in country supplies of goods by non-resident suppliers).

Table 31: Member State cash flow impact (EUR)

	Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic	Denmark	Estonia	Finland	France	Germany	Greece	Hungary	Ireland
Austria		361,504	(145,556)	(207,076)	2,300	554,773	(27,811)	(23,119)	125,294	2,144,141	139,822	(83,127)	(643,743)	67,403
Belgium	722,761		14,478	(52,071)	3,673	318,299	(156,990)	10,200	620,237	20,727,443	(10,126,300)	(334,704)	(252,742)	2,960,733
Bulgaria	205,469	(57,154)		(9,531)	2,343	110,402	(1,566)	3,203	13,066	363,068	(304,548)	(62,599)	115,955	15,051
Croatia	434,271	50,861	4,101		1,127	97,174	30,345	(316)	7,266	136,438	378,422	(8,494)	271,761	10,227
Cyprus	59,812	8,850	2,981	(1,636)		15,043	5,776	9,955	41,136	105,504	140,427	181,378	6,259	7,299
Czech Republic	1,679,017	(125,811)	(107,598)	(96,278)	4,022		(40,803)	(34,978)	90,447	2,131,836	(5,193,856)	(25,705)	(249,065)	51,814
Denmark	279,038	523,017	1,756	(37,042)	1,407	191,432		39,841	436,181	1,442,324	359,056	(92,043)	32,343	(20,680)
Estonia	37,868	19,431	1,327	(1,030)	436	44,833	(13,507)		544,637	129,546	255,415	853	35,787	3,643
Finland	195,363	69,414	(4,094)	(7,938)	1,167	134,567	485,960	99,552		901,838	448,336	6,571	5,974	89,801
France	1,919,504	4,534,788	(15,911)	(98,308)	3,172	894,221	230,217	(23,015)	557,737		291,311	(524,059)	(84,140)	553,617
German	14,261,420	2,360,564	(285,415)	(500,270)	10,919	2,920,829	(264,549)	(251,995)	1,704,146	37,555,305		(976,983)	(1,507,080)	506,332
Greece	135,818	307,961	(24,472)	5,992	85,576	39,600	85,267	433	42,520	864,392	816,104		66,798	79,863
Hungary	1,791,972	304,321	(180,239)	(191,414)	291	549,885	21,522	(38,760)	86,312	1,717,248	(1,082,063)	(57,688)		72,598
Ireland	367,832	(2,931,545)	(20,145)	(17,184)	815	(30,181)	(4,400)	(2,494)	47,123	1,778,976	(793,698)	(78,253)	(89,692)	
Italy	3,060,113	1,437,868	(132,325)	(434,323)	8,517	383,373	(57,343)	(52,937)	430,658	16,308,504	(3,172,101)	(485,965)	(116,522)	436,859
Latvia	47,554	34,936	3,429	92	453	50,068	(35,037)	23,708	155,698	119,770	166,366	2,606	31,794	7,108
Lithuania	58,806	166,035	(2,251)	(1,022)	1,384	94,254	(1,590)	(117,487)	115,663	287,981	11,115	491	2,424	(10,812)
Luxembourg	62,490	574,417	(16,376)	11,411	13	(21,588)	(24,666)	(3,014)	6,530	901,671	(279,229)	(27,761)	(6,506)	(1,278)
Malta	13,332	20,600	3,286	24,604	1,490	(2,891)	529	1,315	1,245	181,122	(110,112)	(14,456)	(3,499)	3,016
Netherland	994,166	(7,668,037)	(106,453)	(114,417)	5,390	(296,426)	(329,494)	(43,486)	1,169,382	12,433,238	(28,867,867)	(569,476)	(408,801)	229,743
Poland	1,397,804	850,539	(134,735)	(94,016)	1,372	385,000	26,561	(235,183)	476,986	3,737,975	(1,428,215)	(45,541)	(344,460)	165,316
Portugal	106,929	102,421	27,491	(3,726)	273	45,637	5,541	91	43,667	2,288,511	38,455	(2,725)	128	69,150
Romania	731,888	170,862	(47,963)	(16,754)	4,363	317,740	73,356	(7,192)	51,464	1,649,786	(207,610)	164,869	731,789	105,536
Slovakia	1,762,401	9,618	(75,090)	(35,501)	1,835	1,297,275	(22,943)	(2,892)	32,847	1,114,851	(2,095,164)	(22,642)	(394,433)	7,199
Slovenia	905,557	103,315	(23,453)	(144,373)	885	31,694	(29,375)	(5,719)	20,257	465,273	(594,261)	7,119	(57,898)	6,707
Spain	701,715	566,975	(335,604)	(75,333)	1,573	414,950	164,487	(5,930)	257,542	15,076,520	(202,359)	(272,314)	214,040	594,329
Sweden	604,403	(311,131)	(15,114)	(22,633)	7,333	410,573	1,135,396	331,643	2,543,284	2,857,567	1,913,698	(24,462)	1,302	174,817
United Kingdom	1,188,660	2,135,479	(7,680)	(13,953)	57,978	1,065,256	1,012,586	(77,237)	871,686	13,083,238	3,745,714	(101,103)	363,699	(1,450,710)
Net cash flow positon	33,725,965	3,620,102	(1,621,626)	(2,133,729)	210,104	10,015,794	2,267,469	(405,813)	10,493,011	140,504,067	(45,753,143)	(3,446,211)	(2,278,530)	4,734,682

	Italy	Latvia	Lithuania	Luxembourg	Malta	Netherlands	Poland	Portugal	Romania	Slovakia	Slovenia	Spain	Sweden	United Kingdom
Austria	(735,487)	(38,717)	(26,292)	25,266	2,768	1,396,158	(93,773)	71,513	(314,757)	(77,087)	203,366	10,190	(34,978)	378,043
Belgium	(1,925,869)	(26,237)	(100,090)	(1,004,364)	8,521	13,450,676	(212,105)	390,362	(36,330)	129,380	7,078	(545,539)	704,294	3,683,778
Bulgaria	(297,067)	(2,211)	3,454	4,905	1,887	149,284	124,912	15,376	90,857	66,820	29,623	236,568	12,999	108,708
Croatia	244,096	(0)	1,781	(139)	8,416	132,896	91,955	4,896	18,464	68,094	370,020	49,299	21,120	48,911
Cyprus	86,863	12,249	598	2,462	772	113,912	(11,189)	6,284	1,605	1,339	3,771	57,634	670	121,689
Czech Republic	(319,996)	(18,190)	(34,383)	26,130	2,197	1,217,001	1,238,378	83,558	(88,621)	435,684	127,298	(290,031)	(81,331)	419,167
Denmark	132,462	55,289	79,548	21,547	4,930	1,685,219	407,563	110,211	(67,772)	150,432	66,984	(59,663)	597,044	921,041
Estonia	84,264	31,736	220,067	1,980	73	188,970	195,064	8,108	13,701	(1,930)	6,859	23,676	(222,264)	95,448
Finland	23,239	(86,236)	(86)	6,626	996	1,108,131	104,889	72,908	2,001	29,273	8,662	(11,713)	1,365,914	465,287
France	833,085	(58,267)	(3,047)	30,363	82,211	9,180,129	824,099	1,495,714	112,234	458,634	173,422	1,836,940	400,987	5,279,881
German	(5,863,075)	(251,297)	(137,288)	(440,681)	111,977	24,317,574	370,778	1,452,279	(134,426)	1,198,788	655,762	(2,663,218)	(1,746,811)	6,125,557
Greece	407,144	700	87	15,293	29,144	681,109	106,924	61,460	42,385	34,844	4,904	179,973	39,299	306,740
Hungary	(10,188)	(28,571)	692	2,320	1,802	803,489	792,874	67,047	(219,917)	793,341	236,961	(2,499)	9,426	406,262
Ireland	(818,572)	(2,941)	14,686	(10,133)	3,527	385,599	(61,905)	46,979	(61,823)	2,400	1,782	(699,926)	(151,348)	6,234,929
Italy		(119,231)	(115,352)	189,045	132,621	5,353,901	(208)	454,791	147,300	424,947	321,747	265,741	(44,612)	2,077,311
Latvia	93,978		356,198	552	145	85,616	307,759	5,600	3,892	32,630	8,628	32,980	14,967	100,733
Lithuania	106,403	(254,859)		(1,799)	406	168,427	414,455	10,838	(1,809)	23,779	12,800	(27,354)	(16,504)	66,174
Luxembourg	(275,093)	(4,351)	(3,032)		111	164,639	(67,812)	14,099	(22,803)	7,843	(3,934)	(81,328)	(46,318)	39,305
Malta	312,637	1,049	(204)	112		49,289	9,428	4,650	(4,630)	2,791	(1,197)	7,184	20,062	122,140
Netherland	(4,594,745)	(85,439)	12,535	(81,358)	26,393		(363,075)	551,071	(60,976)	104,144	14,558	(1,617,315)	(230,423)	6,520,085
Poland	678,376	(132,383)	33,502	37,808	7,019	2,449,458		141,018	(241,039)	964,333	215,250	229,648	137,260	968,015
Portugal	436,055	(1,657)	8,938	(1,460)	3,308	753,512	74,879		(8,996)	20,768	2,230	2,534,236	61,941	400,479
Romania	185,504	(1,486)	10,622	13,488	12,576	495,456	531,848	100,768		284,763	88,858	156,048	(18,251)	291,348
Slovakia	(360,061)	(18,910)	(7,589)	3,812	2,023	251,024	39,207	24,720	(81,532)		236,217	(121,743)	(126,931)	(22,602)
Slovenia	219,958	(9,372)	(8,775)	6,240	3,217	177,198	(23,362)	8,887	(25,882)	(36,514)		60,847	(11,669)	56,968
Spain	(717,243)	(37,073)	(45,218)	72,950	20,504	2,940,843	174,720	3,259,288	22,663	217,718	21,608		232,831	2,275,973
Sweden	236,417	42,896	94,644	35,688	20,132	2,583,335	552,831	153,304	76,553	239,338	54,265	(24,251)		1,905,247
United Kingdom	2,057,272	20,247	200,268	43,150	49,079	7,504,373	1,749,060	722,712	251,195	646,637	64,302	1,515,278	548,536	
Net Cash Flow Position	(9,779,640)	(1,013,263)	556,266	(1,000,195)	536,755	77,787,221	7,278,196	9,338,442	(588,463)	6,223,189	2,931,824	1,051,662	1,435,909	39,396,617

7.3 Impact of policy options on VAT fraud

In 2014, VAT revenues accounted for 18%[122] of total government taxation revenues in the EU, equivalent to 7%[123] of GDP. This highlights the importance of VAT as a crucial source of revenue for governments and the adverse impact VAT fraud could have on government finances.

Estimates vary regarding the actual level of VAT fraud in the EU. According to a study commissioned by the European Commission to quantify and analyse the VAT gap[124] in EU Member States (26 of the current 28 EU Member States), the total VAT gap in 2011 amounted to EUR 193 billion, equivalent to 1.5 % of GDP of the EU 26[125]. It is estimated that the UK, France, Italy and Germany contributed over half of this total.

A number of issues could be driving the VAT gap. Some of these include:

- The black economy;
- Insolvencies;
- Fraud arising from Missing Trader Intra-Community (MTIC) transactions (hereafter referred to as “MTIC fraud”) – including “carousel” type fraud; and
- Other types of fraud.

This section focusses on the extent to which the proposed policy options can help to combat MTIC fraud.

MTIC fraud typically occurs when a fraudulent business (or “missing trader”) purchases goods from a supplier located in another EU State. Under the current rules, no VAT is levied on this supply as it is a B2B cross-border sale of goods and is treated as exempt from VAT. The missing trader then sells the goods to a business in the same Member State and charges VAT. The purchaser, who may be an innocent party, reclaims the VAT charged by the missing trader. The missing trader then disappears without paying the VAT to the Tax Authority of the Member State in which the VAT is due.

In addition to MTIC fraud, diversion fraud (though not the focus of the quantitative analysis in this section) will also be somewhat impacted by some of the policy options. Diversion fraud occurs when a fraudulent trader reports an intra-community supply of goods (and therefore no output VAT is due from them on the supply) but then diverts the goods so that they remain in the same Member State and are used or sold on without leaving the territory. The VAT fraud is crystallised in the amount of output VAT which is never accounted for on the false intra-community supply.

MTIC fraud occurs across the EU. However, very few Member States publish estimates of the size of the fraud. This is unsurprising because the nature of this type of fraud makes it difficult to measure.

Therefore, in order to analyse the VAT gap in each Member State, Tax Authorities were asked to estimate the proportion of the VAT gap that is due to fraudulent activities and the proportion of that which is driven by MTIC fraud.

Nine Member States’ Tax Authorities[126] were able to provide the level of detail required. On average, according to the Tax Authorities 36% of the VAT gap is due to VAT fraud. Three respondents explained that the fraud portion of the VAT gap is entirely driven by MTIC fraud, while the other six respondents considered that only a proportion of the VAT gap is due to MTIC fraud. On average, 20% of the overall VAT gap was considered to be due to MTIC fraud, while the estimated weighted average (based on overall VAT gap proportion) is 24%[127].

[122] Taxation trends in the European Union – Eurostat 2014 edition.
[123] Taxation trends in the European Union – Eurostat 2014 edition.
[124] The VAT Gap is defined as the difference between the theoretical VAT liability and the collections of VAT.
[125] Study to quantify and analyse the VAT Gap in the EU-27 Member States, July 2013.
[126] Austria, Bulgarian, Czech Republic, Cyprus, Finland, France, Slovakia, Slovenia and United Kingdom.
[127] These estimates are based on eight responses, as one Tax Authority did not provide a MTIC fraud specific estimate.

7.3.1 Effect on VAT fraud as a consequence of the proposed options

Each of the options considers and seeks to encompass measures to combat fraud. Table 32 details the possible anti-fraud measures that may be implemented under each option.

Table 32: Summary of anti-fraud measures

Option	Anti – fraud measure
Option 1 – 'Limited improvement of current rules'	1. Supplier may evidence the intra-community supply of goods by holding a form drawn up by the Member State of departure to be signed by the customer in the other Member State.
Option 2 – 'Taxation following the flow of goods'	1. Customer obliged to mention on VAT return purchases from non-resident businesses, including the suppliers VAT registration number. 2. Member State of establishment of the supplier responsible for auditing business. Member State of taxation could still have possibility to ask for specific investigations where they consider it necessary or carry out these investigations themselves. 3. Supplier would charge VAT at the standard rate on all B2B transaction, both domestic and cross-border.
Option 3 – 'Reverse charge following the flow of goods'	1. No additional measures.
Option 4 – 'Alignment with the place of supply of services'	1. Supplier required to mention the location of the goods on either the invoice or recapitulative statement. 2. Supplier must have valid customer VAT registration number, without which the supply would be treated as B2C. 3. Increased monitoring of non-taxable legal persons. 4. Customer required to submit a recapitulative statement in relation to purchases of goods that should be subject to VAT under the reverse charge. 5. Member State of establishment of the supplier responsible for auditing businesses. Member State of taxation could still have possibility to ask for specific investigations where they consider necessary or carry out these investigations themselves.
Option 5 – 'Taxation following the contractual flow'	1. Customer obliged to mention on VAT return purchases from non-resident businesses, including the suppliers VAT registration number. 2. Member State of establishment of the supplier responsible for auditing business. Member State of taxation could still have possibility to ask for specific investigations where they consider necessary or carry out these investigations themselves. 3. Supplier would charge VAT at the standard rate on all B2B transactions, both domestic and cross-border.

Source: EY

The following sections consider the impact on VAT fraud as a consequence of each of the proposed options.

7.3.1.1 Option 1: 'Limited improvement of current rules'

Considering the legislative and practical changes prescribed for Option 1, no significant changes are expected to the scale of MTIC fraud. This is on the basis that MTIC fraud involves cross-border movement of goods hence providing evidence of intra-community supply of goods is not designed to combat this type of fraud (although this evidence may have implications for the perpetrators of diversion fraud).

Therefore, from the perspective of a person wishing to commit MTIC fraud, the proposed legislative changes will not materially positively or negatively impact the current level of fraud arising as a result of MTIC.

Also, as provided elsewhere in this study, the implementation of such a document would prove very burdensome for businesses.

7.3.1.2 Option 3: 'Reverse charge following the flow of the goods'

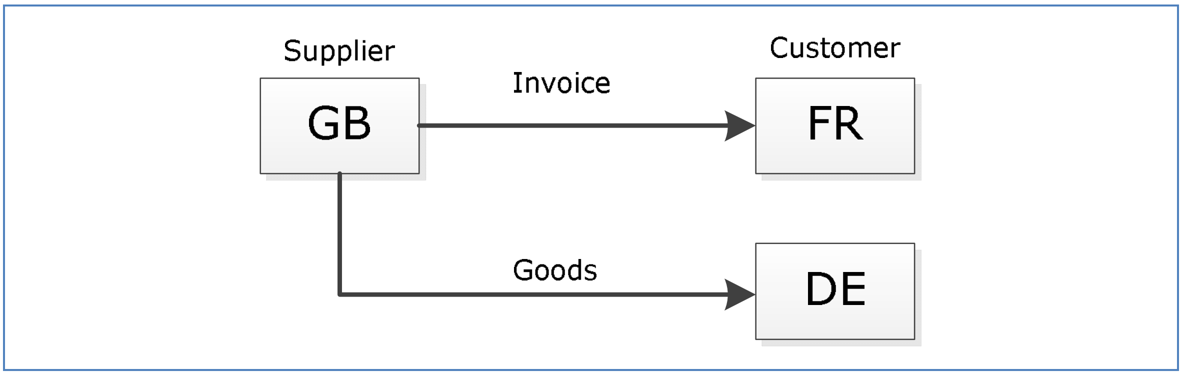
Based on the legislative and practical changes prescribed for this option, no significant changes are expected to the scale of VAT fraud. Whilst Option 3 will involve the extension of the use of the reverse charge mechanism, this is a terminology change which is unlikely to materially affect the occurrence of VAT fraud.

7.3.1.3 Option 4: 'Alignment with the place of supply of services'

Under this option, a potential increase in the level of fraudulent activity could occur.

In the scenario provided in Figure 13, the Customer purchases goods from a Supplier in the UK and the goods are sent directly to Germany. In this scenario, the Customer does not have a fixed establishment in Germany and/or the goods are not provided to an end consumer in Germany. Therefore, based on our understanding of how this option is to be applied, the Customer is liable to account for the VAT via the reverse charge in the Member State of its establishment (i.e. France in this example).

Figure 13: Option 4 example supply chain



Source: EY

This could increase the level of VAT fraud:

1. The Customer may self-account for the VAT in France and recover this when it may not be entitled to the recovery, as the goods may be used for exempt, private or non-business purposes in Germany that do not lead to a right to recover the self-assessed VAT. As the reporting obligations and the consumption of the goods are in different Member States, using the example above, the French Tax Authorities have less control in monitoring whether the VAT is properly recoverable by the Customer.
2. The Customer may fail to register and account for VAT in Germany in relation to the sale of the goods to end customers.

The anti-fraud measures proposed under Option 4 help to counter the above. In this example the French Tax authorities could seek confirmation from the German Tax Authorities that the goods have been used for a taxable business purpose in Germany. The requirement of the customer to submit recapitulative statements should help the German tax authorities to identify where a business may have failed to register for VAT. However such reporting obligations/documentation are only truly effective if the Member State of taxation shares the data with other Member States on a real time basis, and the Member State of taxation, and the Member State of destination have the capacity, and capability to effectively utilise the data to identify incidences or potential incidences of fraud.

7.3.1.4 Options 2 and 5: 'Taxation following the flow of the goods' and 'Taxation following the contractual flow'

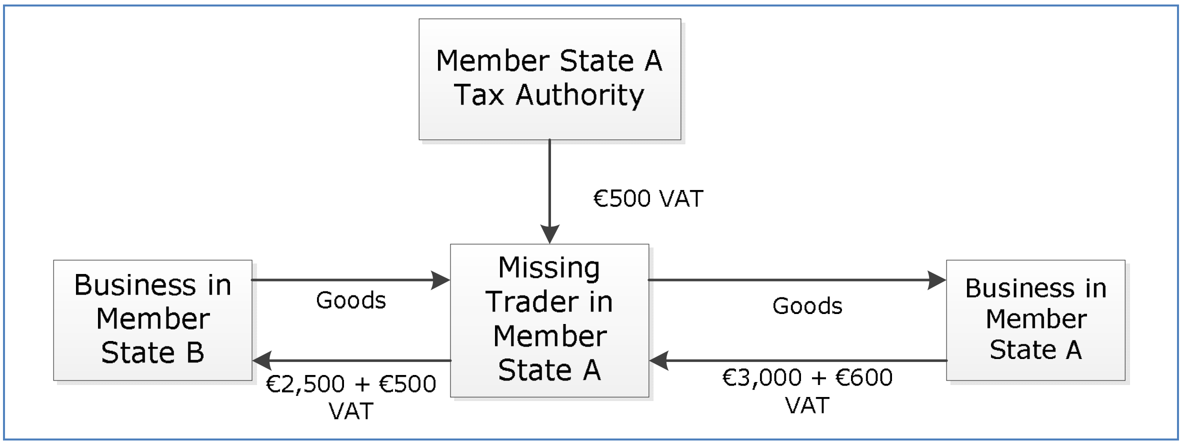
Under these options, both VAT fraud levels and the value of the VAT fraud would be reduced. In the case of MTIC fraud, a person intending to commit fraud will need to pay the VAT due on the intra-community supply of goods upon transfer. Whilst the fraudulent person may choose not to account for the VAT on the subsequent sale of the goods, the value of the VAT fraud in most circumstances will be limited to the mark-up[128] applied on the sale of the goods.

For example, a fraudulent business based in Member State A purchases goods from Member State B for EUR 2,500. He then sells the goods on for EUR 3,000 plus VAT. The VAT rate in Member State A in this example is 20%.

Under the current system, the fraudulent business would simply account for and recover acquisition VAT in the same return. On the subsequent sale of the goods, if the business disappears with the VAT due, he will have charged and kept EUR 600 VAT. Since the trader will have paid no VAT on the purchase this represents a VAT fraud of EUR 600.

In comparison, under the changes prescribed for Options 2 and 5, there are three scenarios that could occur. Figure 14 details an example of a supply chain which has been used as a basis for describing how the fraud may occur and the associated financial impact.

Figure 14: MTIC fraud example



Source: EY

Scenario 1: the fraudulent business pays EUR 500 of VAT on the purchase of goods from the supplier in Member State B. On the subsequent sale of the goods, if the business disappears with the VAT due, he will have charged and kept 600 EUR VAT. This represents an overall VAT fraud of EUR 100 (i.e., the VAT on the margin).

Scenario 2: as above, the business pays EUR 500 of VAT on the purchase of goods from the supplier, whilst also successfully recovering the input VAT from his domestic Tax Authority. The business would then abscond with the EUR 600 in output VAT that he has charged to the domestic business and represents a VAT fraud of EUR 600.

Scenario 3: the fraudulent business fails to pay for the goods from the supplier in Member State B and on the basis of his invoice, reclaims the EUR 500 input VAT. On the subsequent sale of the goods to the domestic business the business then disappears with the EUR 600 VAT due which equates to a VAT fraud of EUR 1,100. The total fraud value is much larger.

Scenarios 2 and 3 are unlikely to occur on the basis that typical MTIC transactions are fast moving to avoid detection by Tax Authorities. A repayment VAT return is likely to trigger an audit by Tax Authorities who would request information regarding the business activities, copies of purchase invoices, and ledger summaries. Therefore the adoption of Options 2 and 5 would tend to have a reducing effect on the incidence and extent of this VAT fraud, because the fraudulent business would be more exposed to scrutiny by the Tax Authorities. For example, the requirement for the customer to mention the purchases for which he deducts the VAT on his OSS return, along with the

[128] The difference between the cost of a good or service and its selling price.

VAT number of his supplier, would allow Member States to verify the VAT paid with the information held by other Member States and perform real time verification of VAT payments on cross-border supplies.

Also, it is worth considering that this kind of fraud would be possible under the current VAT system for domestic supplies in most or all Member States.

Therefore for these reasons, for both Options 2 and 5, lower levels of MTIC fraud (since the fraud becomes more difficult to carry out) and a lower value of the VAT fraud would be anticipated. However, complete removal of this type of fraud is unlikely.

Option 5 may be susceptible to a different type of fraud. Not dissimilar to Option 4, under Option 5 the VAT is chargeable in the Member State where the contracting party is established. This could potentially increase fraud on the basis that the goods could be shipped to a different Member State from where the contracting party is established. Therefore, as in Option 4, the customer may use the goods for exempt or private/non-business purposes in another Member State and incorrectly recover the VAT incurred in its Member State of establishment.

The measures outlined for Option 5 are likely to reduce this type of fraud if it arises.

7.3.2 Impact of Options 2 and 5 on MTIC fraud

It has been highlighted in the qualitative analysis in the previous section that the exemption/zero rating of cross-border transactions facilitate the occurrence of MTIC fraud. Indicative estimates of the size of MTIC fraud according to this analysis ranges from EUR 44.5 billion – EUR 53.2 billion.

Under Options 2 and 5, though there will still be an opportunity for MTIC fraud to be perpetrated, it will be significantly reduced in scale.

The hypothesis of how these options reduce MTIC fraud is that the requirement for businesses to pay acquisition VAT on purchases has the implication of reducing the scale of VAT due that can be misappropriated per transaction. This is because a fraudster who is intent on perpetrating MTIC fraud will only be able to abscond with the VAT on the mark-up (mark-up is the difference between the cost of a good and its selling price) on the purchase price of the goods rather than the VAT on the entire sales value of the goods as is currently possible with the zero rating of cross-border transactions. This has the effect of significantly reducing the scale of VAT fraud per transaction.

According to estimates of this study’s analysis, and assuming a uniform mark-up on cross-border goods by businesses across the EU[129], the MTIC gap will shrink to an estimated EUR 8.2 billion, a reduction of EUR 41 billion (83%). This is equivalent to 4.5% of the total VAT revenues and 0.31% of the GDP in the EU.

Table 33 presents the VAT gap for each Member State and the impact Options 2 and 5 will have on the scale of the reported magnitudes of MTIC fraud.

[129] 20% mark-up used. Based on the European Central Bank working paper: “Mark-ups in the euro area and the US over the period 1981-2004. A comparison of 50 sectors”.

Table 33: Impact of Options 2 and 5 on MTIC fraud based on 2011 estimates (in EUR/millions)

Country	VAT collection	VAT Gap	MTIC fraud[130]	MTIC fraud reduction	Reduction as % of VAT collection	Reduction as %GDP
Austria	23,447	3,468	451	376	1.60%	0.12%
Belgium	26,021	4,970	1,008	840	3.23%	0.22%
Bulgaria	3,352	604	72	60	1.80%	0.15%
Croatia[131]	3,049	326	63	53	1.73%	0.12%
Cyprus[132]	520	21	-	-	0.00%	0.00%
Czech Republic	10,994	4,241	1,187	990	9.00%	0.60%
Denmark	23,869	2,566	498	415	1.74%	0.17%
Estonia	1,363	301	55	46	3.38%	0.28%
Finland	16,915	2,831	708	590	3.49%	0.30%
France	140,506	32,233	12,571	10,476	7.46%	0.51%
Germany	189,920	26,910	5,712	4,760	2.51%	0.18%
Greece	15,027	9,763	2,219	1,849	12.30%	0.89%
Hungary	8,516	3,700	681	567	6.66%	0.57%
Ireland	9,782	1,108	215	179	1.83%	0.10%
Italy	98,557	36,134	8,212	6,843	6.94%	0.42%
Latvia	1,368	954	217	181	13.21%	0.89%
Lithuania	2,444	1,352	285	237	9.71%	0.76%
Luxembourg	2,690	551	102	85	3.17%	0.20%
Malta	520	21	3	3	0.48%	0.04%
Netherlands	41,610	4,012	778	648	1.56%	0.10%
Poland	29,843	5,410	1,031	859	2.88%	0.23%
Portugal	14,235	2,764	513	427	3.00%	0.24%
Romania	11,412	10,348	2,352	1,960	17.17%	1.47%
Slovakia	4,711	2,773	693	578	12.26%	0.82%
Slovenia	3,049	326	49	41	1.34%	0.11%
Spain	56,547	15,197	4,163	3,469	6.13%	0.32%
Sweden	36,610	932	181	151	0.41%	0.04%
United Kingdom	130,577	19,487	5,338	4,448	3.41%	0.24%
Total	907,454	193,303	49,356	41,130	4.53%	0.31%

Source: VAT Gap study[133]*, EY*

These estimated reductions in MTIC fraud are deemed conservative because they do not consider the further reduction in VAT fraud that a less attractive VAT fraud value per unit of transaction creates.

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[130] MTIC fraud was estimated using Member State survey results. For countries, where no data was available, MTIC fraud was estimated using 3 different approached: i) arithmetic average of the data provided (20%), ii) weighted average of the data provided (24%) iii) using proxies based on similarities of size of VAT gap.

[131] It is assumed that the level of VAT collection and VAT gap in Croatia are similar to the figures observed in Slovenia.

[132] It is assumed that the level of VAT collection and VAT gap in Cyprus are similar to the figures observed in Malta.

[133] Study to quantify and analyse the VAT Gap in the EU-27 Member States, July 2013.

7.4 Conclusion

This chapter estimates the impact on Member States VAT administrative costs and quantifies the cash flow as well as the VAT gap impact using a set of assumptions according to the different VAT policy options as proposed by the European Commission.

Based on the Member State survey results, Option 1 is the option associated with the lowest cost impact from a VAT administration perspective in the year of implementation and annually post implementation. This is possibly due to the fact that some Member States have already implemented elements of this option.

With regards to labour costs, under Options 2, 3, 4 and 5, the majority of respondents estimate some additional FTE requirement in the year of implementation. However, only Option 5 reported a requirement for additional FTEs in the years post implementation.

For the respondents that expected additional or fewer FTEs, only half expected that it will be accomplished through staff recruitment/ turnover. The other half expected any such requirements to be managed through staff re-assignment from other public sector departments.

When non labour costs were assessed, the implementation of IT systems was associated with the most significant cost increase expectations under Options 2, 4 and 5.

From a cash flow perspective, Options 1, 3 and 5 will be to all intents and purposes cash flow neutral. However, in relation to Options 2 and 5 the majority of Member States are expected to have a cash flow benefit arising from the implementation of the OSS.

Lastly from a VAT fraud perspective, Options 1, and 3 are likely to be neutral. Option 4 could result in an increase in “diversion fraud” due to the ability to disconnect the taxation of the supply from the movement of the goods. Also this provides the opportunity for business to recover VAT in one Member State whilst using the assets for an ineligible purpose in another Member State. However the proposed anti-fraud measures should help to counter these. Options 2 and 5 are likely to have a material positive impact on the revenues for EU Member States through a reduction in the VAT fraud. These options are estimated to generate EUR 41.3 billion which will otherwise have been lost to VAT fraud. Option 5 may result in a different type of fraud occurring, similar in nature to that under Option 4. However, it is considered that the anti-fraud measures detailed under Option 5 are likely to reduce the occurrence of such fraud as Member States will be able to verify on a real time basis that output VAT has been declared on a OSS return, and will have received a detailed listing from customers in their Member State of supplies received from non-resident enterprises.

Table 34 shows the net monetary impact of each option to EU Member States in terms of anticipated administrative costs changes, cash flow and VAT fraud.

Table 34: Estimated net monetary benefits (EUR millions)

Policy Options	Option 1	Option 2	Option 3	Option 4	Option 5
Implementation					
Admin costs – implementation	-79	-239	-88	-154	-230
Annual ongoing					
Admin costs – annual	-35	-182	-43	-82	-236
Cash flow impact	-	2,397	-	-	2,397
VAT fraud impact	-	41,130	-	-	41,130
Net impact[134]	-35	43,345	-43	-82	43,290

Source: EY

Therefore, Options 2 and 5 show the greatest benefit for Member States when the net impact is considered.

[134] The net impact only considers annual costs hence excludes the implementation costs.

8 Impact of policy options on macroeconomic indicators

This section presents the results of the economic impact assessment which evaluates different destination based policy options for the taxation of intra-EU B2B supplies of goods. An econometric modelling exercise to evaluate the economic impacts of selected VAT policy options was conducted which quantifies the likely effects of the different options on:

- Real GDP growth;
- Consumption growth;
- Export growth; and
- Employment growth.

The model adopted in this study is designed to compare the five different policy options. First, a baseline scenario is run based on the current destination taxation system of VAT for the EU which produces forecasts of the selected macroeconomic indicators over a three year period. Secondly, new scenarios are run for each policy option which produces forecasts of the same indicators.

Finally, a comparison is made of the scenarios for each proposed policy options with the baseline, which establishes the magnitude of the impact of these policies on selected macroeconomic variables over 12 quarters.

The link between the policy options and the macroeconomic indicators is translated into the economic model via:

- The effect of the compliance cost savings on the export prices, and
- The effect of the VAT fraud reduction on the VAT rate.

Based on a literature review and after considering the specific objectives of this study, the choice was made to perform the analysis employing a VAR (Vector Autoregression) framework. VAR models aim to capture the dependencies between current and past levels of macroeconomic indicators. The VAR model, unlike general equilibrium models built on microeconomic structural restrictions, allows the savings on VAT compliance costs to be passed exclusively onto intra-EU export activities and the proceeds from the reduction in VAT fraud to be used to fund a VAT rate reduction. As it can be seen in section 8.3, the baseline forecasts produced by the VAR model are not substantially different from the EC forecasts. This gives further comfort that the VAR model would be able to produce a forecast of the likely impact of the options that is within reasonable tolerances.

In this study, the current level of the macroeconomic indicators is assumed to be dependent on the magnitude of these indicators from the past four quarters. The choice has been influenced by the quarterly frequency of the data and validated using statistical measures. For more details, please see Annex E.

Different scenarios were constructed based on the policy options and these scenarios were applied to the data for the EU.

8.1 Approach to addressing data issues

Due to a limited number of data points for several Member States, the economic analysis was not carried out for individual Member States. This is because the results may have been influenced by these data limitations. However, based on the hypothesis that the effect of aggregation is likely to overcome these challenges, the economic analysis was carried out for the EU 28 as a single entity. For further details on the modelling approach, please see Annex E.

Additionally, upon investigation, it was observed that the macroeconomic indicators deviated significantly from their long-term mean during the period between 2008 Q3 and 2009 Q2 (the deviation for quarter on quarter real GDP growth reached a maximum of 3% in 2009 Q1). In order to prevent these outliers from influencing the estimates, the trend for the macroeconomic variables prior to 2008 Q3 was assumed to persist during these 4 quarters. For more details on this, please see Annex E.

The compliance cost changes for the EU-28 in aggregate, which is one of the policy inputs of the economic model, are calculated as a weighted average of the expectation of compliance cost changes provided by the tax experts' survey respondents. The weights are the real GDP levels from 2013. This approach is different from the arithmetic averages used to estimate the compliance costs from the tax experts' survey in section 6.1. While the arithmetic average approach is useful to give an overview of the opinion of the tax experts, the weighted average is assessed to be more appropriate for economic modelling since the impact of different Member States' compliance cost estimates on the EU-28 economy will be influenced by the size of their economies.

8.2 Previous studies and model selection

Previous studies on the wider effects of VAT fraud and VAT compliance costs have mainly focused on the implications for businesses.[135] Although there is existing literature on the macroeconomic implications of taxation, research on the macroeconomic implication of VAT compliance costs is limited.[136]

VAR models are regularly used in dynamic macroeconomic modelling for forecasting as well as for impact assessment purposes. This use has occurred more often since the paper by Sims (1980).[137] In line with the existing macroeconomic literature utilising VAR models, several European Commission economic papers have attempted to investigate the impact of fiscal policy via VAR models.[138]

There is a diverse literature that uses the VAR framework to analyse effects of taxation. Earlier examples include Von Fustenberg et al. (1986)[139], Ram (1988)[140] and Owoye (1995)[141]. Hoppner (2001)[142] uses VAR based models to assess the impact taxation changes in Germany. More recently Mertens, Karel and Ravn (2013)[143] assess dynamic effects of tax changes in US.

The literature regarding the evaluation of the economic impact of VAT related changes is more limited. Pagan et al. (2001)[144] assesses the impact of VAT reduction on macroeconomic indicators using a VAR model. Also, De Mooij and Keen (2012)[145] use the VAR methodology to analyse the effect of VAT reduction on net exports. Although this literature review has not revealed any previous studies that apply the VAR approach to evaluate the impact of the reduction in VAT fraud or compliance costs, the assumptions of this study allow the impact from these two changes to be reflected in export prices and VAT rate reductions.

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[135] 1. "The impact of VAT compliance on business", PwC and World Bank, 2009.
2. "What Explains Tax Evasion? An Empirical Assessment based on European Data", 2006.

[136] 1. "Studying the studies: An overview of recent research into taxation operating costs", Chris Evans, 2003.
2. "Paying taxes 2013", PwC and World Bank, 2011/ 2013.

[137] "Macroeconomics and reality", Sims C.A., Econometrica, Volume 48/1, 1980 and

[138] 1). "Stochastic debt simulation using VAR models and a panel fiscal reaction function: results for a selected number of countries", EC Economic Papers 459, 2012; and 2). "Economic spill over and policy coordination in the Euro Area", EC Economic Papers 246, 2006

[139] "Tax and spend, or spend and tax?", von Fustenberg, G.M., Jeffery Green, R. and Jeong, Jin-Ho, The Review of Economics and Statistics, 179–88, 1986.

[140] "Additional evidence on causality between government revenue and government expenditure,' Southern Economic Journal, 763-9, 1988.

[141] "The causal relationship between taxes and expenditures in the G7 countries: cointegration and error-correction models", Owoye O., Applied Economics Letters, 2, 1995.

[142] "A VAR analysis of the effects of fiscal policy in Germany.

[143] "The dynamic effects of personal and corporate income tax changes in the United States.", Mertens, Karel, and Morten O. Ravn. American Economic Review, 103(4), 2013.

[144] "The evolution of VAT rates and government tax revenue in Mexico", Pagan, J.A., G. Soydemir and J.A.Tijerina-Guajardo, Contemporary Economic Policy, 19 (4), 2001.

[145] "Fiscal devaluation and fiscal consolidation, the VAT in troubled times", IMF Working Paper WP/12/85, De Mooij, R. and M. Keen, 2012.

The economic modelling methodology in this study focuses on the dynamic macroeconomic impact of VAT fraud and VAT compliance costs. This relationship between the VAT compliance costs and the macroeconomic outcomes are modelled linearly using this VAR approach. This form of linear specification is commonly found in literature investigating the elasticity of exports with respect to labour costs[146]. This can be regarded as similar in concept to this study, since the assumptions adopted here treat the reduction in compliance costs as a competitiveness gain.

8.3 Baseline ("As Is")

In order to estimate the likely impact of the proposed VAT policy options, several economic variables are forecast using the VAR model to outline a baseline. The baseline represents the "business as usual" scenario to which all the VAT policy options are compared. The baseline forecasts are presented in Table 35. These are calculated for a 3-year period (2014-2016) and indicate the cumulative growth of the macroeconomic indicators.

According to the VAR forecasts, the EU 28 per capita real GDP is estimated to grow at a cumulative rate of 4.465% over the 3-year period. This estimate is higher than the estimated growth of real consumption in the same period (3.5 %), but lower than the estimated real exports growth at 13.4%. In absolute terms, the baseline real EU GDP at 2005 prices in 2013 was EUR 11,768 billion.[147]

The estimated baseline forecast of GDP growth, 4.465% is not substantially different from the EC's spring 2015 forecast which indicates a cumulative growth of 5.3% during the 2014-2016 periods.[148]

Table 35 below shows the forecast of the macroeconomic outcomes of the baseline expressed as percentages.

Table 35: Forecast macroeconomic outcomes of the baseline (3-year cumulative growth)

Economic parameters	Baseline
Per capita real GDP	4.465%
Per capita real consumption	3.536%
Per capita real exports	13.455%
Employment rate	1.897%

Source: EY

8.4 Impact of policy options on forecast macroeconomic outcomes of the EU

When Options 1, 3 and 4 are evaluated, positive impacts in comparison to the baseline are observed showing a 3-year cumulative real GDP growth difference from the baseline of 0.004%, 0.005% and 0.017% respectively. This is equivalent to a net impact on GDP of EUR 0.4 billion, EUR 0.5 billion and EUR 2.0 billion for Options 1, 3 and 4 respectively over the 3-year period.

However, under Options 2 and 5, the economic effects are more positive in comparison to the other three policy options due to the impact of VAT fraud reductions. The cumulative real GDP growth is estimated to be 0.157% (Option 2) and 0.158% (Option 5) higher than the baseline. This corresponds to a net impact of EUR 18.5 billion in GDP for these options. It is estimated that EUR 2 billion of this impact is due to compliance cost reduction, while EUR 16.5 billion is due to the reduction in VAT

[146] 1. "How do exporters react to changes in cost competitiveness?" ECB Working paper 1752, 2014.
2. "Study on the cost competitiveness of European industry in the globalisation era - empirical evidence on the basis of relative unit labour costs (ULC) at sectoral level", Final Report, Framework Contract Sector Competitiveness (ENTR06/054), 2011.

[147] Eurostat.

[148] http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring/eu.html

fraud. In the absence of the VAT fraud reduction assumption, Options 2, 4 and 5 yield similar impacts on the macroeconomic variables.

Table 36 shows by how much the 3-year cumulative growth of the macroeconomic indicators under each of the five policy options differ from the baseline.

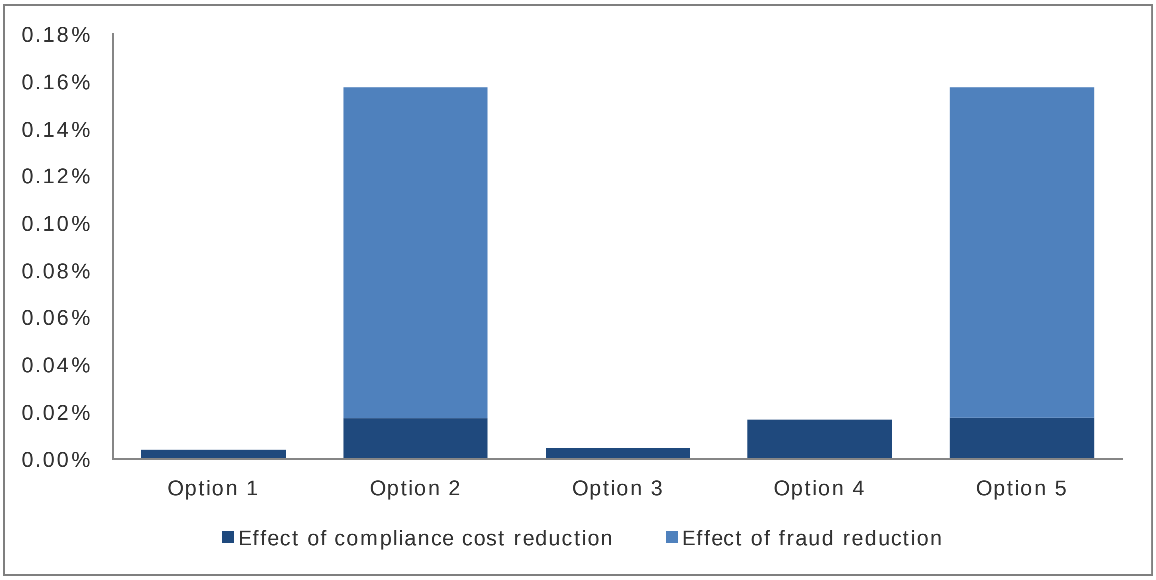
Table 36: Differences of the EU 3-year cumulative indicators' growth from the baseline (3-year cumulative growth)

	Option 1	Option 2	Option 3	Option 4	Option 5
Real GDP Growth	0.004%	0.157%	0.005%	0.017%	0.158%
Real Consumption Growth	0.003%	0.130%	0.004%	0.014%	0.130%
Real Exports Growth	0.000%	0.010%	0.000%	0.001%	0.010%
Real Employment Growth	0.002%	0.101%	0.003%	0.011%	0.101%

Source: EY.

Figure 15 shows the estimated net impact of each policy option on the 3-year cumulative real GDP growth, distinguishing between impact due to the effect of the compliance cost reduction and the effect of fraud reduction.

Figure 15: Differences of the EU 3-year cumulative per capita real GDP growth from the baseline



Source: EY

From an economic point of view, the long-term effects of the policy changes estimated by the VAR model appear to have relatively limited impacts on real GDP due to the following factors:

- The aggregate compliance cost savings are relatively small in magnitude; it is estimated to be EUR 2.4 billion annually for Options 2 and 5.
- The assumed VAT rate reduction for the EU 28, resulting from the fraud reduction is equivalent to a 0.88% VAT rate reduction (i.e current rate % minus 0.88%) when weighted across Member States using real GDP levels. The current weighted average VAT rate in the EU is 20.6%.
- The effects explained above are temporary, that is, once in force, these reductions have no effect on aggregate inflation and export price inflation in the periods following the implementation period (2014 Q1 and 2014 Q4).

- Finally, aggregate household disposable income does not increase due to this VAT rate reduction. This is because the VAT rate reduction, being revenue neutral, merely re-allocates disposable income away from the individuals perpetrating VAT fraud to all EU households. This reduces the distortionary effects of taxation.

8.5 Conclusion

On the basis that Options 1, 3 and 4 reduce the compliance costs but have no impact on VAT fraud, the analysis shows that these options would have a relatively small but positive effect on the EU economy.

Options 2 and 5, unlike Options 1, 3 and 4, assume a reduction in VAT fraud in addition to savings in businesses' compliance costs. This additional assumption is estimated by the VAR model to create a further boost to the EU economy in a manner that Options 1, 3 and 4 are not forecast to achieve. As a result, under Options 2 and 5, the forecast 3-year cumulative net impact on GDP growth is estimated to be positive and larger than Options 1, 3 and 4, i.e. approximately 0.158% higher than the baseline. This outcome is unlikely to be different if the individual Member States' economic modelling had been undertaken.

Therefore, Options 2 and 5 are the preferred options based on the impact on the EU economy. According to the economic model estimates, either of these two options is expected to increase EU GDP by EUR 18.5 billion over the 3 year period, compared to the baseline. EUR 16.5 billion of this impact is estimated to be due to the effect of VAT fraud reduction while the rest is estimated to be due to compliance cost savings.

However, in this context it must be emphasised that the economic analysis favours Options 2 and 5 primarily due to the assumption that the expected additional VAT revenues from a reduction in the scale of VAT fraud is used to fund a VAT rate reduction. When the implication of the fraud reduction on the economic outcomes is ignored, Options 2, 4 and 5 are estimated to generate similar impacts on real GDP.

A caveat to the results is that the compliance cost savings and the reduction in VAT fraud could well be higher; this is because the compliance cost estimates do not consider further cost savings that may occur in subsequent years due to increased compliance efficiencies while the VAT fraud reduction estimates do not include reduction in diversion fraud.[149] As a result, the economic impact is estimated to be conservative.

The results reported are sensitive to the forecast period over which the results are evaluated. While the analysis relies on the forecast over 12 quarters, an alternative analysis which relies on 8 quarters would have resulted in slightly different outcomes.

As an example, when the evaluation was done over 8 quarters, the average annualised GDP growth forecast for Option 5 was estimated at 1.669% compared to 1.541% in the case where the forecasts are over 12 quarters. Similarly, the average annualised export growth forecast was estimated at 4.648% compared to 4.488% in the case where the forecasts are performed over 12 quarters. These differences arise because of the time it takes for the economic effects of the policy changes to decline over time and for the growth rates to return to their long-term levels after the policy changes are implemented. For the purposes of this study an evaluation period of 12 quarters was deemed to be the most suitable, since this period length serves as an optimal trade-off between the assessment of short and long term impacts.

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[149] See section 7.3.

9 Conclusion

The objective of the assessments carried out in this study is to identify the policy option which addresses the two fundamental issues with the existing destination based system. These are the additional obligations and costs associated with VAT compliance for businesses engaging in cross-border trade, and the existing levels of VAT fraud within the EU.

Furthermore, as part of the study, various other aspects have been reviewed. These are:

- Legislative issues;
- VAT reporting under the policy options including whether they resolve the four main legislative "As Is" issues;
- Cost impact of the policy options on Member States;
- Cash flow impact of the policy options on businesses and Member States; and
- Impact on the EU economy.

Definition of options – reminder

Option 1: 'Limited improvement of current rules'

Option 2: 'Taxation following the flow of the goods'

Option 3: 'Reverse charge following the flow of the goods'

Option 4: 'Alignment with the place of supply of services'

Option 5: 'Taxation following the contractual flow'

Compliance cost analysis

With regards to the compliance cost for businesses, Option 4 is estimated to generate the highest compliance cost savings for all types of businesses in the EU, equivalent to EUR 2.7 billion in aggregate for the EU.

Option 1 is expected to deliver VAT compliance cost reductions per business (equivalent to EUR 0.5 billion annually in aggregate for the EU) but only to those businesses that engage in certain supply chains (predominantly chain, call off and consignment stock). Therefore, only a relatively small proportion (approximately 13%) of businesses will be impacted if this option is implemented and, as such, the overall cost reduction for businesses is likely to be significantly reduced on this basis.

Whilst Options 2 and 5 provide a reduction in compliance costs for SME Type 2 and large businesses in the year of implementation as well as on an ongoing basis, these options generate significant cost increases for SME Type 1 businesses as a result of the implementation of the OSS system. The savings that would be achieved are within the range of EUR 938 million to EUR 1,328 million on aggregate for the EU.

Lastly, Option 3 also generates compliance cost savings for all types of businesses in the EU (equivalent to EUR 952 million on aggregate for the EU), albeit these are lower in scale when compared to options 2, 4 and 5.

Impact on VAT fraud

Options 2 and 5 are likely to have a significant positive impact on the revenues of EU Member States through a reduction in MTIC fraud. These options are estimated to generate EUR 41 billion annually which will otherwise have been lost. This is equivalent to 4.53% of the total VAT revenues and 0.31% of the GDP in the EU.

Whilst the other policy options (with the exception of Option 3) do have certain proposed anti-fraud measures, these are not expected to have a material impact on MTIC fraud.

However, a new exposure to fraud may arise if any of the options are implemented. Examples were provided of a new fraud risk under Options 4 and 5, however, under Option 4, the anti-fraud measures that accompany this option are likely to mitigate such fraud. Whilst this is outside the scope of the current study, this should be reviewed further prior to any of these options being implemented.

Economic analysis

From an economic impact perspective, for Options 1, 3 and 4, the hypothesis is that compliance costs will be reduced but there will be no reduction in VAT fraud. On this basis, the analysis shows that these options would have a relatively small but positive effect on the EU economy.

Options 2 and 5, unlike the other options, assume a reduction in VAT fraud in addition to businesses' compliance cost savings. This additional assumption is estimated to create a further boost to the EU economy that is not forecast for Options 1, 3 and 4.

Therefore Options 2 and 5 are the options that generate the biggest impact on the EU economy. According to the economic model estimates, both options are expected to increase EU GDP by EUR 18.5 billion over the 3-year period, compared to the current state.

However, in this context it must be emphasised that the economic analysis favours Options 2 and 5 primarily due to the assumption that the expected additional VAT revenues from a reduction in the scale of VAT fraud is used to fund a VAT rate reduction. When the implication of the fraud reduction on the economic outcomes is disregarded, Options 2, 4 and 5 are estimated to generate similar impacts on real GDP.

Legislative assessment

From a legislative perspective, certain areas were highlighted that would be required to be addressed prior to any of the options being implemented. However, no insurmountable legislative issues were identified that will prevent any of the options from being implemented.

VAT reporting assessment

With regards to the current taxation model for the B2B sale of goods, four legislative areas were identified that create compliance issues for businesses:

- The lack of consistency regarding the evidence required to exempt a B2B intra community supply;
- The possibility of the supplier having to register for VAT in multiple EU Member States due to the lack of harmonisation and implementation of the call-off and consignment stock simplifications;
- The lack of consistency in how Member States have implemented the triangulation simplification rule; and
- The difficulty in determining which supply (in a chain transaction) should be treated as the exempt intra-community supply.

As part of the overall qualitative assessment, a review was carried out regarding the legislative issues that arose under the current taxation model. Options 2, 4 and 5 address the four key legislative issues identified in respect of the current "As Is" model. Option 1 results in the removal of three of the four issues, whilst Option 3 addresses none of the issues.

In relation to the ongoing VAT/OSS return reporting that would arise under the policy options, none of the options results in a significant change in the overall reporting requirements.

VAT administrative costs of Member States

When the options are assessed from the perspective of Member States' Tax Authorities, Option 1 is reported to have the lowest costs to administer by Tax Authorities, as this has the lowest cost of implementation. This is possibly due to the fact that some Member States have already implemented elements of this option.

With regards to labour costs, under Options 2, 3, 4 and 5, the majority of respondents estimate some additional FTE requirement in the year of implementation. However, only Option 5 reported a requirement for additional FTEs in the years post implementation.

When non labour costs were assessed, the implementation of IT systems was associated with the most significant cost increase expectations under Options 2, 4 and 5.

Cash flow assessment

Under Options 2 and 5, businesses will experience a cash flow impact depending on their VAT payment profile. Where a business is in a net payment position on its One-Stop Shop return, it will benefit from a positive cash flow due to receiving VAT from its EU customers and being able to hold this VAT until the One-Stop Shop filing deadline. Where a business is in a net repayment on its One-Stop Shop return, the business will experience a negative cash flow position due to paying VAT to its EU supplier and not being able to benefit from an immediate right of deduction. For the remaining options, there should be no significant impact upon cash flow for businesses.

For Member States, it was identified that Options 2 and 5 will result in the majority of Member States having a cash flow benefit. This is due to Member States receiving and holding VAT for a period of time before businesses in their local Member State seek to recover the VAT on their domestic VAT return. For the remaining options, there should be no material impact on cash flow for Member States.

Summary

Option 2 and 5 are expected to significantly reduce the level of fraud arising from MTIC transactions in the EU. In aggregate the reduction in compliance costs for businesses across the EU will be within the range of EUR 938 million to EUR 1,328 million, however the compliance cost for SME Type 1 businesses is expected to increase significantly. These options also address the reporting issues identified with the current "As Is" model.

The introduction of Option 4 reduces the cost of compliance for all businesses that engage in the cross-border supply of goods and it addresses three of the issues identified with the "As Is" model. The aggregate reduction in compliance costs would be EUR 2.69 billion. This option also addresses the reporting issues identified with the current "As Is" model. However, the anti-fraud measures described are not likely to materially lower the current level of MTIC fraud.

Option 1 is also expected to lower compliance costs but only for a small proportion of businesses in the EU. It does address three of the issues identified with the current "As Is" model. Furthermore, the anti-fraud measure identified with this option is unlikely to reduce the level of MTIC fraud.

Option 3, since it is an adaptation of the current taxation model, does not address either of the fundamental issues identified, and the reporting issues associated with the current "As Is" model will still exist.

Annex A The Taxation Models and how they are to be applied

Section 1: Narrative detail of each of the five policy options

The information below is the documentation provided by the Commission in respect of how each option would be applied, possible simplification measures and also anti-fraud measures.

The rules applicable to the following B2B supplies of goods are not affected:

- Supplies of second-hand goods, works of arts, collector' items and antiques by taxable dealers (margin scheme) and organisers of sales by public auction (special arrangements);
- Supplies of second-hand means of transport by taxable dealers (transitional arrangements);
- Supplies of gas, electricity, heat or cooling energy;
- Supplies on board ships, aircraft or trains.

Nor are the rules applicable to the following taxable persons:

- Small businesses;
- Farmers subject to the common flat-rate scheme.

Minor adaptations to those rules might be necessary though – e.g., payment of tax by Certified Taxable Person where supplier not registered in customer's Member State.

Supplies of new means of transport to non-taxable persons and supplies of goods to be installed or assembled might be affected by the new rules depending on the options and variants.

Option 1: Improving the current rules without modifying them fundamentally

Two joint sub-groups made up of members from the Group on the Future of VAT and from the VAT Expert Group developed a series of recommendations to improve the current rules as regards intra-EU B2B supplies of goods without modifying them fundamentally (so-called 'Option 1' which had been advocated by some delegates). These recommendations addressed two issues: (i) the VAT treatment of chain transactions, and of consignment stock (ii).

The sub-group on consignment stock recommended a simplification measure regarding call-off stock, i.e., where the buyer is known in advance. The cross-border transfer of goods would be treated as an intra-EU supply at the time that the buyer takes the goods from the stock. The supplier would have however in particular to report the transfer before it takes place. Business members recommended extending such a simplification scheme to transfers of goods to consignment stocks.

The sub-group on chain transactions recommended in particular to encourage Member States to make use of the options provided for in Articles 194 (domestic reverse charge for non-established suppliers), 204(1) (possibility to appoint a tax representative), 164 (licence to receive untaxed supplies) and 157(1)(b) (VAT warehousing) of the VAT Directive. Business members also stated that they would prefer that the exempted intra-EU supply be attributed to the first supply within the chain of transactions.

A third sub-group made up of members of the EU VAT Forum examined the burden of proof to support the exemption of intra-EU B2B supplies as regards the transport to another Member State. The sub-group concluded that further harmonisation and consistency should be achieved regarding the required existing documentation.

Business members believed that the proof should, where possible, be based on documents that are produced in the context of a legitimate commercial arrangement. They also believed that a supplier should have certainty as to whether he can exempt a supply at the time at which an invoice is issued.

A measure which could strike a right balance between the needs of the Tax Authorities to ensure the correct functioning of the VAT system and the needs of businesses for simple rules which provide legal certainty as well would be to establish a list of relevant commercial documents. If the supplier holds a number of these documents, the goods are presumed to have been dispatched or transported outside the Member State and the supplier is presumed to have provided the necessary evidence. The burden of proof to rebut the presumption is moved to the Tax Authorities.

Therefore, with this Option 1, on the whole, the current rules would not be affected. The minor modifications would be the following.

Call-of stock

Taxable transactions

The transfer by a taxable person of goods forming part of his business assets to another Member State shall not be treated as a supply of goods for consideration when they are to be made available to another known taxable person to whom the right to dispose of those goods as owner will take place only when the goods are removed from the stock.

The intra-EU acquisition in the Member State of arrival of the goods shall not apply to the transfer by a taxable person of goods forming part of his business assets made in such cases.

However, an intra-EU acquisition shall apply and the known buyer will be liable for the VAT when he removes the goods from the stock.

Place of taxation

When the goods were transported or dispatched to be made available to a taxable person, to whom the right to dispose of these goods as owner takes place at the time the goods are removed from stock, the place of supply of the goods is the place where the goods were located when their transport or dispatch began.

The place of an intra-EU acquisition of goods, which were transported or dispatched to be made available to a taxable person to whom the right to dispose of these goods as owner takes place when the goods are removed from stock, shall be deemed to be the place where their transport or dispatch ended.

Exemption

Member States shall exempt the supply of goods which were transported or dispatched to a destination outside their territory but within the EU when those goods were made available to a taxable person to whom the right to dispose of them as owner takes place at the time when the goods are removed from stock.

Time of supply

The chargeable event of the exempt intra-EU supply and of the corresponding intra-EU acquisition occurs at the moment the goods are taken from stock by the known buyer. VAT becomes chargeable on issue of the invoice or on expiry of the time limit to issue an invoice set for exempted intra-EU supplies if no invoice has been issued by that time.

The known buyer has no pre-determined time limit within which the goods must be taken from stock.

1.1 Obligations

1.1.1 Registers

The taxable person shall keep a register of all goods dispatched or transported under the conditions set out above to another Member State as well as the goods taken from stock. This register must also mention the address where the goods are located.

The taxable person to whom the goods are transported or dispatched shall keep accounts in sufficient details to enable identification of these goods.

1.1.2 Notification to the Tax Authorities and recapitulative statements

The supplier and the customer must inform the Tax Authorities of departure and of arrival that the transfer of goods will be disregarded for VAT purposes until the goods are removed by the customer from stock.

The supplier informs by electronic means the Tax Authorities of the Member State of departure of the goods before the transport or dispatch of the goods begins. He provides the Tax Authorities with the VAT identification number of his customer, the approximate date of the commencement of transport or dispatch and the place of the stock.

The customer informs by electronic means the Tax Authorities of the Member State of arrival before the transport or dispatch of the goods begins. He provides the Tax Authorities with the VAT identification number of his supplier, the approximate date of the commencement of transport or dispatch and the place of the stock.

These pieces of information will be automatically exchanged between these Member States.

This notification is done once only. The appropriate deadline to inform the Member States of departure and of arrival will have to be examined. In any case it will not be longer than 15 days before the beginning of the transport or dispatch of the goods.

2. Consignment stock

It will be studied the possibility to extend the scheme applicable to call-off stock to consignment stock scenarios (when the buyer is unknown). It will be examined in particular the requirements of the scheme which could suit both Tax Authorities need to monitor the cross-border movements of goods and the needs of business for simpler rules and obligations. Additional information would likely have to be provided by the supplier such as the details of the manager of the warehouse, its exact location etc.

3. Chain Transactions

3.1 Recommendations for clarification and consistent approaches

The first supply in a chain of transactions which takes place in the Member State of departure of the goods is the exempted intra-EU supply.

Alternatively, it is presumed that the supply of the goods to the person arranging the transport or dispatch of the goods is the exempted intra-EU supply. However, if this person (the buyer) provides his supplier with a VAT identification number in the Member State of departure of the goods, then the supply of the goods carried out by the person arranging the transport or dispatch of the goods is the exempted intra-EU supply, i.e., the subsequent supply by the buyer to his customer.

These two scenarios should be measured against the baseline scenario in which the exempt intra-EU supply is to the business that organises the transport.

3.2 Recommendations to make better use of the options granted to the Member States by the VAT Directive

The following options that the Member States can make use of will be made compulsory.

3.2.1 Article 194 – Domestic reverse charge for supplies carried out by non-established taxable persons

Where the supply of goods is carried out by a taxable person who is not established in the Member State in which the VAT is due, VAT shall be payable by the taxable person to whom the goods are supplied.

3.2.2 Article 204(1) – Possibility to appoint a tax representative for non-established liable taxable persons

Where pursuant to Article 197 (i.e., 'triangulation') the taxable person liable for payment of VAT is a taxable person who is not established in the Member State where the tax is due, that person may appoint a tax representative as the person liable for payment of the VAT.

The extension of this possibility to non-established taxable persons liable for payment of VAT pursuant to an amended Article 194 will have to be examined as a variant.

3.2.3 Article 164 – Purchases exempted in the framework of intra-EU trade

Member States shall exempt intra-EU acquisitions of goods made by a taxable person, and imports for and supplies to this taxable person relating to exempted intra-EU supplies carried out in accordance with Article 138. The exemption also applies to supplies of services linked to these transactions.

The exemption is optional for the taxable persons and it applies up to an amount equal to the value of the intra-EU supplies carried by the taxable persons during the preceding 12 months.

3.2.4 Articles 157(1)(b) and 160

Member States shall exempt the supply of goods which are intended to be placed, within their territory, under warehousing arrangements other than custom warehousing and the supplies of goods and services carried out in these locations.

Where the goods are removed from the warehouse to be transported or dispatched to another Member State, the taxable person withdrawing the goods from the warehouse is deemed to have carried out the intra-EU supply.

4. Proof of transport to support the exemption of the intra-EU supply

The supplier should hold a number of the following non-contradictory commercial documents which certify the transport or dispatch to another Member State:

- The contractual arrangements;
- The correspondence with the customer;
- The order;
- The invoice;
- The receipt of the goods;
- The bill of lading;
- The delivery docket;
- The drivers logs (tachograph);
- The tolls and fuel bills;
- The carrier's invoice;
- The insurance policy with regard to the international transport of the goods;
- Other commercially relevant information;

And a number of the following other associated documents:

- The payment details;
- The bank details such as the location of the bank account used for payment or the billing address of the customer held by that bank;
- The vat return and the recapitulative statement of the supplier mentioning the supply;
- The intrastat declaration of the supplier or/and of the customer mentioning the supply;
- The VAT return of the customer mentioning the intra-EU acquisition;
- The validation of the vat identification number of the customer in another member state at the time of the supply;
- Other associated relevant information.

With these documents it is presumed that the goods have been dispatched or transported outside the Member State territory but within the EU.

A Tax Authority may rebut the presumption on the basis of evidence indicating that the goods have not been dispatched or transported outside the Member State territory.

The number and the kind of documents which must be held by the supplier to benefit from the presumption will have to be examined. To set these requirements, the person who takes care of the transport or dispatch (supplier, with or without a third party, or customer (Ex Works) with or without a third party) and the type of business (SMEs or large businesses) will have to be taken into account. It will also be examined the moment when the supplier must hold the required documents (e.g., when the invoice is issued, when the VAT declaration is submitted or when a tax audit takes place etc.).

It will also be studied an alternative measure, already implemented in certain Member States, whereby the supplier can or must prove the transport by holding a form drawn up by the Member State of departure and supplemented by the customer documenting (and signing) the delivery in another Member State.

Option 2: Adapting current rules whilst still following the flow of the goods with the supplier charging the VAT of the Member State of destination

1. General rules

4.1 Taxable transactions

To be subject to VAT, the goods must be located within the European Union. If a transaction involves goods located outside EU, the transaction will not be taxable (even if the supply takes place between 2 EU businesses). On the other hand, if the goods are located within the EU, VAT will always be due, even if the customer is not established in the EU.

As there is only one transaction, the concept of 'intra-Community acquisitions of goods' as a transaction subject to VAT ceases to exist. This notably implies that whatever the volume of their intra-EU acquisitions (as currently defined), non-taxable legal persons, taxable persons eligible for the exemption for small enterprises or subject to the common flat rate for farmers or those carrying out only supplies in respect of which VAT is not deductible no longer have to report their intra-EU acquisitions of goods[150]. Their suppliers charge and are liable for payment of VAT in the Member State of arrival of the goods (see below).

For the record, the transfer by a taxable person of goods forming part of his business assets to another Member State is still treated as a supply of goods for consideration.

4.2 Place of taxation

For the record, where goods are not dispatched or transported, the place of supply of goods to a taxable person or a non-taxable legal person continues to be the place where the goods are located at the time when the supply takes place.

Where goods are dispatched or transported by the supplier, or by the customer, or by a third person, the place of supply of goods to a taxable person or a non-taxable legal person will be the place where the goods are located at the time when dispatch or transport of the goods ends.

Where goods are supplied to other non-taxable persons, the place of supply will remain the same. Such supplies therefore continue to be taxable at the place where the goods are situated or, if transported, at the place of departure of the transport. As the special schemes put in place for supplies of new means of transport, excise products and distance selling to those non-taxable persons will be maintained, those supplies still remain taxable at the place where the goods are located at the time when dispatch or transport of the goods ends.

The rules on the place of taxation of imports remain unchanged.

4.3 Exemptions

The exemption of 'intra-Community supply of goods' and 'intra-Community acquisition of goods' is abolished.

The exemption of an importation when followed by an intra-EU supply is also abolished.

For the record, the exemption rules of exports remain unchanged. They however do not apply any more to B2B supplies of goods transported to a third country and therefore situated therein for VAT purposes.

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[150] Same simplification applies to supplies of new means of transport.

The exemption for the supply of goods for the equipping, fuelling and provisioning of pleasure boats and private aircraft is maintained. Therefore taxation in the Member State of departure will continue to apply.

Special conditions continue to apply regarding the supply of goods to be carried in the personal luggage of travellers who have the status of taxable persons.

The exemption of the supply of goods related to international transport (equipping, fuelling and provisioning of certain vessels and aircraft) is maintained. The exemption for certain transactions treated as exports (supplies to diplomats, international bodies and the like) and for transactions relating to international trade (warehousing arrangements) also remain unchanged. Minor adaptions might be needed though.

4.4 Obligations

4.4.1 Registration of taxable persons and non-taxable legal persons

All taxable persons are allocated a VAT identification number by the Member States in which they are established and from which they carry out their economic activity.

Non-taxable persons are also allocated a VAT identification number by the Member States in which they are established and from which they carry out their activities.

No registration is required by the Member State in which the tax is due if supply is made by a non-established supplier since the supplier will make use of the One-Stop-Shop (OSS) (see below).

Suppliers who are not established within the EU choose their Member State of registration and make use of the OSS of this Member State for all their B2B supplies of goods within the EU (see below).

4.4.2 Liability / payment of the VAT

VAT shall be payable by any person carrying out a taxable supply of goods even if he is not established in the Member State in which the tax is due.

4.4.3 Special obligation relating to the transport of the goods

When the transport of the goods is not organised by or on behalf of the supplier, the customer shall provide the supplier with the name of the Member State of arrival of the goods within ten working days.

The information shall be recorded by the supplier. It constitutes proof of transport which supports the charging of the VAT of the Member State of arrival.

4.4.4 Invoicing rules

No changes except minor adaptations to provide that invoicing is subject to the rules of the Member State of establishment of the supplier when he is not established in the Member State of taxation (except for supplies subject to self-billing) and that an invoice is issued no later than on the fifteenth day of the month following the supply.

4.4.5 Special scheme – One-Stop-Shop

The special schemes for non-established taxable persons supplying telecommunications, broadcasting and electronic services applicable as from 1 January 2015 are extended to supplies of goods to taxable persons and non-taxable legal persons and to transfers of own goods carried out by non-established suppliers.

The same rules apply including in terms of administrative cooperation[151].

However, for each Member State of taxation, suppliers can offset input VAT paid there via a deduction on the VAT return.

Making use of the OSS will be compulsory.

4.4.6 Recapitulative statements

The requirement of recapitulative statements for supplies of goods is abolished.

5. Possible simplification measures for business

The following possible measures to reduce compliance costs of business will have to be examined and where appropriate further specified in their workings to allow their proper assessment if they were to be implemented along with the general rules.

5.1 Certified taxable persons

If the supplier is not established in the Member State in which the tax is due and the customer is a taxable person established in that Member State who is certified for VAT purposes, VAT could be payable by the certified taxable person.

Taxable persons could be certified at their request by the Member States of their establishment.

Common criteria such as compliance records for a certain period time such as submission of correct VAT returns on time and on time corresponding payments, or/and bank or insurance guarantees/deposits would need to be defined.

Certified taxable persons would be allocated an additional prefix to their VAT identification number by the Member States in which they are established and which have certified them. Such a prefix (e.g., 'CTP') should enable suppliers to identify their customers who are certified.

Mention of the certification would be added in the electronic database held by each Member State (VIES).

Given the requirements to be granted the certified status, filling in recapitulative statements would not be required from the supplier despite the application of the reverse charge mechanism.

5.2 Supplies between taxable persons who are members of a Pan-European VAT group

The territorial scope of VAT grouping could be extended beyond the internal borders of a Member State to allow for Pan-European VAT groups. Supplies between taxable persons who are also members of a Pan-European VAT group including intra-EU supplies are disregarded for VAT purposes.

All the members of the VAT group could be held jointly and severally liable in case of non-payment of VAT by one of the members.

[151] In particular the Member State of taxation has the possibility to request the Member State of establishment to carry out specific administrative inquiries.

5.3 Reverse charge for intra-EU supplies between taxable persons who are members of the same group of related companies

Where the supplier is not established in the Member State in which the tax is due and the customer is established there and he belongs to the same group of related companies (registered as such for VAT purposes by the Member State of the representative of the group), VAT could be payable by the customer.

All members of the group of related companies could be held jointly and severally liable in the case of non-payment of VAT by the customer on his acquisition or on the subsequent supply of the goods.

5.4 Equal treatment of B2B supplies of goods and of services

VAT would be payable by any person carrying out a taxable supply of goods or services even if he is not established in the Member State in which the tax is due. However, reverse charge should apply to supplies to certified taxable persons or to members of the same group of related companies (see above).

The requirement of recapitulative statements for both categories of supplies would be abolished.

Non-taxable legal persons, taxable persons eligible for exemption under the special regime for small enterprises or subject to the common flat rate for farmers or those carrying out only exempted supplies would no longer have to report their intra-EU acquisitions of services when their suppliers are not established in the Member State where the VAT is due.

Their suppliers should charge and would be liable for the VAT of the Member State where the tax is due. They would make use of the OSS as to the tax due in Member States where they are not established.

5.5 Operations of the One-Stop-Shop

5.5.1 B2B and B2C transactions

The special scheme could be extended to cover all supplies of goods whether B2B or B2C carried out by non-established suppliers.

If the reverse charge mechanism would no longer apply to supplies of services as equal treatment of B2B supplies of goods and of services is sought (see above), the OSS should be extended as well to supplies of services either B2B or B2C carried out by non-established suppliers.

5.5.2 B2B and B2C transactions as well as cross-border refund claims

The special scheme could be extended to cover all supplies of goods whether B2B or B2C carried out by non-established suppliers. If the reverse charge mechanism would no longer apply to supplies of services as equal treatment of B2B supplies of goods and of services is sought (see above), the OSS should be extended as well to supplies of services either B2B or B2C carried out by non-established suppliers.

In Member States where no tax is due, non-established taxable persons could make use of the OSS to submit refund applications of VAT charged to them in those Member States.

5.5.3 Intra-EU and local supplies

Suppliers could make use of the same scheme (same declaration forms and periods and same payment terms) to declare both intra-EU and domestic supplies.

5.5.4 Compensation between credit and debit positions in Member States

A supplier can be in a credit position in certain Member States for a given period. In such cases, the net VAT due in certain Member States could be offset against the VAT to be refunded in others.

This would require a clearing system to allow each Member State to receive or pay the relevant amount.

If the OSS would include domestic transactions as well, the compensation between input domestic VAT and foreign output VAT and vice versa should also de facto be possible.

5.6 Standardisation and information on reduced VAT rates

Definitions of the products eligible for a reduced rate could be standardised. This would cover all possible sub-categories of products that Member States may or may not include in the scope of their reduced rates.

A web portal could provide accurate, timely and binding information on the reduced VAT rates in place in each Member State. A list of the (standardised) products that are not covered by the standard rate in each Member State could be included in the web portal and regularly updated by the Member States.

5.7 Standard VAT rates for B2B domestic and intra-EU supplies

The supplier could apply only the standard rate of the Member State where the tax is due for all B2B transactions in goods, whether domestic or intra-EU.

6. Possible Anti-fraud measures

The following possible measures to reduce collection cost of Tax Authorities and make the EU VAT system more robust will have to be examined and where appropriate further specified in their workings to allow their proper assessment if they were to be implemented along with the general rules.

6.1 Special obligations on the customers

The customer could be required to mention in his VAT return the purchases for which he deducts the VAT with the VAT identification number of his supplier when this VAT number has not been allocated by the Member State from which the deduction is requested (the supplier must make use of the OSS to declare and pay the VAT on the supply).

Such a measure could be targeted by Tax Authorities to certain categories of goods or certain origins or/and to transactions above a certain threshold.

In the case of non-payment of the VAT by the supplier, if the customer did not mention this purchase in his VAT return, to avoid being denied his right of deduction by the Tax Authorities, he would have to prove that he did not know or could not have known that, by his purchase, he was participating in a transaction connected with fraudulent evasion of VAT. In fact the burden of proof of the so-called ‘knowledge test’ is reversed.

6.2 Special obligations on the Member State of establishment of the supplier

The Member State of establishment would have the responsibility for auditing the business. However, Member States of taxation could still have the possibility to ask for specific investigations when they consider there is a need for them or to carry out those investigations themselves.

The Member States of taxation could in any event be involved in the audit through the use of the existing instruments of administrative cooperation.

For proper collection tasks and control visits, financial incentives, such as the Member State of establishment retaining a percentage of any undeclared tax revenue that it has recovered, should be implemented.

The Member State of establishment of the supplier would pay a compensation to the Member State of taxation where the supplier has not paid the VAT due to this Member State, the deduction made there by the customer was justified, and the Member State of establishment has collected the tax at the stages preceding that where the insolvent or fraudulent trader carried out the intra-EU supplies. This revenue would be allocated to the Member State of taxation to at least partially compensate for its loss.

6.3 Standard VAT rates for B2B domestic and intra-EU supplies

The supplier would only apply the standard rate of the Member State where the tax is due for all B2B transactions in goods, whether domestic or intra-EU.

Option 3: Adapting current rules whilst still following the flow of the goods with the reverse charge mechanism

In such an option, the place of B2B supplies of goods with transport to another Member State is situated in the Member State of arrival of the transport.

The physical flow of the goods is still followed and intra-EU supplies remain untaxed but there are no longer two taxable transactions (exempted supply of goods/intra-EU acquisition of goods) but only one (supply of goods).

The reverse charge mechanism replaces the exemption and is therefore applicable to all intra-EU B2B supplies of goods. The customer thus accounts for tax on the goods supplied cross-border including where he is not established in the Member State of taxation like in the current system.

1. Taxable transactions

As there is only one transaction, the concept of 'intra-Community acquisitions of goods' as a transaction subject to VAT ceases to exist.

This implies that intra-EU supplies to non-taxable legal persons, taxable persons eligible for the exemption for small enterprises or subject to the common flat rate for farmers or those carrying out only supplies in respect of which VAT is not deductible shall be either treated as B2C supplies (same as today) or as B2B supplies with the reverse charge mechanism according to the volume of their intra-EU purchases as it is now (see below).

For the record, the transfer by a taxable person of goods forming part of his business assets to another Member State is still treated as a supply of goods for consideration.

7. Place of taxation

For the record, where goods are not dispatched or transported, the place of supply of goods to a taxable person or a non-taxable legal person continues to be the place where the goods are located at the time when the supply takes place.

Where goods are dispatched or transported by the supplier, or by the customer, or by a third person, the place of supply of goods to a taxable person or a non-taxable legal person will be the place where the goods are located at the time when dispatch or transport of the goods ends.

However, the place of such a supply to non-taxable legal persons, taxable persons eligible for the exemption for small enterprises or subject to the common flat rate for farmers or those carrying out only supplies in respect of which VAT is not deductible shall be treated as a supply to any other non-taxable person if during the current and previous calendar year, the total value of purchases of goods dispatched or transported to them in a Member State other than in which the transport or dispatch began does not exceed a certain threshold (as is currently the case).

The option that these persons can make use of in order to apply the general scheme if the value of their purchases is below the threshold shall be maintained.

Where goods are supplied to other non-taxable persons, the place of supply will remain the same. Such supplies therefore continue to be taxable at the place where the goods are situated or, if transported, at the place of departure of the transport. As the special schemes put in place for supplies of new means of transport, excise products and distance selling to those non-taxable persons will be maintained, those supplies still remain taxable at the place where the goods are located at the time when dispatch or transport of the goods ends.

The rules on the place of taxation of imports remain unchanged.

8. Exemptions

The exemption of 'intra-Community supply of goods' and 'intra-Community acquisition of goods' is abolished.

The exemption of an importation when followed by an intra-EU supply is maintained.

For the record, the exemption rules of exports remain unchanged. They however do not apply any more to B2B supplies of goods transported to a third country and therefore situated therein for VAT purposes.

The exemption for the supply of goods for the equipping, fuelling and provisioning of pleasure boats and private aircraft is maintained. Therefore taxation in the Member State of departure will continue to apply.

Special conditions continue to apply regarding the supply of goods to be carried in the personal luggage of travellers who have the status of taxable persons.

The exemption of the supply of goods related to international transport (equipping, fuelling and provisioning of certain vessels and aircraft) is maintained. The exemption for certain transactions treated as exports (supplies to diplomats, international bodies and the like) and for transactions relating to international trade (warehousing arrangements) also remain unchanged. Minor adaptions might be needed though.

9. Obligations

9.1 Registration of taxable persons and non-taxable legal persons

For the record, the identification rules remain unchanged. However, Member States shall identify every taxable person who carries out supplies of goods which are dispatched or transported by the supplier, or by the customer, or by a third person from their respective territory to another Member State.

Member States shall also identify every taxable person or non-taxable legal person who within their territory receives goods for which he is liable to pay VAT.

9.2 Liability / payment of the VAT

VAT shall be payable by any person carrying out a taxable supply of goods. However, if the goods are dispatched or transported to a Member State other than in which the transport or dispatch began to a taxable person or a non-taxable legal person[152], the VAT shall be payable by the customer.

9.3 Invoicing rules

No changes except minor adaptations to provide that invoicing of intra-EU supplies of goods is still subject to the rules of the Member State in which the transport or dispatch of the goods began and that an invoice is issued no later than on the fifteenth day of the month following the supply. The mention on the invoice will need to reflect that the transaction is a reverse charge supply and not exempt of tax.

9.4 Recapitulative statements

The requirement of recapitulative statements for intra-EU B2B supplies of goods is maintained with minor adaptations to replace the previous exempted transactions by the same transactions now subject to the reverse charge instead.

Option 4: Aligning with the rules governing the place of supply of services with the reverse charge mechanism

1. General rules

9.5 Taxable transactions

To be subject to VAT, the goods must be located within the European Union. If a transaction involves goods located outside EU, the transaction will not be taxable (even if the supply takes place between 2 EU businesses). On the other hand, if goods are in the EU, the VAT will always be due, even if the customer is not established in the EU.

There will be only one transaction to tax: the supply of goods. Therefore, the concept of 'intra-Community acquisitions of goods' as a transaction subject to VAT ceases to exist. In this option, the supply of goods to a taxable person acting as such will be taxable where the customer has established his business. However, if those goods are provided to a fixed establishment of the taxable person located in a place other than the place where he has established his business, the place of supply of those goods shall be the place where that fixed establishment is located. In the absence of such place of establishment or fixed establishment, the place of supply of goods shall be the place where the taxable person who receives the goods has his permanent address or usually resides.

This option does not allow to completely disregarding physical flows of the goods. In order to identify the fixed establishment to which the goods are supplied (if different from the main place of business), the actual destination of the goods will remain the essential element to take into account, as this option does not retain the contracting party (the customer) in order to define the place of supply (main difference with Option 5).

[152] The reverse charge does not apply to such supplies to non-taxable legal persons, taxable persons eligible for the exemption for small enterprises or subject to the common flat rate for farmers or those carrying out only supplies in respect of which VAT is not deductible if during the current and previous calendar year, the total value of purchases of goods dispatched or transported to them in this Member State does not exceed a certain threshold and if they have not opted for the general scheme.

If the goods are transported to a Member State where the customer has absolutely no fiscal presence[153], than the contract should be looked at and the supply would take place in the Member State where the customer has established his business unless the goods have been purchased by a fixed establishment for its own needs. Such situation may occur, for example, if a taxable person buys goods that will be transported directly to a client in a Member State where he is not established.

In order to apply the principle of destination as broadly as possible, this place of taxation would apply to all taxable persons, including taxable persons eligible for an exemption under the special scheme for small enterprises or subject to the common flat-rate scheme for farmers or those carrying out only supplies in respect of which VAT is not deductible (like schools, hospitals, etc.) as well as to non-taxable legal persons (like public authorities, holding companies, etc.)[154].

This rule is basically the same as the rules currently applicable for the place of supply of services to taxable persons provided for under Article 44. As for services, the reverse charge would apply when the supplier is not established within the territory of the Member State of the customer (adaption of Article 196) and an exchange of information would take place via the recapitulative statement to be submitted by the supplier. If the supplier is established in the Member State of the customer, he will have to charge the VAT to him.

As the place of taxation will directly ensure that taxation occurs in the establishment actually receiving the goods, no deemed supply seems necessary to ensure taxation at the right place.

Monitoring of the movement of goods within the EU ceases and the transfer of goods by a taxable person of goods forming part of his business assets to another Member State will also no longer be treated as a supply of goods for consideration. However, in order to monitor which fixed establishment the customer of the goods is, the physical flow will continue to be essential and will need to be proven.

As all supplies to taxable persons and non-taxable legal persons would be considered as “B2B” supplies taxable where the customer is established, the VAT number of the customer would be the cornerstone of the whole system.

9.6 Place of taxation

Irrespective of whether or not goods are dispatched or transported, the place of supply of goods to a taxable person or a non-taxable legal person will be the place where the customer is established. To take account of the exemption (see below), goods for the equipping, fuelling and provisioning of certain vessels and aircraft however continue to be taxable in the Member State of supply.

Where goods are supplied to other non-taxable persons, the place of supply will remain the same. Such supplies therefore continue to be taxable at the place where the goods are situated or, if transported, at the place of departure of the transport. As the special schemes put in place for supplies of new means of transport, excise products and distance selling to those non-taxable persons will be maintained, those supplies still remain taxable at the place where the goods are located at the time when dispatch or transport of the goods ends.

The rules on the place of taxation of imports will remain unchanged.

[153] No main place of business, fixed establishment, permanent address or usual residence.
[154] As the concept of intra-Community acquisitions disappears, no threshold will be possible in this option.

9.7 Exemptions

The exemption of 'intra-Community supply of goods' and 'intra-Community acquisition of goods' is abolished.

Exemption of an importations followed by an intra-EU supply is abolished.

For the record, the rules for exemption of exports remain unchanged although an exemption will not be necessary anymore if goods are supplied to a business established outside the EU. However, proof that the goods have left the EU will still necessary (based on export documents).

The exemption for the supply of goods related to international transport (equipping, fuelling and provisioning of certain vessels and aircraft) is maintained. The exemption for certain transactions treated as exports (supplies to diplomats, international bodies and the like) and for transactions relating to international trade (warehousing arrangements) also remain unchanged. Minor adaptions might be needed though.

9.8 Obligations

9.8.1 Registration of taxable persons and non-taxable legal persons

All taxable persons are allocated a VAT identification number by the Member States in which they are established and from which they carry out an economic activity. So, if they are established in different countries, they will have a VAT number in each Member State where they are established (main place of business or fixed establishment).

Non-taxable legal persons will be allocated a VAT identification number when they are the customer of goods or services supplied by businesses established outside their country, for which they are the person liable to pay the VAT to their treasury.

If goods are supplied to a taxable person not established within the EU, but the goods remain within the EU, the customer will need to register in the EU (see below point 1.4.5.). [This registration will allow him to deal with these supplies and exercise his right of deduction (ROD).]

Supplies to non-taxable legal person not established within the EU should be treated as B2C supplies: such case will be rather rare and no obligation should be put on the non EU customer in such case.

9.8.2 Liability / payment of the VAT

Same as today:

- If the supplier is established in the same Member State as the customer, the supplier will charge VAT and be liable for payment.
- If the supplier is not established in the Member State of the customer or if he has a fixed establishment there but this fixed establishment does not intervene in that supply, the customer (taxable person our non-taxable legal person) will be liable for payment (reverse charge).

9.8.3 Special obligations relating to the transport of the goods

When the goods are actually dispatched or transported to a fixed establishment of the customer while the contractual flows are made with the head office or with another fixed establishment of a taxable person, VAT will be due in the Member State of the fixed establishment receiving the goods. Therefore, there should be an obligation, for the customer, to communicate to the supplier his VAT registration number attributed by the Member State where the goods are effectively dispatched or transported. This would be necessary to allow a proper exchange of information via the recapitulative statement to be filled in by the supplier. In the case of one single contract for supplies of goods sent to different fixed establishments of a taxable person, special additional obligations might be needed in order to ensure the proper information of the different Member States concerned.

When the goods are transported outside the EU, the person liable to pay the VAT will need to be in possession of proof of export. Some adaptions might however be needed for the case where the business customer is established outside the EU as the supplier will need proof of the export in order to justify that VAT is not charged, without mentioning a VAT registration number in another Member State.

9.8.4 Invoicing rules

No changes except minor adaptations to provide that invoicing is subject to the rules of the Member State of establishment of the supplier when he is not established in the Member State of taxation (except for supplies subject to self-billing) and that an invoice is issued no later than on the fifteenth day of the month following the supply.

9.8.5 Special scheme– One-Stop-Shop (OSS)

Given that the reverse charge applies on intra-community supplies, there is no need for a full OSS, as the supplier will not have to charge VAT on his B2B supplies.

However, a Mini One-Stop-Shop (MOSS) would be necessary in the following situations:

- Goods supplied to a non EU customer but staying within the EU

If goods situated in the EU are supplied to a non EU customer without them being exported, this supply must be subject to VAT in the EU. In order to cope with this difficulty without creating too heavy administrative burden, a special scheme should be put in place for taxable persons non-established in the EU.

Non EU businesses[155] purchasing goods in the EU without exporting them will also have to be allocated a VAT identification number in order to pay the VAT due on the goods. If they have no physical presence of VAT registration number in any Member State, they will have to register in the Member State of their choice in order to fulfil their obligations there (same idea as with the MOSS applicable for non EU suppliers supplying telecommunication, broadcasting and electronic services to final consumers in the EU). As soon as they have this registration number, they should be allowed to use it for all the purchases of goods they make in the EU without exporting them.

Making use of this OSS would be compulsory for non EU businesses.

- Any other supplies for which the supplier is liable to pay VAT in Member States where he is not established

There will still be situations where the supplier is liable to pay VAT in Member States where he is not established, notably for all his B2C supplies. In these situations, an extension of the MOSS should be put in place, so that the supplier is not obliged to register in these Member States where he is not established.

Using the MOSS should remain optional for the businesses in that case.

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[155] Defined as businesses without any fixed establishment within in the EU or any VAT registration number.

9.8.6 Recapitulative statements

In all the cases where the customer is liable to pay the VAT in his Member State, a recapitulative statement must be submitted by the supplier. Such obligation should therefore cover both supplies of goods and services on the same way.

10. Possible simplification measures for business

10.1 Certified taxable persons

As the reverse charge will be applicable in all cases where the goods are supplied B2B to a customer established in another Member State than the supplier, it does not seem absolutely necessary to foresee this kind of simplification.

However, it might be envisaged in order to relief the supplier from the obligation to fill in a recapitulative statement.

So, if the customer liable to pay the VAT in his Member State is certified for VAT purpose, than he would pay the VAT to his Tax Authorities without any obligation on the supplier side.

Taxable persons could be certified at their request by the Member State of their establishment.

Common criteria such as compliance records for a certain period time such as submission of correct VAT returns on time and on time corresponding payments, or/and bank or insurance guarantees/deposits would need to be defined.

Certified taxable persons would be allocated an additional prefix to their VAT identification number by the Member States in which they are established and which have certified them. Such a prefix (e.g., 'CTP') should enable suppliers to identify their customers who are certified.

Mention of the certification would be added in the electronic database held by each Member State (VIES).

Given the requirements to be granted the certified status, filling in recapitulative statements would not be required from the supplier despite the application of the reverse charge mechanism.

It should however be carefully assessed if such certification procedure is really worth it in this option.

10.2 Supplies between taxable persons who are members of a Pan-European VAT group

The territorial scope of VAT grouping could be extended beyond the internal borders of a Member State to allow for Pan-European VAT groups. Supplies between taxable persons who also members of a Pan-European VAT group including intra-EU supplies would be disregarded for VAT purposes.

All the members of the VAT group could be held jointly and severally liable in case of non-payment of VAT by one of the members.

10.3 Equal treatment of B2B supplies of goods and of services

As this option is constructed on the rules already applicable to services, equal treatment is normally ensured.

However, some B2B services remains, under the current rules, subject to special rules (like services connected to immovable properties, restaurant services, etc.). Their revision in order to apply in all cases the main rules might be envisaged. If this proves impossible to achieve, an extension of the MOSS to these B2B services not covered by the main rule might be an alternative.

10.4 Need for a One-Stop-Shop

Normally, reverse charge applies to B2B supplies of goods: there is therefore no need for a full OSS for them.

However, for services, it is not the case and a simplification might be necessary.

One could adapt the rules applicable to services in order to make reverse charge compulsory for all B2B supplies of services, also when they do not fall under the general rules (services connected with immovable property, restaurant services …). If such adaptation would prove impossible, the MOSS that will be introduced in 2015 for TBES (telecommunication, broadcasting and electronic services) supplied to final consumers proves to be effective, its extension to cover B2B supplies carried out by non-established suppliers could be envisaged.

The same extension should be envisaged for all B2C supplies of goods and services taxable in a Member State where the supplier is not established (like distance selling, services connected to an immovable property, restaurant services …).

10.5 Standardisation and information on reduced VAT rates

As the reverse charge applies, the customer is liable to pay the VAT to his Tax Authorities. He has therefore only to deal with the rates applicable in his country. Therefore, this option does not require that definitions of goods or services eligible for a reduced rate would be standardised (like it is the cases with options providing that the supplier charges VAT on his intra-community supplies).

11. Possible Anti-fraud measures

This option keeps the combination of charging VAT on internal supplies[156] with reverse charge for intra-community supplies.[157] It means that it would probably require the same kind of anti-fraud measures as the current VAT system in order to address the carrousel fraud and MTCS. Moreover, given that the physical flows of the goods will not be followed anymore, specific measures might be necessary in order to ensure that the B2C supply taking place at the end of a chain of transactions can be taxed where the goods are situated.

The following possible measures to reduce collection cost of Tax Authorities and make the EU VAT system more robust will have to be examined and where appropriate further specified in their workings to allow their proper assessment if they were to be implemented along with the general rules.

11.1 Improvement of the control of the capacity of the customer

In terms of control and fraud, it would be necessary to follow the whole chain of supplies, notably when there is a combination of domestic supplies and intra-community supplies. One could envisage a specific requirement, e.g., a specific mention on the invoices or/and on the recapitulative statement about the location of the goods in order to make possible the control of the taxation of the B2C supply that will take place at the end of the chain and will continue to be taxable at the place where the goods are situated.

[156] Defined as supplies of goods between taxable persons established in the same Member State (without taking into account the physical flows of the goods).

[157] Defined as supplies of goods to a customer established in a Member State where the supplier is not established.

In order to better control the taxation in the Member State of the customer, one could envisage making the place of taxation exclusively dependent on the provision by the customer of a valid VAT number to the supplier. In the absence of such valid VAT number, the transaction would always be considered as a B2C supply, with the VAT charged by the supplier following the rules applicable to B2C supplies of goods.

This would require a monitoring "in real time" of the VIES data base and would facilitate an automated management of the invoicing by the supplier who would only have to check if his customer has a valid VAT number of not[158].

A correction mechanism should however be put in place for allowing the customer to exercise his right of deduction in case he has been charged VAT by the supplier (refund by the Member State concerned via procedure of directive 2008/9/EC or by the supplier…).

11.2 Special obligations on the Member State of establishment of the customer

The treatment of the non-taxable legal persons would need to be carefully looked at: as the VAT is due in the Member State where they are situated, one should avoid that, by non-communicating a valid VAT number to the supplier, they could purchase goods or services at a more favourable VAT rate than the one applicable in their country.

In their own interest, they would need to monitor carefully their non-taxable legal persons and make them aware of their obligations when they purchase goods or services in other Member States.

11.3 Special obligations on the customers

The customer could be obliged to submit a recapitulative statement of the purchases of goods for which he is liable to pay the VAT in his Member State. This possibility already exists in the VAT directive as an option for the Member States. It has not been introduced by many of them and one can doubt that such additional obligation on all the businesses could really fight against fraud.

Such a measure could be targeted by Tax Authorities to certain categories of goods or certain origins or/and to transactions above a certain threshold

11.4 Improvement of the traditional means of control

The Member State of establishment has the responsibility for auditing the business. However, Member States of taxation still have the possibility to ask for specific investigations when they consider there is a need for them or to carry out those investigations themselves.

The same measures as already in place for the supply of services would be needed and their continual improvement

[158] Without having to check his capacity (taxable person, non-taxable legal person) by any other means.

Option 5: Aligning with the contractual flows with the supplier charging the VAT of the Member State of destination

1. General rules

11.5 Taxable transactions

To be subject to VAT, the goods must be located within the European Union. If a transaction involves goods located outside EU, the transaction will not be taxable (not even if the supply takes place between 2 EU businesses). On the other hand, if the goods are located within the EU, VAT will always be due, even if the contracting party (the customer) is not established in the EU.

As suppliers charge and are liable for payment of VAT in the country of their contracting party (see below), the concept of ‘intra-Community acquisition of goods’ as a transaction subject to VAT will cease to exist. This notably implies that whatever the volume of their intra-EU acquisitions (as currently defined), non-taxable legal persons, taxable persons eligible for an exemption under the special scheme for small enterprises or subject to the common flat-rate scheme for farmers or those carrying out only supplies in respect of which VAT is not deductible will no longer have to report their intra-EU acquisitions of goods[159].

The concept of ‘deemed supply of goods’ will be introduced as a transaction subject to VAT. If the contracting party (the customer) is established in more than one place and the costs of the goods are reallocated to an establishment other than that having contracted for supply of the goods, a deemed supply of goods will be regarded as having been made between those establishments.

Where the goods remain within the EU but the costs are allocated to an establishment outside the EU, the initial supply is subject to VAT but it will not be followed by a deemed supply.

With the exception of imports and exports, the movement of goods within the EU ceases to be monitored. The transfer by a taxable person of goods forming part of his business assets to another Member State will therefore no longer be treated as a supply of goods for consideration.

11.6 Place of taxation

Irrespective of whether or not goods are dispatched or transported, the place of supply of goods to a taxable person or a non-taxable legal person will be the place where the contracting party (the customer) is established. To take account of the exemption (see below), goods for the equipping, fuelling and provisioning of certain vessels and aircraft however continue to be taxable in the Member State of supply.

If goods remain in the European Union but the customer is not established in the EU nor registered there, the place of supply shall be the Member State where the supplier is established [alternative: the customer has the obligation to register in a Member State of the EU for dealing with all these supplies and exercise his ROD (see Option 4)].

If the costs of the goods are reallocated to an establishment of the customer other than that having contracted for the supply of goods, the place of the deemed supply of goods will be the place of the establishment incurring the costs.

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[159] The same applies for reporting of intra-EU acquisitions of new means of transport.

Where goods are supplied to other non-taxable persons, the place of supply will remain the same. Such supplies therefore continue to be taxable at the place where the goods are situated or, if transported, at the place of departure of the transport. As the special schemes put in place for supplies of new means of transport, excise products and distance selling to those non-taxable persons will be maintained, those supplies still remain taxable at the place where the goods are located at the time when dispatch or transport of the goods ends.

The rules on the place of taxation of imports remain unchanged.

11.7 Exemptions

The exemption of ‘intra-Community supply of goods’ and ‘intra-Community acquisition of goods’ is abolished.

The exemption of an importation when followed by an intra-EU supply is also abolished.

For the record, the rules for exemption of exports remain unchanged. Proof that the goods have left the EU will still be necessary (based on export documents).

The exemption for the supply of goods related to international transport (equipping, fuelling and provisioning of certain vessels and aircraft) is maintained. The exemption for certain transactions treated as exports (supplies to diplomats, international bodies and the like) and for transactions relating to international trade (warehousing arrangements) also remain unchanged. Minor adaptions might be needed.

11.8 Obligations

11.8.1 Registration of taxable persons and non-taxable legal persons

All taxable persons are allocated a VAT identification number by the Member States in which they are established and from which they carry out their economic activity.

Non-taxable persons are also allocated a VAT identification number by the Member States in which they are established and from which they carry out their activities.

If goods are supplied to a taxable person not established within the EU, but the goods remain within the EU, the customer will need to register in the EU (see below point 1.4.5.). Where supply is made to a non-taxable legal person not established within the EU, the customer will be treated as other non-taxable persons so as to avoid registration. The supply is then to be taxed at the place where the goods are situated or, if transported, at the place of departure of the transport.

No registration is required by the Member State in which the tax is due if the supply is made by a non-established supplier since the supplier will make use of the One-Stop-Shop (see below).

Suppliers who are not established within the EU choose their Member State of registration and make use of the OSS of that Member State for all their B2B supplies of goods within the EU (see below).

11.8.2 Liability / payment of the VAT

VAT is payable by anyone carrying out a taxable supply of goods even if that person is not established in the Member State in which the tax is due.

11.8.3 Special obligation relating to the transport of the goods

As monitoring of the movement of the goods within the EU ceases, there will be no need for the customer to provide the supplier with information about the destination of the goods except where goods are being dispatched or transported by the customer to a place outside the EU. In order for exemption to be applied upon exportation, the customer must in that case provide the supplier with proof of export.

The proof obtained from the customer must be recorded by the supplier in order for him to refrain from charging VAT.

11.8.4 Invoicing rules

No changes except minor adaptations to provide that invoicing is subject to the rules of the Member State of establishment of the supplier when he is not established in the Member State of taxation (except for supplies subject to self-billing) and that an invoice is issued no later than on the fifteenth day of the month following the supply.

11.8.5 Special scheme – One-Stop-Shop

The special schemes for non-established taxable persons supplying telecommunications, broadcasting and electronic services applicable as from 1 January 2015 are extended to supplies of goods to taxable persons and non-taxable legal persons.

The same rules will apply, including in terms of administrative cooperation[160].

However, for each Member State of taxation, suppliers can offset input VAT paid there via a deduction on the VAT return.

Making use of the OSS will be compulsory.

11.8.6 Recapitulative statements

The requirement of recapitulative statements for supplies of goods is abolished.

12. Possible simplification measures for business

The following possible measures to reduce collection cost of Tax Authorities and make the EU VAT system more robust will have to be examined and where appropriate further specified in their workings to allow their proper assessment if they were to be implemented along with the general rules.

12.1 Certified taxable persons

If the supplier is not established in the Member State in which the tax is due and the customer is a taxable person established in that Member State who is certified for VAT purposes, VAT could be payable by the certified taxable person.

Taxable persons could be certified at their request by the Member States of their establishment.

Common criteria such as compliance records for a certain period time such as submission of correct VAT returns on time and on time corresponding payments, or/and bank or insurance guarantees/deposits would need to be defined.

[160] In particular the Member State of taxation has the possibility to request the Member State of establishment to carry out specific administrative inquiries.

Certified taxable persons would be allocated an additional prefix to their VAT identification number by the Member States in which they are established and which have certified them. Such a prefix (e.g., 'CTP') should enable suppliers to identify their customers who are certified.

Mention of the certification would be added in the electronic database held by each Member State (VIES).

Given the requirements to be granted the certified status, filling in recapitulative statements would not be required from the supplier despite the application of the reverse charge mechanism.

12.2 Supplies between taxable persons who are members of a Pan-European VAT group

The territorial scope of VAT grouping could be extended beyond the internal borders of a Member State to allow for Pan-European VAT groups. Supplies between taxable persons who are also members of a Pan-European VAT group including intra-EU supplies would be disregarded for VAT purposes.

All the members of the VAT group could be held jointly and severally liable in case of non-payment of VAT by one of the members.

12.3 Reverse charge for intra-EU supplies between taxable persons who are members of the same group of related companies

Where the supplier is not established in the Member State in which the tax is due and the customer is established there and he belongs to the same group of related companies (registered as such for VAT purposes by the Member State of the representative of the group), VAT could be payable by the customer.

All members of the group of related companies could be held jointly and severally liable in the case of non-payment of VAT by the customer on his acquisition or on the subsequent supply of the goods.

12.4 Equal treatment of B2B supplies of goods and of services

VAT would be payable by any person carrying out a taxable supply of goods or services even if he is not established in the Member State in which the tax is due. However, reverse charge should apply to supplies to certified taxable persons or to members of the same group of related companies (see above).

The requirement of recapitulative statements for both categories of supplies would be abolished.

Non-taxable legal persons, taxable persons eligible for exemption under the special regime for small enterprises or subject to the common flat rate for farmers or those carrying out only exempted supplies would no longer have to report their intra-EU acquisitions of services when their suppliers are not established in the Member State where the VAT is due.

Their suppliers should charge and would be liable for the VAT of the Member State where the tax is due. They would make use of the OSS as to the tax due in Member States where they are not established.

12.5 Need for a One-Stop-Shop

12.5.1 B2B and B2C transactions

The special scheme could be extended to cover all supplies of goods whether B2B or B2C carried out by non-established suppliers.

If the reverse charge mechanism would no longer apply to supplies of services as equal treatment of B2B supplies of goods and of services is sought (see above), the OSS should be extended as well to supplies of services either B2B or B2C carried out by non-established suppliers.

12.5.2 B2B and B2C transactions as well as cross-border refund claims

The special scheme could be extended to cover all supplies of goods whether B2B or B2C carried out by non-established suppliers. If the reverse charge mechanism would no longer apply to supplies of services as equal treatment of B2B supplies of goods and of services is sought (see above), the OSS should be extended as well to supplies of services either B2B or B2C carried out by non-established suppliers.

In Member States where no tax is due, non-established taxable persons could make use of the OSS to submit refund applications of VAT charged to them in those Member States.

12.5.3 Intra-EU and local supplies

Suppliers could make use of the same scheme (same declaration forms and periods and same payment terms) to declare both intra-EU and domestic supplies.

12.5.4 Compensation between credit and debit positions in Member States

A supplier can be in a credit position in certain Member States for a given period. In such cases, the net VAT due in certain Member States could be offset against the VAT to be refunded in others.

This would require a clearing system to allow each Member State to receive or pay the relevant amount.

If the OSS would include domestic transactions as well, the compensation between input domestic VAT and foreign output VAT and vice versa should also de facto be possible.

12.6 Standardisation and information on reduced VAT rates

Definitions of the products eligible for a reduced rate could be standardised. This would cover all possible sub-categories of products that Member States may or may not include in the scope of their reduced rates.

A web portal could provide accurate, timely and binding information on the reduced VAT rates in place in each Member State. A list of the (standardised) products that are not covered by the standard rate in each Member State could be included in the web portal and regularly updated by the Member States.

12.7 Standard VAT rates for B2B domestic and intra-EU supplies

The supplier could apply only the standard rate of the Member State where the tax is due for all B2B transactions in goods, whether domestic or intra-EU.

13. Possible Anti-fraud measures

The following possible measures to reduce collection cost of Tax Authorities and make the EU VAT system more robust will have to be examined and where appropriate further specified in their workings to allow their proper assessment if they were to be implemented along with the general rules.

13.1 Special obligations on the customers

The customer could be required to mention in his VAT return the purchases for which he deducts the VAT with the VAT identification number of his supplier when this VAT number has not been allocated by the Member State from which the deduction is requested (the supplier must make use of the OSS to declare and pay the VAT on the supply).

Such a measure could be targeted by Tax Authorities to certain categories of goods or certain origins or/and to transactions above a certain threshold.

In the case of non-payment of the VAT by the supplier, if the customer did not mention this purchase in his VAT return, to avoid being denied his right of deduction by the Tax Authorities, he would have to prove that he did not know or could not have known that, by his purchase, he was participating in a transaction connected with fraudulent evasion of VAT. In fact the burden of proof of the so-called ‘knowledge test’ is reversed.

13.2 Special obligations on the Member State of establishment of the supplier

The Member State of establishment would have the responsibility for auditing the business. However, Member States of taxation could still have the possibility to ask for specific investigations when they consider there is a need for them or to carry out those investigations themselves.

The Member States of taxation could in any event be involved in the audit through the use of the existing instruments of administrative cooperation.

For proper collection tasks and control visits, financial incentives such as the Member State of establishment retaining a percentage of any undeclared tax revenue that it has recovered, should be implemented.

The Member State of establishment of the supplier would pay a compensation to the Member State of taxation where the supplier has not paid the VAT due to this Member State, the deduction made there by the customer was justified, and the Member State of establishment has collected the tax at the stages preceding that where the insolvent or fraudulent trader carried out the intra-EU supplies. This revenue would be allocated to the Member State of taxation to at least partially compensate for its loss.

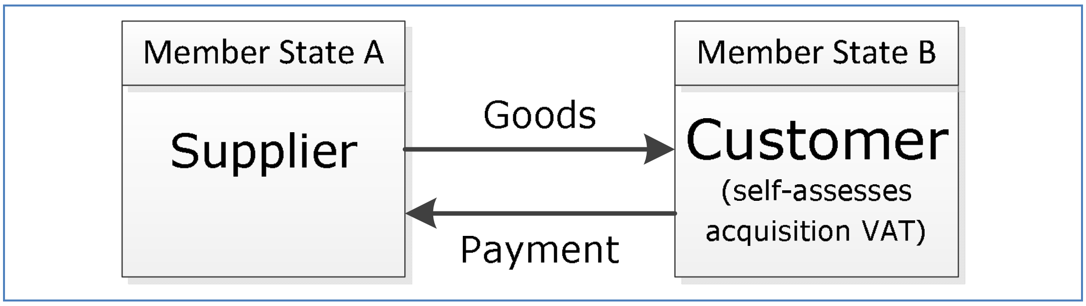
13.3 Standard VAT rates for B2B domestic and intra-EU supplies

The supplier would only apply the standard rate of the Member State where the tax is due for all B2B transactions in goods, whether domestic or intra-EU.

Section 2: Specific Assumptions made in relation to the options

There are specific assumptions made in relation to each of the options. These are detailed below.

1. Assumptions made in relation to Option 1



Applying the narrative detail provided for Option 1, the following assumptions have been made for the purposes of this study:

1.1 Call off stock

For the purposes of this report, it is assumed that call off stock is defined as:

'The cross-border transfer of goods where the buyer is known in advance of the transfer. However title in the goods is not transferred until the buyer removes them from the warehouse.'

- The cross-border transfer of goods (where the buyer is known in advance) will be treated as an intra-EU supply at the time that the buyer takes the goods from the stock.
- The place of supply of the goods is the place where the goods were located when their transport or dispatch began.
- The taxable person shall keep a register of all goods dispatched or transported under the conditions set out above to another Member State as well as the goods taken from stock. This register shall also mention the address where the goods are located.
- The supplier shall inform, by electronic means, the Tax Authority of the Member State of departure of the goods before the transport or dispatch of the goods begins. It shall provide the Tax Authorities with the approximate date of the commencement of transport or dispatch and the place of the stock.
- The customer shall inform, by electronic means, the Tax Authority of the Member State of departure of the goods before the transport or dispatch of the goods begins. It shall provide the Tax Authorities with the approximate date of the commencement of transport or dispatch and the place of the stock.

1.2 Consignment stock

For the purposes of this report, it is assumed that consignment stock is defined as:

'The cross-border transfer of goods (where the buyer is not known in advance of the transfer), title in the goods is transferred when a buyer removes them from the warehouse.'

It is also assumed that the points detailed above will apply.

1.3 Chain transactions

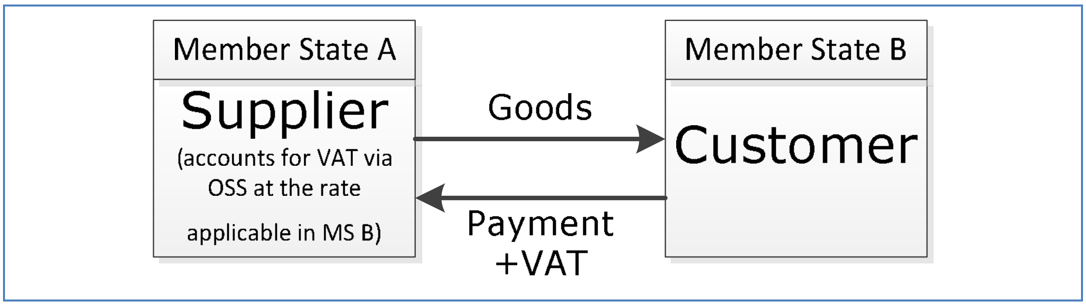
It is assumed that there will be a harmonised set of rules detailing which supply within the chain is to be treated as the intra-community supply.

1.4 Domestic reverse charge

It is assumed that, under this option, the domestic reverse charge will be applied in accordance with the conditions stated in Article 194 of the EU VAT legislation (i.e. where the supply of goods is carried out by a taxable person who is not established in the Member State in which the VAT is due, VAT shall be payable by the taxable person to whom the goods are supplied).

Please note that Article 194 has been implemented differently across Member States. Further information on this is provided in Annex C.

2. Assumptions made in relation to Option 2



Under the narrative detail provided for Option 2, the following assumptions have been made for the purposes of this report:

2.1 Removal of the obligation for registration in other Member States

Where goods are dispatched or transported by the supplier/customer/third person, the place of supply of goods to a taxable person or a non-taxable legal person will be the place where the goods are located at the time when dispatch or transport of the goods ends.

In practice, this means that where a business was previously required to register for VAT in a Member State to where it moved its own goods prior to sale, this registration obligation will no longer exist.

2.2 Customer obligation on the supply of goods

When the transport of the goods is not organised by or on behalf of the supplier, the customer shall provide the supplier with the name of the Member State of arrival of the goods within ten working days. It is assumed that this obligation will be monitored under this option and, as such, businesses will need to ensure they meet such an obligation.

2.3 One-Stop Shop (OSS) VAT return

A OSS VAT return will be utilised by businesses in order to declare their relevant VAT figures.

It is assumed that the OSS return will be monthly and will record the VAT due/receivable from B2B supplies of goods to and from each of the other 27 Member States. Businesses selling goods to other Member States will have 20 days from the end of the period to file their OSS return. This return will then be processed by the Member State of the supplier's establishment and the VAT refund/payments will be remitted through a clearing system to the Member

State of taxation no later than 10 days after the end of the period in which the transaction took place.

For the purposes of assessing the potential cash flow impact of this option it is assumed that the OSS will not be used to report domestic transactions and that these will be reported separately. Where local input VAT is incurred from non-resident suppliers on acquisitions, it is assumed that this is recoverable on the domestic VAT return.

2.4 Abolishing the recapitulative statement for supplies of goods

The requirement to submit recapitulative statements for supplies of goods will be abolished. It is therefore assumed that businesses will no longer be required to submit the recapitulative statements and conform to the compliance obligations associated with respect to its sales of goods.

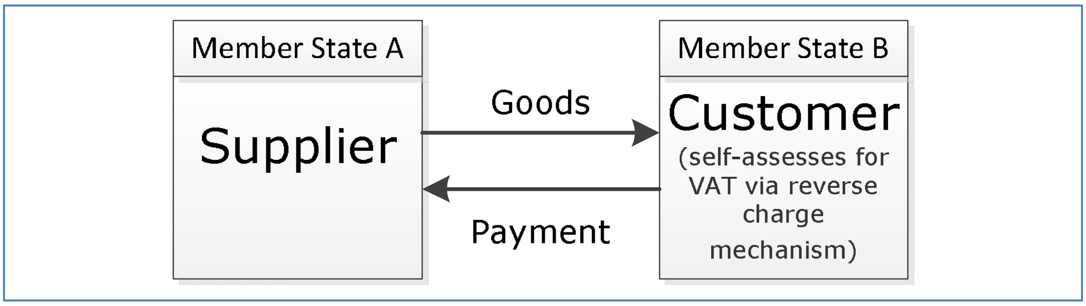
It is also assumed, for the purposes of this report, that the expectation for Member States to collate the information from recapitulative statements will be abolished with respect to the movement of goods.

2.5 Standardising reduced VAT rates

Under the narrative detail provided for Option 2, it is stated that either definitions of the products eligible for a reduced rate could be standardised or alternatively the supplier would apply the standard rate of the Member State where the tax is due for all B2B transactions in goods, whether domestic or intra-EU. When assessing the impact of this option, the implementation of the two options separately on the assumption that only one of these options will be implemented was analysed.

In addition, where the standard rate of VAT is to be applied to all B2B supplies we have assumed that the customer will be entitled to recover in full the difference in the value of VAT charged as a result of applying the standard rate of VAT to a normally reduced rated supply. The balance will be recoverable subject to its partial exemption status.

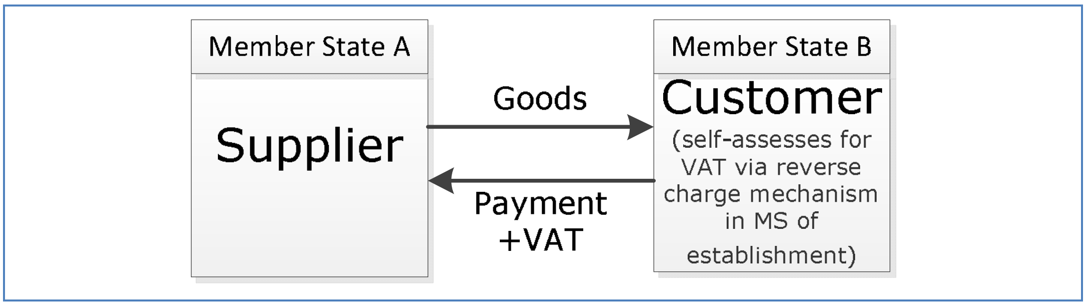
3. Assumptions made in relation to Option 3



Applying the narrative detail provided for Option 3, the following assumptions have been made for the purposes of this report:

- There is only one taxable transaction, the supply of goods;
- The customer will be required to be registered (and account for VAT) in the Member State of arrival unless they are a non-taxable legal person, an entity that is eligible for the small enterprises or flat rate farmers schemes, or an entity that is not eligible to recover input VAT in which case the supplier will charge VAT;
- Where there is a movement of own goods then the supplier will be required to be registered (and account for VAT) in the Member State of arrival; and
- No other changes are made to the legislation. Therefore the existing legislative treatment for transactions from a VAT perspective will continue.

4. Assumptions made in relation to Option 4



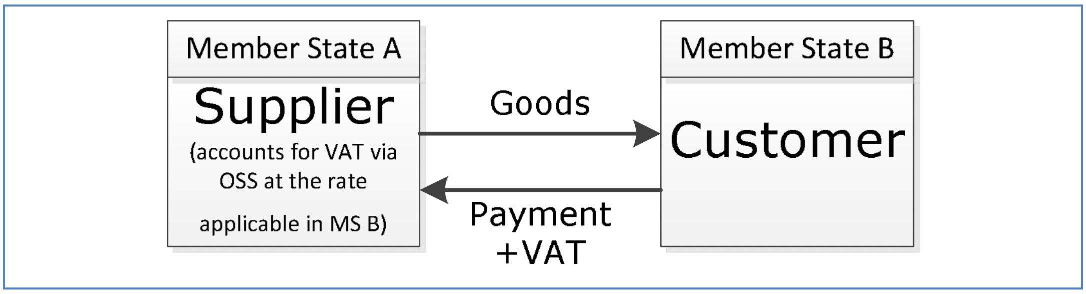
Under the narrative detail provided for Option 4, the following assumptions have been made for the purposes of this report:

4.1 Customer VAT registration number obligation

When goods are actually dispatched or transported to a fixed establishment of the customer, while the contractual flows are made with the head office or with another fixed establishment of a taxable person, VAT will be due in the Member State of the fixed establishment receiving the goods. Therefore, there should be an obligation for the customer, to communicate to the supplier its VAT registration number attributed by the Member State where the goods are dispatched or transported.

It is assumed that this obligation will be monitored under this option and as such, businesses will need to ensure they meet such an obligation.

5. Assumptions made in relation to Option 5



Under the narrative detail provided for Option 5, the assumptions made for the purposes of this report are the same as under Option 2.

However, it is important to note the following two differences between the options:

- Under Option 2 the rules follow the physical flow of the goods and under Option 5; the rules follow the contractual flow of the goods.
- Under Option 2, the rules stipulate that when the transport of goods is not organised by or on behalf of the supplier, the customer shall provide the supplier with the name of the Member State of arrival of the goods within ten workings days. Under Option 5 there is no such requirement.

Section 3: Qualitative practical application analysis

As part of the qualitative analysis of each of the five alternative taxation models, a narrative of the expected benefits and costs under each option is provided below from both a business and a Member State perspective. This forms part of the qualitative analysis but has also been used within the Business Impact Analysis and also the Member State data collection phase. This is to inform respondents as to the potential benefits and costs of each option.

Option 1 'Limited improvement of current rules'

Benefits and costs for businesses

Provided below are the considered benefits under Option 1 for businesses:

Proposed Simplification / Relief	Benefit – Impact Assumptions
1. Harmonisation of the call-off stock simplification across all Member States[161].	Businesses will no longer be required to register for VAT in the Member State(s) where the call-off stock is located. ▪ VAT return compliance burden will be reduced as the number of VAT registrations is reduced. ▪ Time spent dealing with VAT audits will be reduced as businesses will no longer have to deal with multiple Revenue Authorities. ▪ Cash-flow benefit where VAT would otherwise be due to Tax Authorities before customers have paid the invoice.
2. Harmonisation of the consignment stock simplification across all Member States[162].	As above.
3. Clarification on the treatment of chain transactions[163].	Greater legal certainty for businesses in a chain supply as to: ▪ Which Member State the supply is made in. ▪ Who must account for the tax.

[161] As provided in Annex C, currently 20 of the 28 Member States apply a call off stock simplification. Please note that there are various conditions that are applied in the Member States in order for the simplification to apply.
[162] There are currently 7 of the 28 Member States who apply a consignment stock simplification. Please note that there are various conditions that are applied in the Member States in order for the simplification to apply.
[163] There are currently 10 of the 28 Member States that already have relatively clear guidance as to which supply should be considered the intra community supply, however it should be noted that they do not necessarily apply the same criteria.

Proposed Simplification / Relief	Benefit – Impact Assumptions
4. Simplification provisions:	
A) Mandatory application of domestic reverse charge for B2B supplies by non-established taxable persons[164].	A) For suppliers, businesses may no longer be required to register for VAT in the Member State(s) where the supply takes place: ▪ VAT return compliance burden will be reduced as the number of VAT registrations is reduced. ▪ Time spent dealing with VAT audits will be reduced as businesses no longer have to deal with multiple Revenue Authorities. ▪ Cash-flow benefit where VAT would otherwise be due to Tax Authorities before customers have paid the invoice.
B) Appointment of a tax representative[165].	B) Supplier may bear the cost of using services of a tax representative instead of/in addition to in-house costs.
C) Ability to exempt with credit purchases that are related to intra community supplies[166].	C) For suppliers, there may be a cash-flow benefit where VAT may otherwise be due to Tax Authorities before customers have paid the invoice. For customers there may also be a cash flow benefit as no VAT has to be paid on these purchases and subsequently reclaimed.
D) Ability to exempt with credit purchases that are to be placed under a warehousing regime, and supplied within this location[167].	D) For suppliers, there may be a cash-flow benefit where VAT may otherwise be due to Tax Authorities before customers have paid the invoice. For customers there may also be a cash flow benefit as no VAT has to be paid on these purchases and subsequently reclaimed.
5. Clarification on the documentation to be retained to support the intra community supply.	Greater legal certainty for businesses as to what evidence should be retained to support the exempt with credit intra community supply. This is beneficial as it is likely to result in fewer "negative" VAT audits and, as such, lower likelihood of interest and penalties.

[164] As provided in Annex C, 22 of the 28 Member States apply the domestic reverse charge in some form to supplies of goods made by non-established suppliers. However, please note that there are significant discrepancies across the Member States as to how this article has been applied. For example, in Slovakia, the non-established supplier may still be required to register whilst the customer will still remain liable to account for VAT via the reverse charge. Therefore, this may not necessarily reduce suppliers' registration requirements.

[165] 13 of the 28 Member States already allow for the appointment of a tax representative.

[166] 9 of the 28 Member States already allow for this. However, please note that there may be differences across the Member States as to how this article has been applied.

[167] 21 of the 28 Member States already allow for this.

Provided below are the considered costs under Option 1 for businesses:

Proposed Simplification / Relief	Cost – Impact Assumptions
1. Harmonisation of the call-off stock and consignment stock simplification across all Member States	For suppliers, the business must maintain a register of all goods despatched or transported under this relief, detailing the address where the goods are located as well as when they are removed from stock[168]. Suppliers must also inform the Member State of departure that the supply will be disregarded for VAT purposes, and provide the following information: VAT identification number of customer, approximate date of dispatch, place where the stock will be held[169]. Customers must keep accounts in sufficient detail to be able to identify the goods[170]. They must also inform the Member State of arrival that the supply will be disregarded for VAT purposes, and provide the following information: VAT identification number of supplier, approximate date of arrival, place where the stock will be held[171].
2. There may be an additional requirement where the customer has to document and sign a form to prove transport[172].	For both suppliers and customers, there will be an additional compliance cost for businesses to ensure they can prove the intra-EU movement of goods.

Qualitative benefits and costs for Member States

Provided below are the considered benefits under Option 1 for Member States:

Proposed Simplification / Relief	Benefit – Impact Assumptions
1. Harmonisation of the call-off stock simplification across all Member States.	Member States will no longer be required to register non-resident enterprises that engage solely in this activity for VAT. Therefore, there is no need to undertake associated VAT audits etc. Overall this should lead to a reduction in administration costs. Some Member States already apply such a simplification in which case the effect will be neutral.
2. Harmonisation of the consignment stock simplification across all Member States.	As above.

[168] It is assumed that this is something that businesses would do already from a commercial perspective; therefore this should be cost neutral.

[169] It is assumed that this will be accommodated via an online system and as such there may be a one-off set up cost in the year of implementation, and then cost neutral thereafter on the basis that the business can collate and relay the information with a limited amount of manual intervention.

[170] It is assumed businesses would do this already from a commercial perspective; therefore this should be cost neutral.

[171] It is assumed that this will be accommodated via an online system and as such there may be a one-off set up cost in the year of implementation, and then cost neutral thereafter on the basis that the business can collate and relay the information with a limited amount of manual intervention.

[172] In order to evidence the movement of the goods cross-border, this taxation model considers the possible requirement for the supplier to hold a form of the Member State of departure that includes a declaration by the customer of receipt of delivery. As provided in Annex C, only one Member State requires a similar document to support the VAT treatment of the intra community supply.

Proposed Simplification/Relief	Benefit – Impact Assumptions
3. Introduction of domestic reverse charge for B2B supplies by non-established taxable persons.	Member State may no longer be required to register non-resident enterprises that engage solely in this activity for VAT, therefore no need to undertake associated VAT audits etc., overall should see a reduction in administration costs. There is also a reduced risk of VAT loss due to foreign enterprise failing to pay tax due.

Provided below are the considered costs under Option 1 for Member States:

Proposed Simplification/Relief	Cost – Impact Assumptions
1. Harmonisation of the call-off stock and consignment stock simplification across all Member States.	Member State must implement a system so that reporting of such transactions can be carried out electronically.
2. There may be an additional requirement where the customer has to document and sign a form to prove transport.	Some Member States have already implemented this in which is cost neutral.
3. Simplification provisions.	There may be a possible impact on Member State cash-flow resulting from the simplification provisions (e.g.: domestic reverse charge) and the ability to purchase goods, etc. free of VAT.
4. Business must use electronic means to inform the Tax Authorities of the Member State of arrival before the transport or dispatch of the goods begins.	For Member States, there may be implementation costs associated with introducing such a system.
5. Additional information would likely have to be provided by the supplier such as the details of the manager of the warehouse, its exact location etc.	For Member States, there may be costs associated reviewing the information on stock movements.

Option 2 'taxation following the flow of goods'

Benefits and costs for businesses

Provided below are the considered benefits under Option 2 for businesses:

Proposed Simplification/Relief	Benefit – Impact Assumptions
1. Use of a One-Stop Shop (OSS) to account for VAT, and also recover VAT on associated business costs.	Suppliers will no longer be required to register for VAT in the Member State(s) where the supply takes place. The VAT return compliance burden will be reduced as number of VAT registrations required are minimised. Time spent dealing with VAT audits reduced as businesses no longer have to deal with multiple Revenue Authorities. This would also remove the need for the suppliers to submit separate 8th Directive refund claims.
2. The obligation to submit a recapitulative statement is removed.	For suppliers, this removes the cost for businesses to submit a recapitulative statement.
3. Non-established supplier may no longer need to register for VAT in other Member States and submit local VAT returns.	This removes the cost for non-established suppliers to register for VAT and complete VAT returns for Member States other than in their "nominated" Member State of registration.
4. Possibility of the standard VAT rate to be applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	From a supplier's perspective, the supplier would no longer have to research the VAT rate applicable to their supply.

Proposed Simplification/Relief	Benefit – Impact Assumptions
5. Possibility of the standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates)[173]	This may result in fewer negative VAT audits and therefore reduce arrears, penalties, professional costs, etc.
6. Possible gradual extension of the system to cover all supplies.	Extension of the potential benefits and costs of this option to a greater range of businesses and scenarios.

Provided below are the considered costs Option 2 for businesses:

Proposed Simplification/Relief	Cost – Impact Assumptions
1. Non-established supplier will need to account for VAT through the OSS return.	For suppliers that currently only deal with standard B2B supplies to other Member States, completion of the OSS return may be an additional burden and cost. Businesses may incur costs in determining what VAT rate to charge for each Member State. There may also be a cash flow issue for suppliers.
2. Introduction of the Certified Taxable Person (CTP) simplification.	Suppliers may need to check if their customer has CTP status. Customers may need to register for CTP status. This creates additional costs for customers in comparison with “As Is” rules.
3. Possibility of the standard VAT rate to be applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	Partly exempt customers may experience additional VAT costs/negative cash flow implications if the reduced VAT rate is removed altogether.
4. Possibility of the standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates)[174].	Suppliers may incur additional time costs in reviewing web portal to verify VAT rates.
5. Potential requirement to include the VAT number of the supplier on the VAT return.	Customer may incur additional administration costs in meeting this requirement.
6. When the transport of goods is not organised by or on behalf of the supplier, the customer shall provide the supplier with the name of the Member State of arrival of the goods within ten workings days.	This could increase the administrative burden and compliance costs for a business to ensure that they collect/provide this information within the ten days.

Qualitative benefits and costs for Member States

Provided below are the considered benefits under Option 2 for Member States:

Proposed Simplification/Relief	Benefit – Impact Assumptions
1. The obligation to submit a recapitulative statement is removed.	The ongoing costs for a Member State to collate their recapitulative statement data for goods are removed.
2. Application of standard VAT rate to all B2B supplies.	Member States may experience improved cash flow.
3. Non-established supplier will need to account for VAT through the OSS return.	For those Member States who are net exporters of goods, this may result in a net cash flow benefit as they will collect VAT on each of these exports before submitting it to the relevant Member State through the clearing system.
4. Non-established suppliers could make use	This would reduce the number of 8th Directive

[173] Please note that benefits 4 and 5 are mutually exclusive.
[174] Please note that costs 3 and 5 are mutually exclusive.

Proposed Simplification/Relief	Benefit – Impact Assumptions
of the OSS to submit refund applications	refund claims processed by Member States

Provided below are the considered costs under Option 2 for Member States:

Proposed Simplification/Relief	Cost – Impact Assumptions
1. Non-established supplier will need to account for VAT through the OSS return.	Member States are likely to incur significant set up costs in order to introduce a OSS VAT return. For those Member States whose business community are net exporters to other Members States there will be an increased administration burden as a result of having to audit VAT return submissions relating to other Member States. For those Member States who are net importers of goods, this may result in a net negative cash flow as they may need to repay the input VAT before receiving the tax remittance from the relevant Member State(s) through the clearing system.
2. Introduction of the Certified Taxable Person simplification.	Revenue authorities may need to implement CTP registration and maintain the register
3. Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).	Member States may incur costs in setting up the web portal.
4. Potential requirement to include the VAT number of the supplier on the VAT return.	Cost for Member States for extending the VAT return.
5. Dependency on other Member States to undertake VAT audits.	This could increase the risk of unidentified errors. This would result in higher administration costs due to the need to engage with other Member States.

Option 3 'Reverse charge following the flow of goods'

Benefits and costs for businesses

Provided below are the considered benefits under Option 3 for businesses:

Proposed Simplification/Relief	Benefit – Impact Assumptions
1. Clarification of the reverse charge mechanism and its application to supplies.	Greater certainty for businesses as to how to treat their supplies and purchases. This may reduce internal and third party administration costs.

Provided below are the considered costs under Option 3 for businesses:

Proposed Simplification / Relief	Cost – Impact Assumptions
1. Potential registration obligation for customer.	There may be an additional VAT registration obligation where the customer is not established in the Member State of taxation (please note that we consider that this cost exists under the "As Is" and therefore the net impact should be cost neutral).
2. Business must update the format of their invoices to state that their supplies are subject to the reverse charge.	This may increase internal VAT administration costs for businesses; we assume, however, that this will be a one-off systems change.
3. Existing system under the "As Is" VAT rules will remain in place.	Issues identified with the current VAT system will remain unchanged.

Benefits and costs for Member States

No benefits/cost for Member States under Option 3 have been identified.

Option 4 'Alignment with the place of supply of service'

Benefits and costs for businesses

Provided below are the considered benefits under Option 4 for businesses:

Proposed Simplification / Relief	Benefit – Impact Assumptions
1. Harmonisation of supply of goods rules with the rules on the supply of services.	There will be greater certainty for businesses as to how to treat their supplies. This may reduce internal and third party administration costs. For customers, there will be greater certainty as to how to treat their purchases. This may reduce internal and third party administration costs.
2. Removal of VAT registration obligations for call-off, consignment stock, triangulation, and chain transactions.	This will remove VAT registration and associated compliance costs for suppliers, and also reduce compliance costs relating to VAT audits as they will no longer be required to deal with multiple Tax Authorities.
3. Introduction of a Mini One-Stop-Shop (MOSS) for goods.	For non-EU suppliers, this may mean that they no longer need to register for VAT in every EU Member State they make supplies to, leading to a reduction in VAT compliance costs.
4. Potential for further application of the system under this option to cover B2B and B2C supplies of goods and services.	Extension of the potential benefits and costs of this option to a greater range of businesses and scenarios.
5. Removal of the requirement to monitor the movement of goods within the EU.	This would reduce compliance costs for businesses.

Provided below are the considered costs under Option 4 for businesses:

Proposed Simplification / Relief	Cost – Impact Assumptions
1. Customer could be required to submit a recapitulative statement of the purchases of goods for which they are liable to pay the VAT in their Member State.	Increased costs for customers, including internal administration and third party costs to ensure compliance.
2. Customer could be required to provide their VAT number to their supplier.	This maintains internal administration and third party costs for customers.

Benefits and costs for Member States

Provided below are the considered benefits under Option 4 for Member States:

Proposed Simplification/Relief	Cost – Impact Assumptions
1. Removal of the requirement to register non-established suppliers who undertake call-off and consignment stock, as well as triangulation and chain transactions.	This would reduce the associated compliance costs for Member States in relation to registrations and VAT audits.

Provided below are the considered costs under Option 4 for Member States:

Proposed Simplification/Relief	Cost – Impact Assumptions
1. Reliance on customer's VAT number to apply intra-EU exemption.	Continued exposure for Member States to VAT fraud. As a result, Member States may incur potentially greater costs in preventative measures and through real-time monitoring of the VIES system.
2. Introduction of a Mini One-Stop-Shop (MOSS) for goods.	Member States will need to extend the Mini One-Stop-Shop beyond its use for services.

Option 5 'Taxation following the contractual flow'

Benefits and costs for businesses

Provided below are the considered benefits under Option 5 for businesses:

Proposed Simplification/Relief	Benefit – Impact Assumptions
1. Use of a One-Stop Shop (OSS) to account for VAT, and also recover VAT on associated business costs.	Suppliers will no longer be required to register for VAT in the Member State(s) where the supply takes place. The VAT return compliance burden will be reduced as number of VAT registrations required are minimised. Time spent dealing with VAT audits reduced as businesses no longer have to deal with multiple Revenue Authorities. This would also remove the need for the suppliers to submit separate 8th Directive refund claims.
2. The obligation to submit a recapitulative statement is removed.	This removes the cost for businesses to submit a recapitulative statement.
3. Non-established supplier may no longer need to register for VAT in other Member States and submit local VAT returns.	This removes the cost for non-established suppliers to register for VAT and complete VAT returns for Member States other than in their "nominated" Member State of registration.
4. Possibility of the standard VAT rate to be applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	From a supplier's perspective, the supplier would no longer have to research the VAT rate applicable to their supply.
5. Possibility of the standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).[175]	This may result in fewer negative VAT audits and therefore reduce arrears, penalties, professional costs, etc.
6. Possible gradual extension of the system to cover all supplies.	Extension of the potential benefits and costs of this option to a greater range of businesses and scenarios.
7. With the exception of imports and exports, the movement of goods within the EU ceases to be monitored.	Removal of the requirement for businesses to monitor the movement of goods within the EU.

Provided below are the considered costs Option 5 for businesses:

Proposed Simplification/Relief	Cost – Impact Assumptions

[175] Please note that benefits 4 and 5 are mutually exclusive.

Proposed Simplification/Relief	Cost – Impact Assumptions
1. Non-established supplier will need to account for VAT through the OSS return.	For suppliers that currently only deal with standard B2B supplies to other Member States, completion of the OSS return may be an additional burden and cost. Businesses may experience costs in determining what VAT rate to charge for each Member State. There may also be a cash flow issue for suppliers.
2. Introduction of the Certified Taxable Person (CTP) simplification.	Suppliers may need to check if their customer has CTP status. Customers may need to register for CTP status. This creates additional costs for customers in comparison with "As Is" rules.
3. Possibility of the standard VAT rate to be applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	Partly exempt customers may experience additional VAT costs/negative cash flow implications if the reduced VAT rate is removed altogether.
4. Possibility of the standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).[176]	Suppliers may incur additional time costs in reviewing web portal to verify VAT rates.
5. Potential requirement to include the VAT number of the supplier on the VAT return.	Customer may incur additional administration costs in meeting this requirement.
6. Removal of the requirement to monitor the movement of goods within the EU.	This would greatly reduce compliance costs for businesses.

Benefits and costs for Member States

The considered benefits and costs for Member States under Option 5 are the same as those considered for Option 2.

[176] Please note that costs 3 and 4 are mutually exclusive.

Annex B Primary Data templates

Section 1: Business Survey

1. Introduction

In order to address the inherent issues of the current taxation model for the business to business supply of goods, the European Commission has identified five alternative taxation models. The European Commission has appointed EY to undertake a study of the VAT and cost implications of these alternative taxation models in order to identify whether the following drivers are met:

- That doing business across the EU must be as simple and safe as engaging in purely domestic activities; and
- The cost of VAT compliance for business activities across the EU must be reduced.

This study includes a survey for businesses across all 28 Member States to complete in order for EY to analyse the impact of any potential change to the current legislation.

2. Completing the survey

The survey is comprised of a total of 32 questions.

The survey covers general questions about your business, specific questions about your VAT profile with regard to sales and purchases as well as your trading partner information. This information is needed so that we can calculate the potential cash-flow impact of the options. We also require information in relation to the costs that you incur in order to comply with the VAT legislation. Both staff costs as well as costs incurred from third parties, is needed so that we can calculate the potential cost to your business both in year one and thereafter of implementing the proposed options. Lastly, some of the options require your business to undertake additional tasks and we wish to understand the potential cost to your business of complying with these additional requirements.

In order to be able to complete the survey in minimum time (approximately 40 minutes) possible it would be useful to have on hand the following information:

- Number of countries in which the company is registered for VAT (or if completing the survey behalf of a VAT group, the number of countries in which the Representative Member of the group is registered for VAT).
- VAT returns covering the period 1 January 2013 to 31 December 2013 (or closest 12 month period if submitting quarterly or returns covering a non-standard VAT return period).
- EC sales lists covering the period 1 January 2013 to 31 December 2013.
- Intrastat arrivals documents covering the period 1 January 2013 to 31 December 2013.
- Estimate of costs incurred in relation to VAT compliance, for example: salary costs, training costs; IT costs relating to VAT accounting, external advisory fees etc.
- Trade receivables figures and total sales figures from your most recent Annual report/Accounts, or similar data from your finance team.
- Trade payables figures and total purchases figures from your most recent Annual Report/Accounts or similar data from your finance team.

Some of the questions within the survey require certain breakdowns of various transactions/costs etc. that we appreciate you may not have firm details of. Responses to these questions are meant to be indicative and therefore estimations for these questions are sufficient.

2.1 Section 1: Trade related information

1. Please confirm your VAT number

   (This could be for either a VAT group or single legal entity in the EU Member State where your principal place of business is located. All further information provided will be from the last full financial year of the VAT group or single legal entity to which the VAT number relates.

   Your principal place of business could be your registered office, or where your central administration is located.

   If you are part of a corporate group and the VAT number is for a single legal entity, please ensure it is representative of the group (for example, the largest in the Member State).

2. Please confirm whether the VAT number provided relates to a VAT group or single legal entity

3. Please confirm your preferred currency for providing information throughout this survey (this is the local currency of this VAT group or single legal entity).

4. Please select the industry that best describes your business

5. Where you expect to have numerical values for net VAT, gross sales, administration costs, etc. exceeding 2 billion in your own currency; please choose one of the following units in which to report this value for all further responses requiring a monetary value in this survey.

   Please note: if your net VAT, gross sales, administration costs, etc. Do not exceed 2 billion in your own currency, you should select ‘N/A’ for this response.

   - N/A
   - Thousands
   - Millions
   - Billions

6. Please provide your net sales figure detailed in your VAT returns for the period January 2013 to December 2013 (or closest 12 month period if submitting quarterly or other returns) for the VAT group or single legal entity identified in Question 1.

7. If less than 100%, approximately what percentage of your net sales came from business to business (B2B) sales of goods?

8. Of your B2B net sales, approximately what percentage were domestic (within your EU Member State), intra-EU (within the EU) and Outside EU?

9. Approximately what percentage of your intra-EU sales relates to trade with other member of your corporate group?

10. What is the value of VAT account for/declared on your sales for the period January 2013 to December 2013 (or closest 12 month period if submitting quarterly or other returns)?

11. Of your intra-EU B2B net sales, approximately what percentage comes from each of your top five EU Member States trading partners?

Please provide a further percentage break down of the value provided in column B across the four columns C to F if applicable. The percentages in the final four columns (C to F) do not need to total 100% (for example, there may be regular intra-EU trade that does not fall into any of the four categories).

For definitions of the terms used, please see the text below.

Member State	Intra EU Trade	Call Off Stock	Consignment Stock	Triangulation	Chain Transactions
1					
2					
3					
4					
5					

1) *Call off stock: goods transferred by the supplier between Member States, to be held for an individual customer in the Member State of arrival pending "call-off" for use by a customer as they need them. This only applies in cases where the goods are destined for a single identified customer. For example, goods destined for a particular customer might be transferred to a warehouse in another Member State, ready for removal by that customer as and when they require the goods.*

2) *Consignment stock: goods you transfer between Member States to meet future supplies to be made by you, or on your behalf, in the Member State of arrival. The important feature is that the movement of goods occurs before a customer has been found for them. For example, goods might be transferred to a warehouse in another Member State, and be removed from that warehouse only once a customer is found for them.*

3) *Triangulation: the term used to describe a chain of intra-EU supplies of goods involving three parties. The goods do not physically pass from each party to the other, but are instead delivered directly from the first party in the chain to the last party in the chain.*

4) *Chain trade: term used to describe a chain of intra- EU supplies of goods involving more than three parties. The goods do not physically pass from each party to the other, but are instead delivered directly from the first party in the chain to the last party in the chain.*

12. What is the value of total VAT reclaimed on purchases of domestic goods and services (input VAT) on your VAT returns for the period January 2013 to December 2013 (or closest 12 month period if submitting quarterly or other returns)?

13. What is the value of acquisition VAT declared in your VAT return for the period January 2013 to December 2013 (or closest 12 month period if submitting quarterly or other returns)?

14. Of your intra-EU B2B acquisition VAT figure (provided in Question 12), approximately what percentage came from each of your top five trading partner EU Member States?

2.2 Section 2: VAT information

15. Please confirm how your organisation deals with VAT administration. Please select all that apply for both domestic and intra-EU transactions.

- VAT department
- Shared service centre (if it relates to your individual VAT registration/VAT registration group)
- Responsible employee(s) (there isn't a dedicated department to VAT compliance, but the action is undertaken by someone from your organisation)
- Consultant advice/outsourced to a third party

You may select more than one option in each column for this question.

1. Please provide the total number of employee hours spent on VAT administration for domestic and intra-EU trade in one average month (included those in your shared service centre, if applicable).

VAT compliance is made up of six activities: completion of periodic VAT returns, dealing with a VAT audit, obtaining customer's VAT registration details, completing recapitulative statements, obtaining proof of the intra-EU movement of goods, and other. For definitions of these categories, see Question 17.

2. Please provide a breakdown (in percentages) the amount of employee hours spent dealing with VAT administration in an average month across the following categories:

- Completion of periodic VAT returns
- Dealing with a VAT audit
- Obtaining a customer's VAT registration details
- Completing recapitulative statements
- Obtaining proof of the intra-EU movement of goods
- Other

1) 'Dealing with a VAT Audit' includes activities associated with handling any enquiries from the local tax authorities about accounting for VAT.

2) 'Obtaining customer's VAT registration details' relates to any activities associated with ensuring you have collected the VAT registration number of a customer in order to apply the correct VAT rate to the supply.

3) 'Completing recapitulative statements' relates to any activities associated with filling out a recapitulative statement. A recapitulative statement (sometimes known as an EC Sales List) is a document that VAT registered traders are required to submit summarising their EU supplies of goods and/or services subject to the reverse charge in their customer's Member State. The information on the recapitulative statement is used by Member States to ensure the VAT has been correctly accounted for.

4) 'Obtaining proof of intra-EU movement of goods' relates to any activities associated with collating and retaining the documents necessary for the intra-EU supply of goods.

5) *'Other' relates to the activities associated with any other VAT compliance processes not covered by the previous four options. For example, this covers activities such as dealing with miscellaneous customer and supplier queries regarding VAT, carrying out supplier/customer acceptance checks, and other such activities.*

3. Please provide your average cost per hour (compensation) for an employee dealing with VAT administration. Average cost (compensation) includes wage cost and other benefits but excludes training costs. This should be an estimate of the average cost across all levels of staff (in terms of seniority).

4. Please estimate your additional costs incurred from third parties that relate to VAT administration for your last financial year.

5. Please also estimate the relevant percentage breakdown across the categories shown:

   - Training/retraining costs
   - System (software) related costs
   - Consultancy fees/outsourcing fees/shared service centre recharge cost from central corporate group
   - Other

6. What is the estimated cost of registering for VAT in your own Member State? For example, please consider employee time costs and additional third party costs.

7. How many Member States, other than your own, are you registered for VAT in? (Where applicable please respond on behalf of the representative member of the VAT group).

8. Does the VAT compliance risk related to domestic trade impact your decisions about the customers and sectors you trade with?

9. Does the VAT compliance risk related to intra-EU trade impact your decisions about the customers and sectors you trade with?

2.3 Section 3: Estimation of Detailed Cost Information

25. What is your annual net VAT payable according to your VAT return for the period January 2013 to December 2013 (or closest 12 month period if submitting quarterly or other returns)? This is equal to the total VAT payable to the relevant Tax Authorities in your Member State annually.

1. How frequently do you submit a VAT return?

   - Monthly
   - Quarterly
   - Annually

2. What is your approximate aged-receivables profile? This relates to the average number of days between the point of sale and the point the customer pays the amount owed to your organisation.

   - 0 – 30 days
   - 31 – 60 days
   - 61 – 90 days
   - 91 – 120 days
   - More than 120 days

3. What is your approximate aged-payables profile? This relates to the average number of days between the point of purchase and the time in which your organisation pays the amount that it owes to its supplier.

   - 0 – 30 days
   - 31 – 60 days
   - 61 – 90 days
   - 91 – 120 days
   - More than 120 days

4. Under certain proposed changes, the supplier will be obliged to charge and collect VAT in the Member State of taxation. However, rather than having to register in each Member State, the supplier will register in one Member State (usually where they are established) and will account for all EU VAT via this registration (sales and purchases).Based on this information, please indicate how you expect your current VAT administration costs (provided in Questions 15 to 19) to increase or decrease (as an annual percentage change). Please provide this for year one (i.e., the year of implementation) and each individual year thereafter. Examples: The number of employee hours required to complete the VAT return may increase, this would increase employee time spent on it. Extra training may be needed to meet the new compliance requirements, this would increase training costs.

   - Training/retraining costs
   - System (software) related costs
   - Consultancy fees/outsourcing fees/shared service centre recharge cost from central corporate group
   - Other

5. As part of the VAT compliance process, you must obtain/retain certain documents as proof of transport in respect of an intra-EU supply of goods.

   Under proposed changes, an additional documentary obligation would be required. In order to exempt the intra-EU supply, the supplier would have to prove the transport of goods by holding a form drawn up by the Member State of departure and supplemented by the customer documenting (and signing) the delivery in another Member State.

   Based on this information, please indicate how you expect your current VAT administration costs (provided in Questions 15 to 19) to increase or decrease (as an annual percentage change). Please provide this for year one (i.e., the year of implementation) and each individual year thereafter.

   - Training/retraining costs
   - System (software) related costs
   - Consultancy fees/outsourcing fees/shared service centre recharge cost from central corporate group
   - Other

6. Under proposed changes, the supplier may be required to charge VAT of the member state where the contracting party (the customer) is established, which will not necessarily be the MS where the goods are transported to. The concept of a "deemed supply of goods" is to be introduced where the contracting party is established in more than one place and the cost of the goods are reallocated to an establishment that was not the contracting party. Therefore the customer would charge VAT of the member state of the establishment to whom the costs had been reallocated.

   Based on this information, please indicate how you expect your current VAT administration costs (provided in Questions 15 to 19) to increase or decrease (as an annual percentage change). Please provide this for year one (i.e., the year of implementation) and each individual year thereafter.

   - Training/retraining costs
   - System (software) related costs
   - Consultancy fees/outsourcing fees/shared service centre recharge cost from central corporate group
   - Other

7. Under proposed changes, an intra-EU supplier of goods will be required to obtain the name of the Member State of arrival of the goods from the customer within ten working days.

   Based on this information, please indicate how you expect your current VAT administration costs (provided in Questions 15 to 19) to increase or decrease (as an annual percentage change).

   Please provide this for year one (i.e., the year of implementation) and each individual year thereafter.

   - Training/retraining costs
   - System (software) related costs
   - Consultancy fees/outsourcing fees/shared service centre recharge cost from central corporate group
   - Other

Section 2: The Member State survey

1. Introduction

EY have been appointed by the Commission to undertake a study to assess the impact of five alternative taxation models in relation to the B2B supplies of goods (Destination Principle Study).

We are collecting information from small, medium and large businesses across the European Union, as well as from Tax Authorities in all Member States. This will allow us to analyse the impact of the proposed alternate taxation models in relation to the intra-EU trade of goods between businesses.

We would therefore appreciate if you could complete the questionnaire below to help us assess the potential impact on your particular Member State. Please note that any information you supply will be treated in confidence and will not be passed onto the Commission at the Member State level.

If you are unsure how to respond to a question, we urge you to provide an appropriate estimate wherever possible.

1. Please select your Member State.

   The information requested below is not available in the detail we require from organisations such as Eurostat or the OECD so would like you to provide an estimate, based on any information you have from your National Treasury, Economic Planning departments or Human Resource departments. In the absence of information provided via this survey we will develop proxies (as described below) or rely on data provided by other Member States.

   Please answer all questions in this survey with reference to the period of 1 January 2013 to 31 December 2013 (or the closest 12 month period if this is not available).

   Please answer all questions in Euros where applicable.

2.4 Section 1: Trade related information

The information requested below is not available in the detail we require from organisations such as Eurostat or the OECD so would like you to provide an estimate, based on any information you have from your National Treasury, Economic Planning departments or Human Resource departments. In the absence of information provided via this survey we will develop proxies (as described below) or rely on data provided by other Member States.

2. Please provide an estimate of the percentage split of your Member State's total VAT receipts between B2B trade and B2C trade.

3. Please provide an estimate of the total number of Full Time Equivalent ("FTEs") employees currently employed by your organisation.

4. Please provide an estimate of the percentage of FTEs currently employed by your organisation who deal with VAT administration* (we appreciate your staff may also deal with other taxes, but would like you to estimate the percentage of FTE equivalents dealing with VAT).

   * *VAT administration will include activities such as: processing VAT registrations, undertaking VAT audits, VAT return compliance and administration, EC Sales List (recapitulative statement) compliance and administration, other documentary requirements compliance and administration, helpline and written query handling, implementation of new legislation, etc.*

5. Please provide a percentage breakdown of the number of FTEs currently employed by your organisation who deal with domestic, Intra-EU and other VAT administration (we appreciate your staff may also deal with other taxes, but would like you to estimate the percentage of FTE equivalents dealing with VAT).

6. Please provide your average labour rate per hour in your Member State for an employee responsible for dealing with VAT. This can be calculated by dividing the total labour costs by the number of FTEs (If staff typically deal with other taxes and not just VAT, please use the average hourly rate for all tax staff).

   Please note that average labour rates include wage cost and other benefits but exclude training costs.

7. Please provide the annual total current non-labour costs associated with the administration of VAT in your Member State.

8. Please provide a percentage breakdown of the total annual current non-labour costs in question 7 as per the activities shown below:

   a. Consultancy (%)

   b. It systems (%)

   c. Staff training (%)

   d. Other (%)

9. In September 2014, a report was published by the Commission which aimed to quantify and analyse the VAT gap in the EU27 Member States[177]. Based on the estimate of the 2012 VAT Gap in your Member State provided in page 16 of the report, what proportion do you believe can be attributed to fraudulent activity?

   For Croatia and Cyprus, we suggest that you use the VAT gap estimates for Slovenia and Malta respectively as proxies. We suggest these countries on the basis that they have similar GDPs.

10. Do you believe that the fraud gap percentage estimate you entered in question 9 is predominantly due to Missing Trader Intra-Community[*] (MTIC) ("carousel") fraud?

    [*] *MTIC fraud – also known as 'carousel fraud', this occurs when a business purchases goods from a supplier in another Member State. The business then sells the goods to another business, charging VAT. The business then disappears without paying the VAT to the relevant Tax Authority.*

11. If no to the question above, what percentage of the VAT Fraud Gap do you believe is due to MTIC fraud?

[177] 2012 Update Report to the Study to quantify and analyse the VAT Gap in the EU-27 Member States.

2.5 Section 2: Alternative Taxation Model questions

The following section relates to five alternative taxation models which are being considered by the European Commission: Option 1, Option 2, Option 3, Option 4, and Option 5.

Under each of these five alternative taxation models, your Member State's Tax Authorities are likely to be impacted from both a labour and a non-labour perspective. For each option, please estimate how you expect your total labour and non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both the implementation phase and the subsequent ongoing administration of the particular option.

For guidance, we have provided examples of how your costs may vary under each option. Furthermore, it is recommended that you refer to previous legislative changes as a reference point for estimating cost changes resulting from the activities provided below. For example, the VAT package and the 2015 place of supply changes for telecommunications may provide a reasonable indicator of cost changes. When responding to these questions, please refer to your earlier responses provided in questions 4 and 7 as a reference point for the current cost figures for labour and non-labour.

Definition of 'implementation' cost: these benefits/costs would be incurred in the period of that option being implemented in your domestic legislation, i.e., investment in new IT systems, training and recruiting staff etc.

Definition of 'ongoing' cost: these benefits/costs would be incurred in the years following implementation, i.e., reduced/increased audits of businesses, reviewing official documents etc.

Option 1 'Limited improvement of current rules'

In summary, Option 1 improves the current rules without modifying them fundamentally. The option primarily seeks to harmonize the VAT treatment applied to call-off and consignment stock arrangements, and also chain transactions across the EU.

In addition to this, the option also standardises the documentation to be held to support the exemption of the intra-community supply and consideration is given to the introduction of a standardised proof of movement document. It is also intended that a number of optional simplification measures will become compulsory.

Please find examples below of how this option may reduce cost or increase costs for a Member State Tax Authority.

Option 1	Scenario	Please further detail where necessary
Cost Reduction	Harmonisation of call-off stock and consignment stock simplifications across all Member States, and clarification of the treatment of chain transactions.	This may lead to an overall reduction in administration costs as businesses are likely to make fewer errors (however, where your Member State already applies the relevant simplification, this should be cost neutral).
Cost Increase	Harmonisation of call-off stock and consignment stock simplifications across all Member States.	Member States must set up a system so that reporting of such transactions can be done electronically (we would assume that this will be a one-off cost in the year of implementation and cost neutral after that). There may also be a negative cash flow impact of these simplification provisions arising from the ability to purchase goods, etc. free of VAT.
	There may be an additional requirement where the customer has to document and sign a form to prove transport.	Member States will need to enforce this requirement (however, where your Member State already applies this requirement, this should be cost neutral).

Option 1	Scenario	Please further detail where necessary
	Optional simplification measures will become mandatory: ▪ Introduction of domestic reverse charge for B2B supplies by non-established taxable persons. ▪ Appointment of tax representatives. ▪ Ability to exempt with credit purchases that are related to intra-community supplies. ▪ Ability to exempt with credit purchases that are placed under a warehousing regime, and supplied within this location.	This may lead to an increase in administration costs due to the need to ensure correct application etc. (however, where your Member State already applies the relevant simplification, this should be cost neutral).

11. Please note that the contents of this table are not exhaustive. If you foresee any further cost reductions or cost increases under this option, please include a narrative detail in the box below.

12. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 1.

    Please assume that the figure provided in question 4 for the percentage of total FTEs who deal with VAT administration now has a basis of 100%.

    For example, if you have stated that the total number of FTEs provided in question 3 is 100 and in question 4 you have stated that 30% of your total FTEs deal with VAT administration, then 30 FTEs will deal with VAT administration. If you anticipate this to decrease by 6 FTEs in the implementation phase, this should be entered as a 20% decrease in the implementation box.

13. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 1.

    Please assume that the figure provided in question 7 for the percentage of total non-labour costs relating to consultancy, IT system and staff training costs each now have a basis of 100%.

    For example, if you have stated that the total non-labour costs in question 7 is 10,000 EUR and stated in question 8 that 40% of your total non-labour costs relate to IT systems, then the total IT system cost is 4,000 EUR. If you anticipate this to increase by 1,000 EUR in the implementation phase, this should be entered as a 25% increase in the implementation box.

Option 2

In summary, Option 2 adapts current rules whilst still following the flow of goods with the supplier charging the VAT of the Member State of destination. The supplier is obligated to account for VAT, and if they are not established in the Member State of taxation they will report the VAT due using a One-Stop Shop mechanism. The place of supply of the goods is where the goods are located at the time when transportation ends; where they are not transported the place of supply is where the goods are located when the supply takes place.

For Option 2, there are two associated simplification measures (supplies to Certified Taxable Persons and supplies between members of the same corporate family) that are subject to the reverse charge procedure. As well as this, in order to combat fraud, the customer would be required to report all purchases from non-resident entrepreneurs.

Please find examples below of how this option may reduce costs or increase costs for a Member State Tax Authority.

Option 2	Scenario	Please further detail where necessary
Cost Reduction	The obligation to submit an EC Sales List is removed.	The ongoing cost for a Member State to collate EC Sales List (recapitulative statement) data is removed.
	Non-established supplier will need to account for VAT through the One-Stop Shop return.	There will be a net cash flow benefit for those Member States who are net exporters of goods, as they will collect VAT on each of these exports before remitting it to the relevant Member State through the clearing system.
Cost Increase	Non-established supplier will need to account for VAT through the One-Stop Shop return.	Member States are likely to incur set up costs in order to introduce a One-Stop Shop return. For those Member States who are net exporters to other Member States, there will be an increased administration burden as they will have to audit VAT return submissions relating to other Member States. For those Member States who are net importers of goods, there may be a negative cash flow effect due to the need to repay input VAT before potentially receiving the tax remittance from the relevant Member State(s) through the clearing system.
	Introduction of the Certified Taxable Person simplification.	Member States will need to implement Certified Taxable Person registration and maintain this register.
	Potential requirement to include the VAT number of the supplier on the VAT return.	For those Member States that do not already require this, there will be a cost of extending the VAT return to include this information.
	Dependency on other Member States to undertake VAT audits and having to undertake audits relating to another Member State's revenues.	Higher administration costs due to the need to engage with other Member States.

14. Please note that the contents of this table are not exhaustive. If you foresee any further cost reductions or cost increases under this option, please include a narrative detail in the box below.
15. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 2.
16. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 2.

Please note that under this option, in addition to the changes detailed above one of the following two scenarios will be implemented. In light of your response above, please estimate how you expect your total labour and non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under this for each of these scenarios individually.

Scenario 1: Standard rate of VAT is applied to all B2B supplies.	Member States may experience improved cash flow as a result of the removal of the reduced rate of VAT. Member States may need to provide guidance to business that are partially exempt regarding how they can recover the additional VAT that has been charged, as well as monitor compliance.

17. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 1.
18. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 1.

Scenario 2: Reduced rates of VAT are standardised and a web portal is made available publicising all information on reduced rates.	Member States would incur costs in setting up and maintaining this portal.

19. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 2.
20. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 2.

Option 3

In summary, Option 3 adapts the current rules whilst still following the flow of the goods with the customer applying the reverse charge mechanism. A single transaction (supply of goods) would replace the two taxable supplies on the movement of goods (movement and acquisition). The customer receiving the supply of goods is required to account for the VAT via the reverse charge mechanism.

Please find examples below of how this option may reduce cost or increase costs for a Member State Tax Authority.

Option 3	Scenario	Please further detail where necessary
Cost Reduction	Simplification of the reverse charge mechanism and application.	Business may be less likely to make mistakes. This may lead to a reduction in time spent by Member States in auditing businesses and assisting businesses through helplines.
Cost Increase	Businesses will need to update the format of their invoices to state that their supplies are subject to reverse charge.	Member States will need to notify businesses of this new requirement and subsequently enforce it.

21. Please note that the contents of this table are not exhaustive. If you foresee any further cost reductions or cost increases under this option, please include a narrative detail in the box below.
22. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 3.
23. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 3.

Option 4

In summary, Option 4 aligns the rules governing the place of supply of services with the customer applying the reverse charge mechanism. The place of supply will be where the customer has established its business. However, where the goods are provided to a fixed establishment of the business customer, and this is in a Member State other than that where he has established his business, the place of supply will be where the fixed establishment is located. In the absence of a fixed establishment, the permanent address or usual residence will serve as the place of supply. The customer will be obliged to provide the supplier with a VAT number in the Member State of taxation.

A simplification measure would be introduced whereby supplies to Certified Taxable Persons would not require a recapitulative statement.

Lastly, in order to combat fraud, the location of the goods would need to be mentioned on the invoice/recapitulative statement.

Please find examples below of how this option may reduce cost or increase costs for a Member State Tax Authority.

Option 4	Scenario	Please further detail where necessary
Cost Reduction	Simplification of the reverse charge mechanism and application.	Business may be less likely to make mistakes. This may lead to a reduction in time spent by Member States in auditing businesses and assisting businesses through helplines.
Cost Increase	Continuing reliance on customer's VAT number to apply intra-EU exemption.	Continued exposure for Member States to VAT fraud and, as a result, they may incur potentially greater costs in preventative measures and through real-time monitoring of the VIES system.
	Introduction of a Mini One Stop Shop	Member States will need to extend the Mini One Stop Shop beyond its use for services.
	Businesses will need to update the format of their invoices to state that their supplies are subject to reverse charge.	Member States will need to notify businesses of this new requirement and subsequently enforce it.

24. Please note that the contents of this table are not exhaustive. If you foresee any further cost reductions or cost increases under this option, please include a narrative detail in the box below.
25. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 4.
26. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 4.

Option 5

In summary, Option 5 aligns with the contractual flows with the supplier charging the VAT of the Member State of destination. This is irrespective of whether or not goods are transported; the place of supply of goods will be where the contracting party (the customer) is established. If the supplier is not established in the Member State of taxation, he will report the VAT due using a One-Stop Shop mechanism. If the contracting party reallocates the cost to another establishment, there will be a deemed supply and they will be required to account and report the tax due once again using the One-Stop Shop Mechanism.

For Option 5, there are two associated simplification measures (supplies to Certified Taxable Persons and supplies between members of the same corporate family) that would be subject to the reverse charge procedure. As well as this, in order to combat fraud, the customer would be required to report all purchases from non-resident entrepreneurs.

Please find examples below of how this option may reduce costs or increase costs for a Member State Tax Authority.

Option 5	Scenario	Please further detail where necessary
Cost Reduction	The obligation to submit an EC Sales List is removed.	The ongoing cost for a Member State to collate EC Sales List (recapitulative statement) data is removed.
	Non-established supplier will need to account for VAT through the One-Stop Shop return.	There will be a net cash flow benefit for those Member States who are net exporters of goods, as they will collect VAT on each of these exports before remitting it to the relevant Member State through the clearing system.
Cost Increase	Non-established supplier will need to account for VAT through the One-Stop Shop return.	Member States are likely to incur set up costs in order to introduce a One-Stop Shop return. For those Member States who are net exporters to other Member States, there will be an increased administration burden as they will have to audit VAT return submissions relating to other Member States. For those Member States who are net importers of goods, there may be a negative cash flow effect due to the need to repay input VAT before potentially receiving the tax remittance from the relevant Member State(s) through the clearing system.
	Introduction of the Certified Taxable Person simplification.	Member States will need to implement Certified Taxable Person registration and maintain this register.
	Potential requirement to include the VAT number of the supplier on the VAT return.	For those Member States that do not already require this, there will be a cost of extending the VAT return to include this information.
	Dependency on other Member States to undertake VAT audits and having to undertake audits relating to another Member State's revenues.	Higher administration costs due to the need to engage with other Member States.

27. Please note that the contents of this table are not exhaustive. If you foresee any further cost reductions or cost increases under this option, please include a narrative detail in the box below.

28. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 5.

29. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Option 5.

Please note that under this option, in addition to the changes detailed above one of the following two scenarios will be implemented. In light of your response above, please estimate how you expect your total labour and non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under this for each of these scenarios individually.

Scenario 1: Standard rate of VAT is applied to all B2B supplies.	Member States may experience improved cash flow as a result of the removal of the reduced rate of VAT. Member States may need to provide guidance to business that are partially exempt regarding how they can recover the additional VAT that has been charged, as well as monitor compliance.

30. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 1.

31. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 1.

Scenario 2: Reduced rates of VAT are standardised and a web portal is made available publicising all information on reduced rates.	Member States would incur costs in setting up and maintaining this portal.

32. With reference to the response provided for question 4, please estimate how you expect your total labour costs (i.e. number of FTEs) involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 2.

33. With reference to the responses provided for question 7, please estimate how you expect your non-labour costs involved with dealing with VAT administration to increase/decrease/remain the same for both implementation and subsequent ongoing administration under Scenario 2.

1.3 Section 3: FTE information

34. Under these five alternative taxation models, the number of FTEs employed by your Member State's Tax Authorities may increase, decrease or remain the same. In the event that the number of FTEs will remain the same under these options (based on your responses in questions 13 to 25), please indicate the percentage staff that may be reallocated (either into or out of the VAT section).

For example, where an increase in the number of FTEs is required under an Option, should your Member State intend to reallocate staff from other government departments to deal with this increase, '100%' should be included in the section 'reallocation of staff'.

Section 3: Tax experts survey template

Option 1 to Option 5 tabs:

- Each of these five tabs represents one of the five alternative taxation models proposed by the European Commission for future changes to the EU VAT system and the B2B supply of goods.
- Under each option, we have outlined particular scenarios which we have identified as being either a cost or a benefit to business. Benefits are highlighted in green, costs are highlighted in red.
- After each identified scenario, we have described the expected impact this will have on a business.
- We ask that you please provide an ESTIMATE of the overall percentage decrease (for benefits of each option) or percentage increase (for the costs of each option) in the number of hours you would anticipate that your EY office would spend on dealing with a business's VAT compliance under all of the scenarios, in relation to the following:
    - A Type 1 SME
        - Year 1 changes (the percentage increase/decrease in the existing number of hours in the first year following these changes)
        - Ongoing changes (the percentage increase/decrease in the existing number of hours expressed annually after the end of Year 1).
    - A Type 2 SME
        - Year 1 changes (the percentage increase/decrease in the existing number of hours in the first year following these changes)
        - Ongoing changes (the percentage increase/decrease in the existing number of hours expressed annually after the end of Year 1).
    - Large Businesses
        - Year 1 changes (the percentage increase/decrease in the existing number of hours in the first year following these changes)
        - Ongoing changes (the percentage increase/decrease in the existing number of hours expressed annually after the end of Year 1).

Assumptions for an SME		Assumptions for a Large Business
SME Type 1:	SME Type 2:	Large Business:
Annual turnover: less than 50 million EUR Number of employees: less than 250 employees. Establishment: established in one Member State. VAT registration: single VAT registration in domestic Member State. Trade: deals predominantly with domestic trade and has begun trading with other businesses outside its Member State of establishment. Accounts Payable/Accounts Receivable Profile: receives less than 50 AP and AR invoices per month for each VAT registration.	Annual turnover: less than 50 million EUR Number of employees: less than 250 employees. Establishment: established in one Member State. VAT registration: VAT registration in more than one Member State, but less than six Member States (The principal reason for its other EU VAT registrations is due to the movement of its own goods to other Member States). Trade: deals with both domestic and intra-EU trade. Accounts Payable/Accounts Receivable Profile: receives less than 50 AP and AR invoices per month for each VAT registration.	Annual turnover: more than 50 million EUR Number of employees: more than 250 employees. Establishment: established in numerous Member States across the EU. VAT registration: VAT registration in six or more Member States. Trade: deals with both domestic and intra-EU trade. Accounts Payable/Accounts Receivable Profile: receives 50 or more AP and AR invoices per month for each VAT registration.

Benefit or Cost under Option 1							
Scenario	Impact	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)
▪ Clarification on the treatment of chain transactions.	▪ Greater legal certainty for businesses in a chain supply as to: ▪ Which Member State the supply is made in; ▪ Who must account for the tax. ▪ This may result in fewer negative VAT audits and a reduction in arrears, penalties, professional costs, etc.						
▪ Harmonisation of the consignment stock simplification across all Member States.	▪ Businesses may be required to register for VAT in fewer Member States and complete fewer VAT returns.						
▪ Harmonisation of the call-off stock simplification across all Member States.	▪ Businesses may be required to register for VAT in fewer Member States and complete fewer VAT returns.						
▪ Introduction of domestic reverse charge for B2B supplies by non-established taxable persons.	▪ This may reduce the number of VAT registrations that businesses will be required to hold in other Member States.						
▪ Harmonisation of the conditions regarding acceptable evidence for recovery of input tax.	▪ Greater legal certainty for businesses on recovery of input tax. This may result in fewer negative VAT audits and a reduction in arrears, penalties, professional costs, etc.						
▪ There may be an additional requirement where the customer has to document and sign a form to prove transport.	▪ Greater compliance cost for businesses to ensure they can prove the intra-EU movement of goods.						

Benefit or Cost under Option 2							
Scenario	Impact	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)
▪ Non-established supplier may no longer need to register for VAT in other Member States and submit local VAT returns.	▪ This removes the cost for non-established suppliers to register for VAT and complete VAT returns for Member States other than their Member State of establishment.						
▪ The obligation to submit an EC Sales List is removed.	▪ This removes the cost for businesses to submit an EC Sales List.						
▪ Non-established supplier will need to account for VAT through the OSS return.	▪ For businesses that currently only deal with one Member State, completion of the OSS may be an additional burden and cost. Businesses may experience costs in determining what VAT rate to charge for each Member State. There may also be a cash flow issue for suppliers (PLEASE NOTE: the cash flow cost or benefit for a client business may be difficult to quantify from an EY perspective. Where you are aware of the Accounts Payable and Accounts Receivable profile of your client, please provide an estimate of the value of the cost or benefit of this cash flow to the business under this scenario).						
▪ Introduction of the Certified Taxable Person simplification – for suppliers, they need to check if customer is CTP.	▪ There will be the following impacts: ▪ Suppliers may need to check if their customer has CTP status. ▪ Customers may need to register for CTP status. ▪ Creates additional costs for customers in comparison with current VAT rules.						
▪ Potential requirement to include the VAT number of the supplier on the VAT return.	▪ Businesses may incur additional administration costs in meeting this requirement.						
Option 2: Scenario 1							
▪ Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	▪ From a supplier's perspective, the supplier would no longer have to research the VAT rate to apply to their supply.						

▪ Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	▪ Partly exempt customers may experience negative cash flow implications if the reduced VAT rate is removed altogether. (PLEASE NOTE: the cash flow cost or benefit for a client business may be difficult to quantify from an EY perspective. Where you are aware of the Accounts Payable and Accounts Receivable profile of your client, please provide an estimate of the value of the cost or benefit of this cash flow to the business under this scenario)
Option 2: Scenario 2	
▪ Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).	▪ This may result in fewer negative VAT audits and therefore reduce arrears, penalties, professional costs, etc.
▪ Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).	▪ Suppliers incur costs reviewing web portal to verify applicable VAT rate.

Benefit or Cost under Option 3							
Scenario	Impact	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)
▪ Clarification of the reverse charge mechanism and its application to supplies.	▪ Greater certainty for businesses as to how to treat their supplies. This may result in fewer negative VAT audits and therefore reduce arrears, penalties, professional costs, etc.						
▪ Business must update the format of their invoices to state that their supplies are subject to the reverse charge.	▪ This may increase internal VAT administration costs for businesses.						

Benefit or Cost under Option 4							
Scenario	Impact	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)
▪ Harmonisation of supply of goods rules with the rules on the supply of services.	▪ Greater certainty for businesses as to how to treat their supplies. This may result in fewer negative VAT audits and therefore reduce arrears, penalties, professional costs, etc.						
▪ Business supplying goods will no longer need to keep proof of intra-EU movement.	▪ This may reduce internal administration costs for businesses.						
▪ Introduction of a Mini One-Stop-Shop (MOSS).	▪ For non-EU businesses, this may mean that they no longer need to register for VAT in every EU Member State they make supplies to. This may reduce VAT compliance costs for them.						
▪ Customer could be required to submit a recapitulative statement of the purchases of goods for which they are liable to pay the VAT in their Member State.	▪ Increased costs for customers, including internal administration and third party costs to ensure compliance.						
▪ Customer could be required to provide their VAT number to their supplier.	▪ This maintains internal administration and third party costs for customers.						

Benefit or Cost under Option 5							
Scenario	Impact	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)
▪ Non-established supplier may no longer need to register for VAT in other Member States and submit local VAT returns.	▪ This removes the cost for non-established suppliers to register for VAT and complete VAT returns for Member States other than their Member State of establishment.						
▪ The obligation to submit an EC Sales List is removed.	▪ This removes the cost for businesses to submit an EC Sales List.						
▪ Non-established supplier will need to account for VAT through the OSS return.	▪ For businesses that currently only deal with one Member State, completion of the OSS may be an additional burden and cost. Businesses may experience costs in determining what VAT rate to charge for each Member State. There may also be a cash flow issue for suppliers (PLEASE NOTE: the cash flow cost or benefit for a client business may be difficult to quantify from an EY perspective. Where you are aware of the Accounts Payable and Accounts Receivable profile of your client, please provide an estimate of the value of the cost or benefit of this cash flow to the business under this scenario).						
▪ Introduction of the Certified Taxable Person simplification – for suppliers, they need to check if customer is CTP.	▪ There will be the following impacts: ▪ Suppliers may need to check if their customer has CTP status. ▪ Customers may need to register for CTP status. ▪ Creates additional costs for customers in comparison with current VAT rules.						
▪ Potential requirement to include the VAT number of the supplier on the VAT return.	▪ Businesses may incur additional administration costs in meeting this requirement.						
Option 5: Scenario 1							
▪ Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	▪ From a supplier's perspective, the supplier would no longer have to research the VAT rate to apply to their supply.						

Benefit or Cost under Option 5							
Scenario	Impact	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)	Initial % change (in Year 1)	Ongoing % change (yearly change after Year 1)
▪ Standard VAT rate applied to all intra-EU supplies of goods (i.e., reduced rate is removed).	▪ Partly exempt customers may experience negative cash flow implications if the reduced VAT rate is removed altogether. (PLEASE NOTE: the cash flow cost or benefit for a client business may be difficult to quantify from an EY perspective. Where you are aware of the Accounts Payable and Accounts Receivable profile of your client, please provide an estimate of the value of the cost or benefit of this cash flow to the business under this scenario)						
Option 5: Scenario 2							
▪ Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).	▪ This may result in fewer negative VAT audits and therefore reduce arrears, penalties, professional costs, etc.						
▪ Standardisation of reduced VAT rates (a web portal is made available publicising all information on reduced rates).	▪ Suppliers incur costs reviewing web portal to verify applicable VAT rate.						

Key:

Benefits Costs

Annex C Summary table of legislative conditions applicable under Option 1

	Call off stock simplification (Y/N)	Consignment stock simplification (Y/N)	Chain transactions – application of rules/guidance in order to determine which transaction constitutes the intra community supply (Y/N)	Requirement for supplier to hold a specific document which is signed by customer in Member State of arrival to evidence intra community movement (Y/N)	Articles 157 (1) and 160 of the EU VAT Directive – exempt supply of goods under warehousing regime (Y/N)	Article 164 of the EU VAT Directive – Exemption relating to purchases within the framework of Intra-EU trade	Article 194 of the EU VAT Directive – application of the domestic reverse charge	Article 204(1) of the EU VAT Directive – possibility for non-established taxable person to appoint a tax representative
AT	Y	N	Y	N	N	N	Y	N
BE	Y	Y	N	N	Y	Y	Y	Y
BG	N	N	N	N	Y	N	N	N
HR	Y	N	N	N[178]	Y	Y	Y	Y
CY	Y	Y	N	N	Y	Y	Y	Y
CZ	Y	N	N	N	Y	N	Y	N
DK	N[179]	N	N	N	Y	N	N	N
EE	Y	N	N	N	Y	N	Y	Y
FI	N[180]	N	N	N	Y	N	Y	N
FR	Y	Y	N	N	Y	Y	Y	N
DE	N	N	Y	Y	Y	N	Y	N
EL	N	N	N	N	Y	Y	Y	Y
HU	Y	N	Y	N	Y	N	Y	Y
IE	Y	N	N	N	N	N	N	N
IT	Y	N	N	N	Y	Y	Y	Y
LV	Y	N	Y	N	N	Y	Y	Y
LT	Y	N	N	N	N	N	N	N

[178] Croatia: Please note however, where the goods are transported by the customer, or another person on his behalf, the transportation document is required to be signed by the customer.
[179] Denmark: It may be possible to operate a call-off-stock simplification upon approval from the Danish tax authorities.
[180] Finland: There is no call off stock simplification provided for in the Finnish VAT Act however; the simplification is available based on the Finish Tax Authorities guidance.

	Call off stock simplification (Y/N)	Consignment stock simplification (Y/N)	Chain transactions – application of rules/guidance in order to determine which transaction constitutes the intra community supply (Y/N)	Requirement for supplier to hold a specific document which is signed by customer in Member State of arrival to evidence intra community movement (Y/N)	Articles 157 (1) and 160 of the EU VAT Directive – exempt supply of goods under warehousing regime (Y/N)	Article 164 of the EU VAT Directive – Exemption relating to purchases within the framework of Intra-EU trade	Article 194 of the EU VAT Directive – application of the domestic reverse charge	Article 204(1) of the EU VAT Directive – possibility for non-established taxable person to appoint a tax representative
LU	Y	Y	Y	N	Y	N	N	N
MT	Y	N	N	N	N	N	N	Y
NL	Y	Y	Y	N	Y	N	Y	Y
PL	Y	N	Y	N	N	N	Y	N
PT	N	N	N	N	Y	N	Y	N
RO	Y	Y	N	N	Y	N	Y	Y
SK	Y	Y	N	N[181]	N	Y	Y	N
SI	Y	N	Y	N	Y	N	Y	Y
ES	N[182]	N	Y	N	Y	N	Y	N
SE	N	N	Y	N	Y	N	Y	N
GB	Y	N	N	N	Y	Y	Y	Y
Yes	20	7	10	1	21	9	22	13
No	8	21	18	27	7	19	6	15

Source: EY

[181] Slovakia: Please note however, where appropriate the driver of the vehicle used in transporting the goods will be required to provide his details together with a signature.
[182] Spain: There is no call off stock simplification provided for in the Spanish VAT Act; however, there are rulings that have been provided by the Spanish Tax Authorities for the simplification to apply under certain conditions.

Annex D Primary data analysis

Section 1: Summary analysis of Business Survey respondents

The following sections present results based on analysis of all the survey responses from business respondents. It examines findings from questionnaires received from 146 businesses across the EU.

The surveys distributed resulted in varying degrees of responses from businesses in 20 EU countries as detailed in Table 37.

Table 37: Responses to Business survey

MEMBER STATE	Number of responses	SME responses
Austria	10	3
Belgium	4	0
Bulgaria	5	4
Croatia	12	8
Cyprus	1	1
Czech Republic	2	0
Denmark	0	0
Estonia	0	0
Finland	6	4
France	1	0
Germany	26	8
Greece	4	0
Hungary	8	4
Ireland	11	3
Italy	7	4
Latvia	0	0
Lithuania	0	0
Luxembourg	0	0
Malta	0	0
Netherlands	3	1
Poland	11	4
Portugal	0	0
Romania	1	1
Slovakia	3	0
Slovenia	0	0
Spain	2	0
Sweden	5	1
UK	24	5
Total	146	52

Source: EY

Section 2: Analysis of intra-EU and domestic VAT compliance costs under the “As Is” scenario

As part of the analysis of the “As Is” scenario under the existing taxation model in the EU, the difference in VAT compliance costs between trading domestically and engaging in intra-EU trade, based on data provided in the responses to the Business Survey, has been considered.

In order to determine the cost differences between the VAT compliance cost per euro of domestic trade and the corresponding VAT compliance cost per euro of intra-EU trade the following steps were taken.

The domestic and intra-EU B2B related turnover was calculated via the following steps:

- The net sales figure of the respondents and apportioned into B2B and B2C related revenues were calculated using the percentage split indicated in their responses to the survey.
- The B2B net sales figure was then split into domestic and intra-EU using the percentage split indicated in the Business Survey.

The domestic and intra-EU B2B related VAT compliance costs were then calculated via the following steps:

- The total VAT compliance cost reported in the Business Survey is obtained, and then the B2B/B2C turnover split from the first point above was applied. The assumption is that the B2B/B2C profile of overall compliance costs is similar to the B2B/B2C net sales split.
- The B2B compliance cost from this was then split into domestic and intra EU using the percentage split indicated in the Business Survey.

Finally, the cost differences between the VAT compliance cost per Euro of domestic trade and the corresponding VAT compliance cost per Euro of intra-EU trade was estimated by finding the percentage difference between the quotient of step 2 and step 4 for both domestic and intra-EU trade.

Based on this approach and the data collected from the Business Survey, it was estimated that on average, the VAT cost of compliance per Euro of turnover is 11% higher for intra-EU trade compared with the corresponding VAT compliance per Euro of turnover for domestic trade.

In performing this calculation, a number of assumptions were made. These include:

- Cost differences reported by Business Survey respondents which were greater than 400% and less than minus 99% were classified as outliers and excluded from the analysis.
- The percentage split of turnover of B2B/B2C is a reasonable proxy for the B2B/B2C VAT compliance cost split.
- Third party costs were excluded because these costs are usually joint and common costs and are very difficult to apportion between domestic and intra EU activity.
- From the data provided in respect of employee costs:
    - The employee costs reported by the survey respondents were appointed into B2B and B2C using a proxy percentage based on declared net sales figure.
    - The B2B employee cost split between domestic and intra-EU activity were then determined.

Section 3: Detailed analysis of Business Survey responses in relation to the current taxation model

VAT is the common form of consumption tax which is prevalent in the EU. Despite the underlying principles being broadly similar across the Member States, the survey results suggest the compliance burden on businesses vary considerably.

This variation may be due to complexities within businesses themselves, different administrative practices in Member States, unique VAT implementation procedures, as well as differing levels of expertise of businesses' VAT staff.

Contributors in all Member States were asked to, "provide the total number of employee hours spent on VAT administration and intra–EU VAT".

In some Member States, the number of employee hours required for VAT compliance was notably higher, than in others. Over 70% of respondents said the typical number of employee hours spent on VAT compliance was less than 250 hours per month. The responses ranged from nothing at all to 10,000 employee hours.

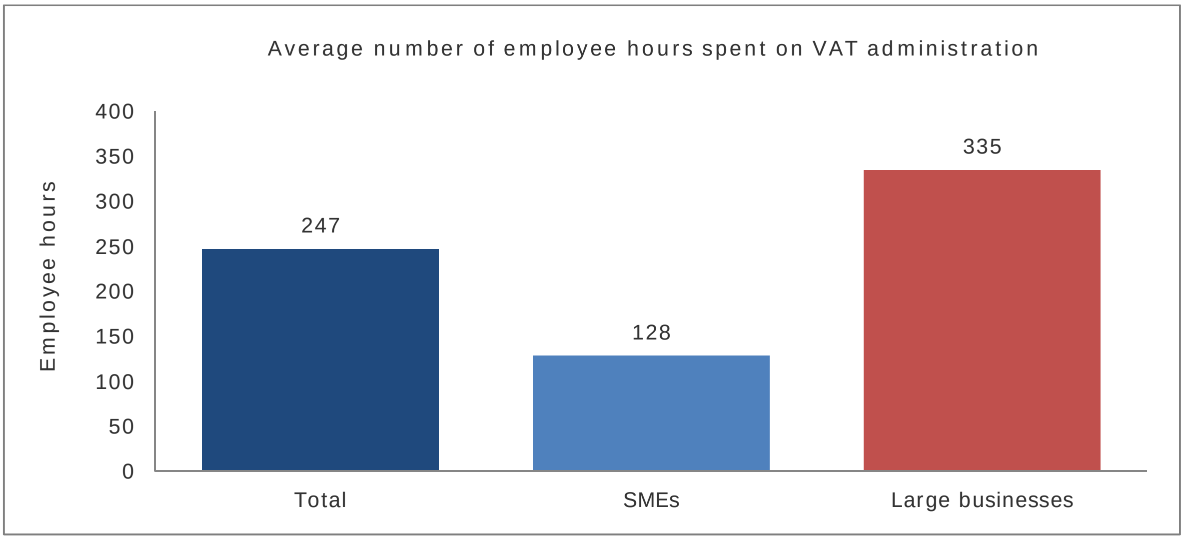
Larger businesses were more likely to spend longer on VAT compliance than SMEs. As a comparison, whilst SMEs on average spent 128 employee hours on VAT compliance, larger businesses spent 350 employee hours, which is a difference of almost 300%. This is shown in Figure 16.

Moreover, the mean total employee hours spent on VAT administration (domestic and intra-EU VAT) were 150 hours and 96 hours respectively; this is perhaps more reflective of the majority of respondents recording more domestic revenues rather than an indication of level of complexity of dealing with VAT compliance between the two trade types.

In aggregate, the mean total employee time spent by businesses to deal with VAT administration was 247 hours, with a median time of 50 hours. When asked the same question, the tax experts stated that on average they spent 12 hours and 113 hours on a typical SME and large business's VAT administration. We do not perceive these values as unusual due to the fact that the consultant's approach to VAT compliance would be more simplified as they would not be extracting the transaction information and individually verifying the validity of VAT invoices.

In summary, the relatively significant dispersion in the reported time taken for VAT administration shows that, whilst the majority of businesses found that compliance took a reasonable amount (below average) of employee time, a minority found the activity time-consuming (above average).

Figure 16: Employee time spent

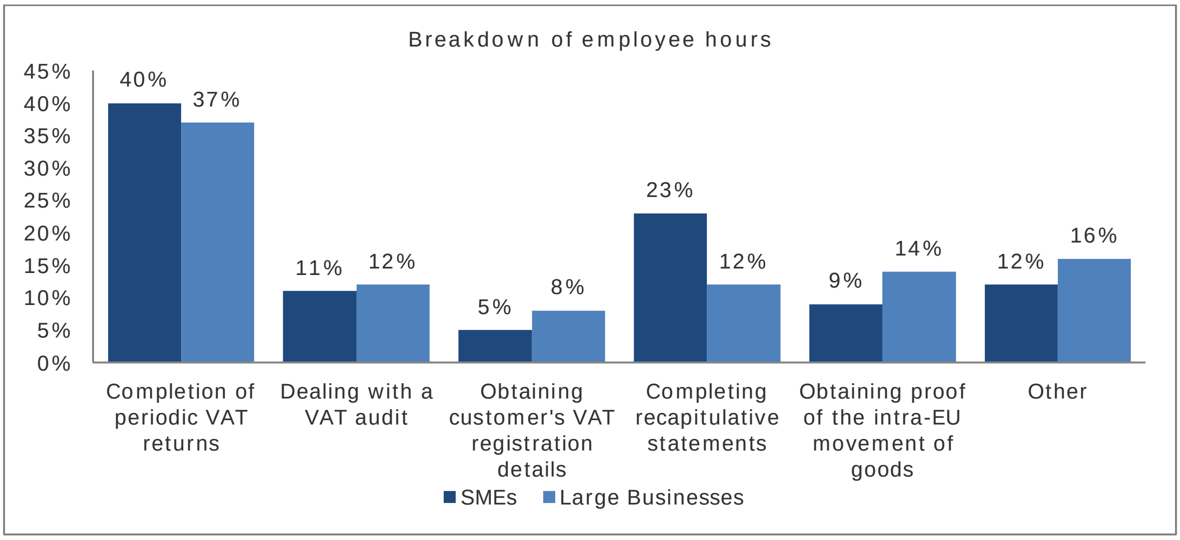


Source: EY.

In order to understand how businesses carry out VAT compliance activities, the tasks that businesses undertake in relation to VAT administration were grouped into six categories:

- Completion of periodic VAT returns;
- Dealing with a VAT audit;
- Obtaining customer's VAT registration details;
- Completing recapitulative statements;
- Obtaining proof of the intra–EU movement of goods; and
- Other.

Figure 17: Percentage of time spent broken down into categories



Source: EY.

All businesses reported that they had undertaken at least one or more of these tasks. According to the survey responses, the overall VAT compliance burden for businesses can, on average, be split into completion of periodic VAT returns (38%), dealing with a VAT audit (11%), obtaining customer's VAT registration details (8%), completing recapitulative statements (17%), obtaining proof of the intra–EU movement of goods (12%) and other (14%). This is broken down into domestic and intra-EU trade and shown in Figure 17.

The analysis shows that SMEs were as likely to have undertaken some of these tasks as large businesses. In comparison, SMEs and larger businesses spent a similar amount of time dealing with VAT audits at 11% and 12% respectively. And unsurprisingly, SMEs were likely to have spent significantly less time on activities related to intra EU movement of goods than larger businesses.

With respect to employee costs, 14% of all the businesses sampled stated that their average cost per hour (compensation) for an employee responsible for dealing with VAT administration was more than 100 EUR per hour. The mean compensation cost was 87 EUR per hour. This includes wage cost and other benefits but excludes training costs. Please see Table 38 for more detail.

Table 38: Average hourly wage costs

Range of average hourly wage costs	Total	SMEs	Larges Businesses
0-50 EUR	98	38	60
51-100 EUR	19	8	11
101-150 EUR	7	5	2
150-200 EUR	6	2	4
200+ EUR	10	5	5

Source: EY.

In addition, SMEs reported an average cost per hour of 81 EUR per hour, whilst large businesses reported 7% less at 75 EUR per hour. This may be because larger businesses were able to utilise centralised compliance centres, in lower wage cost jurisdictions.

Section 4: Analysis of intra-EU VAT compliance costs under the “To-Be” scenario

This section presents the additional cost elements (excluding the impact of cost savings) under each policy option of the Business Survey response data.

The Business Survey responses cover implementation and ongoing costs. The focus is on four categories of costs in relation to the policy options, these are:

- Employee costs
- Training and retraining costs
- System (software) related costs
- Consultancy fees

Against this background, the elements of the cost changes that the five proposed policy options may create through more compliance requirements have been analysed. Such requirements include: an additional documentation to prove transportation of goods, business cost increases related to the establishment of the One-Stop Shop, the additional requirement of obtaining the name of the Member State on arrival of the goods within ten working days, and the associated additional cost related to the charge of VAT in the Member State of contracting party establishment.

This analysis sets out a number of statistical measures to further underline the impact of policy options to businesses. These measures include:

- A frequency distribution of cost estimates to identify the compliance cost change ranges that were most or least prevalent amongst business respondents;
- The mean and median cost differences outlined by the survey respondents with respect to how costs will change under each of the alternative policy options.

References to ‘Year 1’ in the tables below imply initial implementation and first year running costs, while ‘Ongoing’ refers to annual costs after the initial year of the change.

Option 1 – ‘Limited improvement of current rules’.

The cost identified under this option is related to the need to obtain and retain additional documentary evidence. Table 39 presents the number of Business Survey respondents who identified a compliance cost change in relation to this aspect of Option 1. It is particularly useful to express the relative frequency of survey responses and understand how the majority of businesses view the possible estimated change in their compliance costs. The cost ranges estimated by majority of business responses for each cost category (i.e. employee hours, training and retraining costs, etc.) are highlighted in the frequency distribution tables.

With regards to the introduction of additional documents as proof of transport, businesses anticipate that the most significant cost increase will be incurred in year 1 and this is with respect to employee wages.

Table 39: Frequency distribution of Business Survey responses

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
Cost range	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Negative cost effect	2	2	6	2	3	2	5	5
No effect	34	43	38	49	45	50	46	47
Up to 5% increase	14	17	19	23	19	22	16	18
5-25% increase	40	40	34	35	30	34	33	24
25-50% increase	18	13	13	9	16	7	13	21
50%-100% increase	17	17	20	13	16	14	14	4
More than 100%	8	6	2	4	3	3	2	5

Source: 'Business survey', EY.

The cost increase due to the introduction of certain obligatory documents as proof of transport in respect of intra-EU supply of goods is estimated to result in an average increase in compliance time of employees of 33% and 29% for year 1 and subsequent years respectively (sample median is 10%). These results are similar to the estimates of the tax experts on the impact of this additional compliance requirement (and not the net effect) which range from 4% to 14% (see section 6.2.1 for further details).

Table 40: Business survey: Mean / median cost changes

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Average – All	33%	29%	24%	22%	24%	21%	20%	19%
Average – Large	34%	27%	24%	22%	27%	21%	20%	18%
Average – SME	31%	32%	23%	21%	20%	19%	20%	20%
Median – All	10%	10%	10%	5%	5%	5%	5%	5%
Median – Large	10%	10%	5%	5%	5%	5%	5%	5%
Median – SME	18%	5%	5%	1%	5%	2%	3%	0%

Source: Business survey, EY.

In addition, all the business interviewees identified this as a significant cost with one business estimating it would result in an approximate increase in compliance costs of 40%. This together with the data in the tables above supports the response provided by the tax experts and presented in section 6.2.1.

Option 2 – 'Taxation following the flow of goods'

In order to validate the estimates from the tax experts regarding some of the additional cost elements associated with Option 2, we also present an analysis as provided by the Business Survey respondents.

According to the majority of the businesses (highlighted in Table 41), the introduction of the OSS, is estimated to result in an increase in employee related compliance costs of between 5% and 25%. The majority of the respondents also estimate that in year 1, there will be non-labour costs increase associated with training, system update and consultancy fees ranging from 5% to 25%. This increase in labour costs is in line with the estimates provided by the tax experts (section 6.2.2).

Table 41: OSS: Frequency distribution of Business Survey responses

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Negative cost effect	11	26	3	13	1	10	10	18
No effect	24	33	16	42	28	55	18	47
Up to 5% increase	14	10	17	17	15	13	14	11
5-25% increase	36	36	34	28	28	34	35	22
25-50% increase	22	8	16	8	18	3	14	12
50%-100% increase	15	10	30	16	27	9	28	15
More than 100%	12	5	12	0	10	0	8	0

Source: EY.

The introduction of the OSS is estimated, according to the Business Survey, to result in an average increase in compliance time of employees of 41% and 18% for year 1 and subsequent years respectively. Table 42 also shows the frequency distribution of the business responses.

Table 42: OSS Business Survey – Mean/median cost changes

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Average- All	41%	18%	52%	14%	46%	10%	43%	12%
Average- Large	42%	20%	53%	14%	45%	10%	42%	12%
Average- SME	38%	16%	49%	15%	48%	9%	44%	12%
Median – All	20%	5%	20%	4%	20%	0%	15%	0%
Median – Large	15%	0%	12%	0%	10%	0%	10%	0%
Median – SME	12%	0%	10%	0%	10%	0%	8%	0%

Source: EY.

Under Option 2 an intra-EU supplier of goods would be required to obtain the name of the Member State of arrival of the goods from the customer within ten working days. This would increase the compliance burden for some businesses. It is estimated, according to the Business Survey, to result in an average increase in compliance time of 28% and 29% for year 1 and subsequent years respectively. However, Table 43 shows that the majority of businesses do not expect to be affected by this additional requirement and therefore the median estimate might be considered as a more reliable indicator. Large businesses on average anticipate higher cost increases than SMEs for all cost categories considered.

Table 43: Additional reporting requirement: Frequency distribution of Business Survey responses

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Negative cost effect	4	2	3	2	4	3	5	3
No effect	44	49	44	51	50	52	51	45
Up to 5% increase	18	11	13	12	13	14	14	7
25-50% increase	25	28	31	28	25	24	21	12
25-50% increase	13	9	9	7	8	8	13	2
50%-100% increase	11	12	13	10	12	10	9	5
More than 100%	7	7	2	4	3	3	1	1

Source: EY.

Table 44: Additional reporting requirements Mean/median cost changes percentages of current costs

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Average- All	28%	29%	22%	23%	21%	19%	15%	12%
Average- Large	30%	30%	25%	27%	24%	22%	17%	15%
Average- SME	23%	25%	17%	15%	15%	14%	11%	4%
Median – All	5%	5%	5%	3%	5%	3%	2%	0%
Median – Large	4%	0%	1%	0%	0%	0%	0%	0%
Median – SME	4%	0%	0%	0%	0%	0%	0%	0%

Source: EY.

Option 5 – 'Taxation following the contractual flow'

In order to validate the estimates from the tax experts regarding some of the additional cost elements associated with Option 5, we also present an analysis as provided by the Business Survey respondents.

One-Stop Shop return implementation and compliance

According to the Business Survey responses, the majority of the businesses as highlighted in Table 45 estimated that the introduction of the OSS will result in a cost increase in compliance time of employees of between 5% and 25%. The majority of these respondents also estimate that in year 1, there will be non-labour costs associated with training, system update and consultancy fees ranging from 5% to 25%.

Table 45: OSS Business Survey – Frequency distribution of business responses

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Negative cost effect	11	26	3	13	1	10	10	18
No effect	24	33	16	42	28	55	18	47
Up to 5% increase	14	10	17	17	15	13	14	11
5-25% increase	36	36	34	28	28	34	35	22
25-50% increase	22	8	16	8	18	3	14	12
50%-100% increase	15	10	30	16	27	9	28	15
More than 100%	12	5	12	0	10	0	8	0

Source: EY.

Table 46: OSS Business Survey – Mean / median cost changes

Cost Category	Employee hours		Training and Retraining		System (Software)		Consultancy fees	
	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing	Year 1	Ongoing
Average – All	41%	18%	52%	14%	46%	10%	43%	12%
Average – Large	42%	20%	53%	14%	45%	10%	42%	12%
Average – SME	38%	16%	49%	15%	48%	9%	44%	12%
Median – All	20%	5%	20%	4%	20%	0%	15%	0%
Median – Large	15%	0%	12%	0%	10%	0%	10%	0%
Median – SME	12%	0%	10%	0%	10%	0%	8%	0%

Source: EY.

The introduction of the OSS is estimated, according to the survey, to result in an average increase in compliance time of employees of 41% and 18% for year 1 and subsequent years respectively.

Deemed supply of goods

Under this option, the concept of a “deemed supply of goods” is to be introduced where the contracting party is established in more than one place and the cost of the goods are reallocated to an establishment that was not the contracting party. Therefore the customer would charge VAT of the Member State of establishment to whom the costs have been reallocated.

The impact of this was included within the Business Survey. Table 47 shows the frequency distribution of the business responses in relation to this question. The compliance cost range estimate which was identified as plausible by most respondents is 5-25% for employee costs and training costs. Most respondents expect no change in system and consultancy costs.

Table 47: Deemed supplies: Frequency distribution of Business Survey responses

Cost Category	Employee hours	Training and Retraining	System (Software)	Consultancy fees
Negative cost effect	7	3	2	1
No effect	23	17	20	29
Up to 5% increase	9	11	11	9
5-25% increase	27	27	19	25
25-50% increase	17	11	16	17

Cost Category	Employee hours	Training and Retraining	System (Software)	Consultancy fees
50%-100% increase	15	22	19	12
More than 100%	4	3	6	7

Source: EY.

Table 48: Deemed supplies: Business Survey – Mean / median cost changes

Cost Category	Employee hours	Training and Retraining	System (Software)	Consultancy fees
Average – All	32%	36%	42%	40%
Average – Large	33%	33%	44%	45%
Average – SME	29%	41%	37%	31%
Median – All	10%	10%	20%	15%
Median – Large	10%	10%	10%	8%
Median – SME	9%	10%	10%	10%

Source: EY

The mean and median analysis indicate that on average, cost increases related to consultancy expenses are expected to be the most significant.

In comparison, the average increase in compliance time of employees for large businesses is 33% while SMEs reported a smaller annual increase in comparison at an average of 29%.

Section 5: Additional comments from business interviews

Some further comments from the Business Survey interviews are provided below.

Option 1: 'Limited improvement of current rules'

Reduction of costs due to harmonisation of consignment stock, call-off stock simplification and chain transactions

The majority of the interviewed businesses agreed that this should result in a lower cost of compliance due to the possible reduction in the number of VAT registrations held in other EU countries and the associated compliance and formalities that would have previously accompanied these VAT registrations.

However, two businesses did comment that, in relation to chain transactions, whilst it is beneficial to have clarification, the decision as to which supply is the intra-community supply should remain a decision of the business. If a situation were to arise which led to restrictions in determining which supply was the intra-community supply, this would remove the flexibility of the businesses to decide which supply is the one that should benefit from the exemption. This was seen as a possible disadvantage.

Where a business' supply chain did not include that of consignment stock, call off stock and chain transactions, this harmonisation was seen as having a neutral effect on their costs.

Domestic reverse charge

Several businesses identified that this would have significant practical issues. For example, whilst the mandatory requirement of the domestic reverse charge would reduce (in some circumstances) the requirement to have a VAT registration in that Member State, businesses identified that this could result in an issue with respect to the recovery of input tax.

For example, should a business continue to have a VAT registration in that Member State, and incurred local input tax but did not have any output tax to account for, the repayment of this input tax in certain Member States will be problematic. One business stated that they had a significant amount of VAT that has not been repaid in Italy due to this very issue. This represents a significant cash flow issue for the business and in some cases an absolute cost.

Furthermore, where the business does not retain a VAT registration but instead recovers the VAT through the Electronic Cross-border Refund Scheme (formerly referred to as the "8th Directive"), the requirement in certain Member States (for example, Spain) to manually enter each invoice creates a significant cost. Due to the number of purchase invoices, one business estimated that completing a quarterly refund claim in this manner takes approximately 180 days per claim to carry out.

Proof of transport

A possibility under this option would be to implement the requirement for suppliers to prove the transport of the goods cross-border by holding a form drawn up by the Member State of departure and signed by the customer in the Member State of delivery. As mentioned above all businesses respondents as well as VAT Experts unanimously identified that this would result in a significant reduction to the cost benefits that would arise as a result of the full implementation of this option. The reasons for this were as a result of a number of factors. For example, the extra processes that would be required to be put in place, the requirement to reconcile the documents to the Intrastat, and putting in place the appropriate governance to ensure the requirement was met. Furthermore, businesses identified that there would be significant internal debate of which team would be required to monitor and uphold this requirement, i.e., whether this obligation would fall within the tax team's role or the logistics team's role.

One business was able to quantify this impact, stating that this requirement alone could lead to an increase of 40% in compliance costs. Another business explained that this process would have to be outsourced and would result in one extra day a month in costs. One business did however identify that if a consistent approach was applied across the Member States, and that this requirement replaced the need to obtain and retain all the other transport documents, then this would be neutral in terms of costs. However, this requires that the document would be introduced in the same manner across all Member States (and not 28 different versions).

Lead time

Businesses identified that there is significant lead time required to implement changes presented by Option 1 within a business and its operation. One business indicated that the lead time is usually no less than 12 months and, in the majority of businesses interviewed, it would be years.

Option 2 – 'Taxation following the flow of goods'

Impact on accounting systems

The majority of the businesses interviewed agreed that this option would result in a notable increase in third party costs due to the requirement to significantly update the accounting systems used.

Furthermore, a number of businesses questioned whether accounting packages would be able to implement the number of different tax codes that would be required under this option. It was recommended that prior to this option being implemented that discussions should be undertaken with the main suppliers of accounting software such as SAP and Oracle in order to ascertain whether such a customisation would be possible.

Commercial implications

There was a significant concern for businesses that this option would result in a significant increase in time spent updating contracts with customers and suppliers. For example, payment terms would need to be renegotiated.

Cash flow

Businesses commented that the need to account for VAT via the One-Stop Shop return would result in a significant cash flow issue. One business identified that this would cause an increase in compliance costs of 40%. We will consider the cash flow implications for businesses and Member States alike when we prepare the final report.

Outstanding issues

Businesses commented that whilst this option may result in greater administrative ease due to the reduction in the requirement for VAT registrations and the associated compliance, the real issues that increase the compliance costs for businesses that trade cross-border would remain in place. For example, this option does not currently appear to negate the fact that businesses will undertake transactions that will fall within the scope of the tax regimes of multiple Member States and therefore increase their exposure to having to deal with a number of different Tax Authorities. For instance, each Member State will have its own local legislation, but there will also be the published guidance of the Tax Authority and the case law of that Member State to consider. Therefore, businesses would still be required to have an understanding of how these three areas interact and the impact for its business and supply chains.

Due to these factors, businesses considered that they would remain heavily reliant on external advisers for assistance and such costs would remain in place.

Certified Taxable Persons (CTP)

A number of businesses commented that they considered that the introduction of CTPs would be a benefit which could be maximised further and a review should be taken as to whether this concept should be implemented. For example, where goods are sold to someone with CTP status, there could be a lower level of evidence required in order to demonstrate the movement of the goods. This would be beneficial to businesses.

Furthermore, businesses considered that it would be beneficial for Member States on the basis that it could provide a new approach to how Tax Authorities deal with fraud.

However, there was a concern that the concept of a CTP would be interpreted and implemented differently across all 28 Member States

Option 4 – 'Alignment with the place of supply of services'

Harmonisation of place of supply rules for supplies of goods and services

The majority of the businesses interviewed considered that this option would significantly simplify matters with an associated reduction in costs on an ongoing basis. These businesses commented that this option would remove the requirement to evaluate an invoice to determine if it related to goods or services in order to apply the correct VAT treatment; businesses explained that this would reduce costs.

However, for VAT reporting purposes, it was noted that in certain Member States there is a requirement to identify and differentiate between the supplies/purchases of goods and services. Therefore, in these Member States the requirement to review the invoices and differentiate between it being in relation to a supply/purchase of goods or a supply/purchase of services would remain. This would effectively remove a significant benefit to this option.

Option 5 – 'Taxation following the contractual flow'

Determining place of supply

A number of businesses commented that the change in the place of supply would need to be considered and would likely cause issues due to the difficulty of determining who is the customer (and therefore determining where the place of supply is). This was particularly the case with reference to the deemed supply of goods as this was identified as being very complicated.

On the other hand, other businesses considered that it would be simpler to determine the correct place of supply by looking at where the customer was established.

From a survey of the tax experts, we are aware that the majority of Member States require businesses to separately report supplies of Intra-community goods and services in line with Article 251 of the VAT Directive.

Impact on accounting systems

As per Option 2, the majority of the interviewed businesses agreed that this option would result in a significant increase in costs due to the requirement to significantly update the accounting systems used.

Commercial implications

Once again as per Option 2, there was a significant concern for businesses that this option would result in a significant increase in time spent updating contracts with customers and suppliers.

Cash flow

As outlined under Option 2, businesses commented that the need to account for VAT via the One-Stop Shop return would result in a significant cash flow issue.

Outstanding issues

Businesses commented that this option did not address the other issues that increase the compliance costs for businesses that trade cross-border (e.g.: this option does not remove the obligation to fall within another Member States tax regime and therefore the exposure of dealing with different Tax Authorities).

Certified Taxable Persons (CTP)

As per Option 2, businesses considered that the introduction of CTP's would be a benefit and a review should be taken as to whether this concept should be implemented.

Annex E Description of our methodology in relation to the economic analysis

This annex details the methodology which was used to address task 4 under the economic analysis requirements outlined in the Terms of Reference ("ToR") of the project on implementation of the 'destination principle' to intra-EU B2B supplies of goods.

During the primary analysis stage, two main impacts of the proposed policy options were identified:

- A reduction in intra-EU VAT compliance costs for businesses, and
- A reduction in the VAT fraud gap within the EU.

Based on this, there are two particular economic series that are sensitive to the proposed policy options under certain assumptions:

- The first assumption adopted is that the export price deflator will decrease in line with the savings made in the businesses' intra-EU B2B VAT compliance. The underlying assumption is that any savings made by businesses on intra-EU VAT compliance would be passed on to exports as price reductions.
- It is also assumed that the consumption price deflator (inflation) will vary in response to changes in the VAT gap. The implication of this is that the VAT rate would be cut in line with any reduction in the VAT fraud gap, achieving fiscal neutrality and therefore resulting in a decrease of overall price levels.

Using the above assumptions, the impact of the policy options on a set of macroeconomic indicators was evaluated. These indicators are employment growth, real GDP growth, real export growth and real consumption growth.

Section 1: Econometric Method

Based on a literature review and after considering the specific objectives of this study, two econometric modelling approaches were identified.

- Structural/General equilibrium models: These models fully specify the structure of the economy, and hence reduce the need for lengthy time series data. General equilibrium models are adequate for evaluating structural changes to the economy, as they make use of more detailed data and relate different economic sectors.

  However, within the context of this study, these models do not allow the gains arising from the policy options to be linked onto a single activity within the economy. This is because, within the general equilibrium framework, the government and firms in the economy dynamically decide on how to allocate these savings across different activities.

- Reduced form/Vector Autoregression (VAR) models: Reduced form models do not attempt to specify a detailed structure for the economy, which makes them less prone to the risk of imprecise structural assumptions regarding the economy.

  VAR models aim to capture the dependencies between current and past levels of macroeconomic indicators using simple linear forms. This class of models do not allow structural interpretation of results. However, using appropriate additional assumptions, they can be used to assess the response of the macroeconomic indicators to a shock that affects one or more of them.

Among various assumptions considered regarding how the gains from the policy changes might be allocated, the assumptions of export price reduction and VAT rate cut could not be modelled using the general equilibrium approach. This is because the model does not permit such specific allocation of policy gains.

The VAR model, however, being free of any structural restrictions, allows the savings from the VAT compliance costs to be passed solely onto intra-EU export activities and the proceeds from the fraud reduction to be used to fund a VAT rate reduction. For these reasons, the VAR approach was adopted.

In particular, the VAR (4) method was considered. It was assumed that the current levels of the macroeconomic indicators could be modelled as a linear combination of the levels of these indicators in the previous four quarters. This specification was motivated by the quarterly frequency of the data. This was also statistically validated by comparing AIC (Akaike Information Criterion)[183] of the models with different lags. More sophisticated approaches, such as Vector Error Correction Model (VECM) which extends the notion of VAR to possibly co-integrated variables were not considered in this study. This is to maintain the parsimony as none of the growth rates considered in the study exhibits non-stationarity.

The econometric modelling approach consisted of three stages:

- Firstly, the joint trend in export prices and consumer inflation was identified using a VAR (4) model on historical data. Based on the identified trend, the baseline forecasts of export prices and consumer inflation for a period of 3 years was constructed. Specifically, the equation as shown below is estimated:

$$p_t = a + \sum_{i=1}^{4} A_i p_{t-i} + \nu_t$$

  where

  - p_t is the 2 x 1 vector that consists of GDP deflator (inflation) and the export price inflation at time t,
  - a is the 2 x 1 vector of intercepts,
  - A_i is the 2 x 2 matrix of autoregression coefficients for $i = 1, 2, 3, 4$ and
  - ν_t is the 2 x 1 vector of innovations.

- Secondly, applying VARX (4) specification, the joint trend among the macroeconomic indicators conditional on export price inflation and GDP inflation was identified. The equation estimated in this step is as follows: Specifically, the equation as shown below is estimated:

$$y_t = b + \sum_{i=1}^{4} \Pi_i y_{t-i} + (p_t^T \otimes \mathrm{I}_4)\Theta + \varepsilon_t$$

  where

  - p_t is the 2 x 1 vector that consists of GDP deflator inflation and the export price inflation at time t,
  - y_t is the 4 x 1 vector that consists of per capita real GDP growth rate, per capita real consumption growth rate, per capita real export growth rate and employment growth rate at time t,
  - b is the 4 x 1 vector of intercepts,
  - Π_i is the 4 x 4 matrix of autoregression coefficients for $i = 1, 2, 3, 4$,
  - $(p_t^T \otimes \mathrm{I}_4)$ is the 4 x 2 matrix obtained as the Kronecker product of the transpose of p_t and I_4, which is a 4 x 1 vector of ones,

[183] AIC (Akaike Information Criterion) is an estimate of the statistical information lost when a given model is used to represent the data.

- Θ is the 2 x 1 vector of trend coefficients and
- ε_t 4 x 1 vector of innovations.

- Lastly, for each policy scenario, the joint trend of export prices and the GDP deflator obtained in the first stage was recalculated as explained in section 3 of this annex. Subsequently, an evaluation of how the resulting forecasts of the macroeconomic indicators differ from those applicable in the baseline scenario was undertaken. This was done by evaluating the estimated relationship in the second stage for each policy scenario.

It must be noted that the VAR setup with four lags implies a model with coefficients that have different signs and magnitude. This has an implication for the accuracy of the forecasts. In statistical terms, this is because the degree of freedom[184] of the model is reduced. In this case, over-parametrisation becomes a risk and it is possible for certain coefficients to be statistically insignificant.

However, without a structural foundation, it is difficult to decide which of these potentially insignificant coefficients should have been removed from the model. Therefore, this study did not attempt to structurally identify the variable combination that gives the most accurate forecasts in the model for each policy option. Instead, a sense check was applied to the results to ascertain that the forecasts did not exhibit unrealistic trends.

The VAR (4) model estimates from the stages one and two are given in section 4 as Model I.

Section 2: Macroeconomic Data

In addition to the results from the primary analysis which inform the policy inputs, the analysis relies on the secondary data about the historical levels macroeconomic indicators. The macroeconomic variables on which the impact of the policy options were analysed are per capita real GDP growth, per capita real consumption growth, per capita real exports growth and employment growth. The econometric method, as detailed in section 1, requires quarter-on-quarter growth rate of these variables as input. Also, two intermediary variables through which the policy inputs affect macroeconomic indicators, namely, aggregate inflation (GDP deflator inflation) and the export price inflation were needed.

The quarterly data was collected over the 2000-2013 period from Eurostat. Reliable EU-28 data on employment for periods earlier than 2000 was imprecise as some Member States have not been EU members long enough to provide data or data was not collected at the required frequency. Deseasonalised data on GDP, exports and consumption for period beyond 2013 for a number of Member States, hence EU 28 in aggregate, was not yet available.

[184] The number of values in the final econometric estimation of a statistic that are free to vary.

The complete list of the data used in the economic analysis, along with Eurostat codes and descriptions, is given in Table 49:

Table 49: List of the secondary data used in the economic model

Variable	Eurostat Code	Description
Employment rate[185] [186]	lfsq_ergan	EU-28 employment rate within active population 15 to 64 (percent)
GDP deflator	namq_gdp_p	EU-28 GDP deflator with base year 2005, adjusted for seasonality and working days
Consumption price deflator	namq_fcs_p	EU-28 Consumption deflator with base year 2005, adjusted for seasonality and working days
Export price deflator	namq_exi_p	EU-28 Export (goods and services) deflator with base year 2005, adjusted for seasonality and working days
Consumption (current prices)	namq_fcs_c	EU-28 Nominal Consumption, in billions of EUR - adjusted for seasonality and working days
Exports (current prices)	namq_exi_c	EU-28 Nominal exports of goods and services (P6), in billions of EUR - adjusted for seasonality and working days
Gross Domestic Product (current price)	namq_gdp_c	EU-28 Nominal GDP, in billions of EUR - adjusted for seasonality and working days
Active population[187]	lfsq_agan	EU-28 active population from 15 to 64 (million)

Source: EY

Data transformations were undertaken to obtain the series used in the econometric model.

1. The GDP, consumption and exports data were converted into real basis at 2005 prices by dividing them with GDP deflator, consumption price deflator and export price deflator, respectively.

2. The real figures from (1) were then divided by the active population data to obtain per capita real figures.

3. Finally, quarter-on-quarter percentage growth rates were calculated for real figures in (2), the employment rate, the GDP deflator and the export price deflator.

The dataset used in this study covers the 2008-2009 period, during which the economic indicators showed significant drops. This is reflected in Figure 18. This chart shows the historical levels of GDP deflator inflation, per capita real GDP growth and the per capita real consumption growth.

In particular, the interval between 2008 Q3 and 2009 Q2 constitutes the period during which the growth rates deviated most significantly from their long term averages (0.4%, 0.1% and 0.1% for GDP deflator inflation, real GDP growth rate and the real consumption rate respectively).

To prevent bias in the estimates due to outliers, it was assumed that during this period pre-2008 Q3 trend continued to hold. Thus, the growth rates for the 4 quarters from 2008 Q3 to 2009 Q2 were obtained by extrapolating the data from pre-2008 Q3 period, using the same VAR methodology described in Section 1. The VAR model specifics used in this extrapolation is given in Section 4 as Model II.

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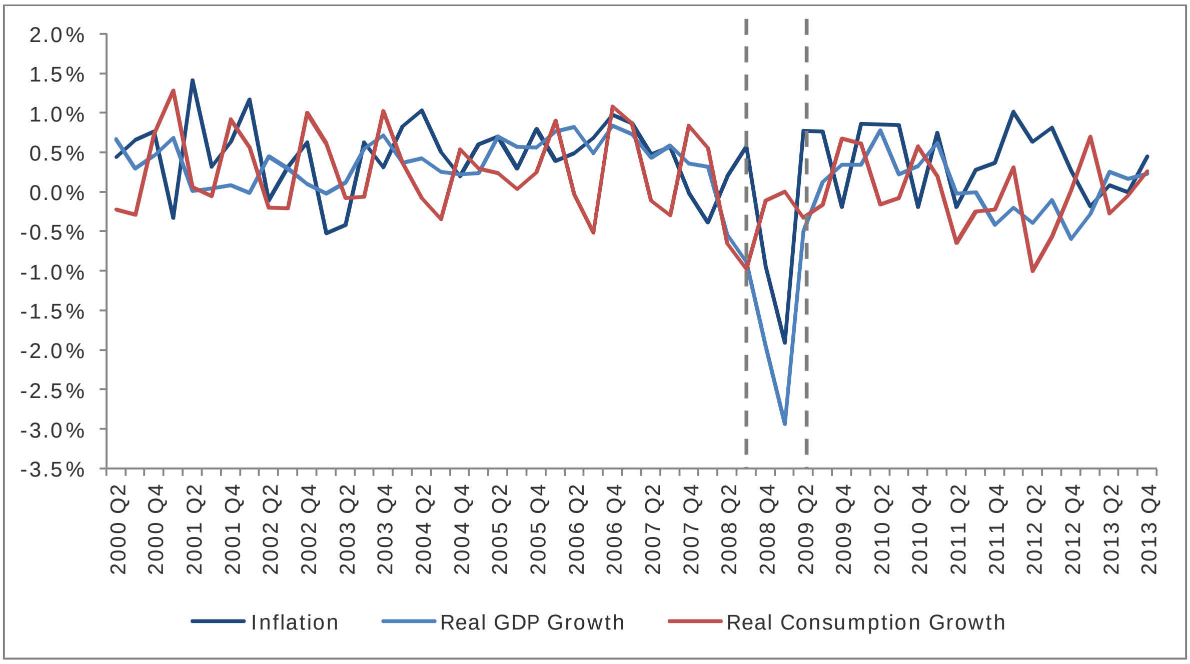
[185] For 2000 and 2001, EU-27 data is used.

[186] Pre-2007 data is available at either annual or semi-annual frequency. Missing quarterly observations are obtained using cubic spline interpolation, following Eurostat methodology.

[187] 1. EU-28 data is unavailable for 2000 and 2001. 2002-2007 data is available either annual or semi-annual frequency. Instead, the total active EU-28 population is obtained by summing the active population from each Member State. For each Member State, missing quarterly observations are obtained using cubic spline interpolation.
2. For Croatia, 2000 and 2001 data was not available. The data is instead obtained from Croatia Labor Force Survey, at http://www.dzs.hr/Eng/Publication/subjects.htm.

Figure 18: Historical Data on Inflation, GDP Growth and Consumption Growth



Source: Eurostat and EY

Section 3: Modelling strategy

1. Compliance/Regulation costs reduction

Under the proposed policy options, businesses will have to comply with different intra-EU VAT rules which are estimated to result in a reduction of VAT labour costs in the EU.

The hypothesis is that the resulting monetary value of the productivity gains that accrue as a result of adopting the proposed policy alternatives will be employed to reduce intra EU B2B export prices with a view to increase export trade competitiveness. It is assumed that the discount over intra-EU B2B export prices driven by a compliance cost reduction comes into effect gradually. The pass- through occurs initially at a rate of 25% in the first quarter (which was assumed to occur at the end of 2013 Q4, the last period in the historical data sample) to 100% in the 4th quarter and beyond.

The modified data facilitated an analysis of the impact of the resulting competitiveness gain on macroeconomic indicators. The export price index is a composite of intra- and extra-EU exports In order to evaluate the effect of the VAT policy changes proposed, only the intra-EU proportion of the index was adjusted This was done using the share of intra-EU VAT compliance costs within aggregate export prices as the scaling factor. Then, using Member States' 2013 real GDP as weights, a weighted average of the index was calculated to represent to competitiveness gain for the EU 28.

To determine the percentage change in ongoing costs of businesses and Member States in response to the policy changes, a combination of the responses from the business survey and Eurostat data was used to calculate the change in the export price deflator.

Step 1: The proportion of net sales of the surveyed businesses that were related to B2B intra-EU trade for each Member State was calculated.

Step 2: The VAT labour and non-labour costs that related to intra-EU B2B compliance within the business sample were calculated. Average hours spent on VAT activities per year, average hourly wage rate, the business split of B2B and B2C activities, the business split of domestic and intra-EU activities and third party costs were used. Third party costs were assumed to be attributed to wage costs elsewhere in the economy.

Step 3: The proportion of intra-EU B2B VAT compliance costs to intra-EU B2B net sales of the businesses

$$A = \frac{Hours\ spent\ on\ B2B\ intra\ EU\ VAT\ compliance\ activities * Wage\ rate + 3rd\ party\ costs}{Net\ sales * Percentage\ of\ intra\ EU\ B2B\ sales}$$

was calculated for each respondent business. The number of respondents was not sufficient to calculate this number individually for each Member State. Therefore, the responses were collated across the EU 28. Within the sample of EU-wide aggregate responses that was received, the intra-EU VAT compliance cost for businesses is calculated to be 0.62%.

Step 4: The percentage reductions in compliance costs were obtained from the tax experts' survey for each business type (SME Type 1, SME Type 2 and Large Business), for each policy option and each Member State. The aggregate costs reduction percentage implied by each policy option for each Member State was then calculated as the weighted average of the percentage costs reductions of each business type, using the Gross Value Added of the business types as weights.

Step 5: The percentage cost reduction obtained in step 4 were translated into percentage export price changes for each Member State and policy option by multiplying them with the factor obtained in step 3.

Step 6: The percentage export price change from step 5 was averaged across Member States using the real GDP from 2013 of each Member State as weights. This is done for each policy option.

Step 7: Finally, for each policy option the export price changes were downscaled to reflect the share of intra-EU exports within total exports of the Member States.

2. VAT Fraud Gap

The other model component that is likely to be impacted under two of the proposed policy options is the VAT fraud gap. The impact of these options on the magnitude of VAT fraud in the EU was analysed.

The hypothesis is that the government is revenue neutral. Thus, the increase in the VAT collection arising from reducing the VAT gap is compensated by a proportional reduction of the VAT levied on consumers. The reduction in the VAT rate is the consumer prices, leading to an overall decrease in the consumer price deflator (inflation).

The approach that was adopted can be summarised in the following steps:

1. The change in the magnitude of VAT fraud in intra-EU B2B transactions is calculated for each policy option. It is assumed that the size of intra-EU B2B transactions is equivalent to the level of intra-EU exports.

$$\% \, decrease \, in \, VAT \, gap = \% \, Share \, of \, VAT \, gap \, within \, VTTL \, (VAT \, Total \, Liability) \times \% \, Share \, of \, MTIC \, fraud \, gap \, within \, VAT \, gap \times \% \, Decrease \, in \, Fraud$$ [188]

2. The approach was based on the VAT baseline gap estimates from the EC study “2012 Update Report to the Study to quantify and analyse the VAT Gap in the EU-27 Member States” and the standard VAT rates from each Member State as at the end of 2013. The revenue neutrality assumption implies that:

$$(1 - \% \, VAT \, baseline \, gap) * Pre - policy \, Standard \, VAT \, rate$$
$$= (1 - \% \, VAT \, post - policy \, gap) * Post - policy \, standard \, VAT \, rate$$

3. A weighted average post-policy VAT rate is calculated by applying 2013 real GDP for each Member State as weights.

4. Lastly, the consumer price deflator (inflation) trend identified was modified from the VAR (4) analysis at the rate of change implied by the new tax rate.

$$New \, deflator = Old \, deflator * \frac{Post - policy \, Standard \, VAT \, rate}{Pre - policy \, Standard \, VAT \, rate}$$

It is assumed that this impact is felt gradually, that is at a rate of 25% in the first quarter following implementation to 100% in the 4th quarter and beyond.

Section 4: VAR Model Outputs

Below the VAR model estimation output are presented. For each model, log-likelihood[189], AIC (Akaike Information Criterion), the estimated coefficients, standard errors and associated t-statistics[190] are reported.

Model I:

Model	Log Likelihood	AIC (Akaike Information Criterion)
2-D VAR(4) with Additive Constant Conditional mean is AR-stable and is MA-invertible Standard errors without Degrees of Freedom adjustment (maximum likelihood)	445.7287	-855.46

Coefficient	Estimate	Standard Error	t-statistics
Constant (in equation for aggregate inflation)	0.005	0.001	4.515
Constant (in equation for export price inflation)	0.004	0.002	2.072
1 quarter Lagged aggregate inflation (in equation for aggregate inflation)	0.196	0.175	1.120
1 quarter Lagged export price inflation (in equation for aggregate inflation)	-0.169	0.118	-1.426

[188] Decrease in fraud will be estimated in the primary analysis section of the final report.
[189] Log-likelihood measures the level of the statistical "agreement" of the selected model with the observed data.
[190] t-statistic measures the statistical divergence between the hypothesis that the coefficient is zero and the alternative hypothesis that it is different than zero.

Coefficient	Estimate	Standard Error	t-statistics
1 quarter Lagged aggregate inflation (in equation for export price inflation)	-0.187	0.273	-0.684
1 quarter Lagged export price inflation (in equation for export price inflation)	0.312	0.185	1.686
2 quarters Lagged aggregate inflation (in equation for aggregate inflation)	0.032	0.183	0.174
2 quarters Lagged export price inflation (in equation for aggregate inflation)	0.030	0.133	0.226
2 quarters Lagged aggregate inflation (in equation for export price inflation)	-0.404	0.286	-1.414
2 quarters Lagged export price inflation (in equation for export price inflation)	0.352	0.208	1.691
3 quarters Lagged aggregate inflation (in equation for aggregate inflation)	-0.033	0.186	-0.175
3 quarters Lagged export price inflation (in equation for aggregate inflation)	0.039	0.133	0.293
3 quarters Lagged aggregate inflation (in equation for export price inflation)	0.042	0.291	0.145
3 quarters Lagged export price inflation (in equation for export price inflation)	-0.038	0.208	-0.184
4 quarters Lagged aggregate inflation (in equation for aggregate inflation)	-0.388	0.172	-2.259
4 quarters Lagged export price inflation (in equation for aggregate inflation)	0.118	0.121	0.969
4 quarters Lagged aggregate inflation (in equation for export price inflation)	-0.031	0.268	-0.114
4 quarters Lagged export price inflation (in equation for export price inflation)	0.066	0.190	0.350

Model	Log Likelihood	AIC (Akaike Information Criterion)
4-D VARMAX(4,0,2) with Additive Constant	947.9735	-1,755.9
Conditional mean is AR-stable and is MA-invertible		
Standard errors without Degrees of Freedom adjustment (maximum likelihood)		

Coefficient	Estimate	Standard Error	t-statistics
Constant (equation for GDP growth)	0.002	0.001	2.448
Constant (equation for consumption growth)	0.001	0.001	1.617
Constant (equation for export growth)	0.016	0.003	4.698
Constant (equation for employment growth)	0.002	0.001	2.371

Coefficient	Estimate	Standard Error	t-statistics
Aggregate Inflation	-0.059	0.063	-0.945
Export Price Inflation	-0.119	0.041	-2.882
1 quarter Lagged GDP Growth (in equation for GDP growth)	0.582	0.230	2.527
1 quarter Lagged Consumption Growth (in equation for GDP growth)	-0.041	0.138	-0.299
1 quarter Lagged Export Growth (in equation for GDP growth)	-0.008	0.052	-0.156
1 quarter Lagged Employment Growth (in equation for GDP growth)	-0.002	0.128	-0.018
1 quarter Lagged GDP Growth (in equation for consumption growth)	0.023	0.232	0.097
1 quarter Lagged Consumption Growth (in equation for consumption growth)	0.184	0.139	1.323
1 quarter Lagged Export Growth (in equation for consumption growth)	-0.027	0.052	-0.520
1 quarter Lagged Employment Growth (in equation for consumption growth)	0.285	0.128	2.216
1 quarter Lagged GDP Growth (in equation for exports growth)	1.095	0.916	1.195
1 quarter Lagged Consumption Growth (in equation for exports growth)	-0.764	0.546	-1.401
1 quarter Lagged Export Growth (in equation for exports growth)	-0.034	0.206	-0.164
1 quarter Lagged Employment Growth (in equation for exports growth)	-1.006	0.511	-1.970
1 quarter Lagged GDP Growth (in equation for employment growth)	0.740	0.211	3.508
1 quarter Lagged Consumption Growth (in equation for employment growth)	-0.288	0.127	-2.275
1 quarter Lagged Export Growth (in equation for employment growth)	-0.077	0.048	-1.607
1 quarter Lagged Employment Growth (in equation for employment growth)	-0.255	0.117	-2.186
2 quarters Lagged GDP Growth (in equation for GDP growth)	0.194	0.240	0.807
2 quarters Lagged Consumption Growth (in equation for GDP growth)	-0.043	0.148	-0.289
2 quarters Lagged Export Growth (in equation for GDP growth)	0.002	0.051	0.043
2 quarters Lagged Employment Growth (in equation for GDP growth)	-0.158	0.127	-1.247
2 quarters Lagged GDP Growth (in equation for consumption growth)	0.131	0.242	0.543
2 quarters Lagged Consumption Growth (in equation for consumption growth)	-0.280	0.149	-1.879
2 quarters Lagged Export Growth (in equation for consumption growth)	0.045	0.051	0.877

Coefficient	Estimate	Standard Error	t-statistics
2 quarters Lagged Employment Growth (in equation for consumption growth)	0.001	0.127	0.006
2 quarters Lagged GDP Growth (in equation for exports growth)	2.233	0.963	2.318
2 quarters Lagged Consumption Growth (in equation for exports growth)	-1.510	0.593	-2.548
2 quarters Lagged Export Growth (in equation for exports growth)	-0.088	0.202	-0.437
2 quarters Lagged Employment Growth (in equation for exports growth)	-0.956	0.506	-1.887
2 quarters Lagged GDP Growth (in equation for employment growth)	0.020	0.220	0.093
2 quarters Lagged Consumption Growth (in equation for employment growth)	-0.172	0.135	-1.274
2 quarters Lagged Export Growth (in equation for employment growth)	0.052	0.046	1.129
2 quarters Lagged Employment Growth (in equation for employment growth)	-0.442	0.116	-3.813
3 quarters Lagged GDP Growth (in equation for GDP growth)	0.245	0.236	1.039
3 quarters Lagged Consumption Growth (in equation for GDP growth)	0.081	0.160	0.505
3 quarters Lagged Export Growth (in equation for GDP growth)	-0.034	0.045	-0.757
3 quarters Lagged Employment Growth (in equation for GDP growth)	0.085	0.141	0.606
3 quarters Lagged GDP Growth (in equation for consumption growth)	0.004	0.237	0.018
3 quarters Lagged Consumption Growth (in equation for consumption growth)	0.218	0.161	1.352
3 quarters Lagged Export Growth (in equation for consumption growth)	-0.016	0.045	-0.349
3 quarters Lagged Employment Growth (in equation for consumption growth)	0.380	0.141	2.690
3 quarters Lagged GDP Growth (in equation for exports growth)	0.774	0.945	0.819
3 quarters Lagged Consumption Growth (in equation for exports growth)	-0.003	0.641	-0.005
3 quarters Lagged Export Growth (in equation for exports growth)	-0.236	0.180	-1.307
3 quarters Lagged Employment Growth (in equation for exports growth)	-0.582	0.564	-1.032
3 quarters Lagged GDP Growth (in equation for employment growth)	0.666	0.215	3.094
3 quarters Lagged Consumption Growth (in equation for employment growth)	-0.387	0.147	-2.637
3 quarters Lagged Export Growth (in equation for employment growth)	-0.049	0.041	-1.186
3 quarters Lagged Employment Growth (in equation for employment growth)	-0.327	0.128	-2.544

Coefficient	Estimate	Standard Error	t-statistics
4 quarters Lagged GDP Growth (in equation for GDP growth)	-0.081	0.235	-0.344
4 quarters Lagged Consumption Growth (in equation for GDP growth)	-0.041	0.167	-0.246
4 quarters Lagged Export Growth (in equation for GDP growth)	-0.042	0.042	-0.996
4 quarters Lagged Employment Growth (in equation for GDP growth)	-0.247	0.134	-1.842
4 quarters Lagged GDP Growth (in equation for consumption growth)	-0.638	0.236	-2.700
4 quarters Lagged Consumption Growth (in equation for consumption growth)	0.625	0.168	3.731
4 quarters Lagged Export Growth (in equation for consumption growth)	0.034	0.042	0.818
4 quarters Lagged Employment Growth (in equation for consumption growth)	-0.029	0.135	-0.213
4 quarters Lagged GDP Growth (in equation for exports growth)	-0.123	0.941	-0.131
4 quarters Lagged Consumption Growth (in equation for exports growth)	-0.155	0.665	-0.233
4 quarters Lagged Export Growth (in equation for exports growth)	-0.241	0.167	-1.440
4 quarters Lagged Employment Growth (in equation for exports growth)	-0.952	0.538	-1.769
4 quarters Lagged GDP Growth (in equation for employment growth)	0.214	0.214	0.996
4 quarters Lagged Consumption Growth (in equation for employment growth)	-0.236	0.152	-1.549
4 quarters Lagged Export Growth (in equation for employment growth)	-0.086	0.038	-2.239
4 quarters Lagged Employment Growth (in equation for employment growth)	0.437	0.123	3.569

Model II:

Model	Log Likelihood	AIC (Akaike Information Criterion)
2-D VAR(4) with Additive Constant Conditional mean is AR-stable and is MA-invertible Standard errors without Degrees of Freedom adjustment (maximum likelihood)	272.3549	-508.71

Coefficient	Estimate	Standard Error	t-statistics
Constant (in equation for aggregate inflation)	0.005	0.001	3.709
Constant (in equation for export price inflation)	0.004	0.002	1.825

Coefficient	Estimate	Standard Error	t-statistics
1 quarter Lagged aggregate inflation (in equation for aggregate inflation)	0.446	0.194	2.294
1 quarter Lagged export price inflation (in equation for aggregate inflation)	-0.344	0.135	-2.547
1 quarter Lagged aggregate inflation (in equation for export price inflation)	0.150	0.331	0.452
1 quarter Lagged export price inflation (in equation for export price inflation)	0.163	0.230	0.710
2 quarters Lagged aggregate inflation (in equation for aggregate inflation)	-0.106	0.204	-0.520
2 quarters Lagged export price inflation (in equation for aggregate inflation)	0.154	0.153	1.007
2 quarters Lagged aggregate inflation (in equation for export price inflation)	-0.734	0.347	-2.117
2 quarters Lagged export price inflation (in equation for export price inflation)	0.601	0.260	2.307
3 quarters Lagged aggregate inflation (in equation for aggregate inflation)	0.185	0.220	0.841
3 quarters Lagged export price inflation (in equation for aggregate inflation)	0.036	0.158	0.229
3 quarters Lagged aggregate inflation (in equation for export price inflation)	0.138	0.374	0.369
3 quarters Lagged export price inflation (in equation for export price inflation)	-0.190	0.269	-0.704
4 quarters Lagged aggregate inflation (in equation for aggregate inflation)	-0.652	0.193	-3.383
4 quarters Lagged export price inflation (in equation for aggregate inflation)	0.217	0.147	1.475
4 quarters Lagged aggregate inflation (in equation for export price inflation)	-0.171	0.328	-0.521
4 quarters Lagged export price inflation (in equation for export price inflation)	0.011	0.250	0.043

Model	Log Likelihood	AIC (Akaike Information Criterion)
4-D VARMAX(4,0,2) with Additive Constant	595.4919	-1,051.00
Conditional mean is AR-stable and is MA-invertible		
Standard errors without Degrees of Freedom adjustment (maximum likelihood)		

Coefficient	Estimate	Standard Error	t-statistics
Constant (equation for GDP growth)	0.004	0.001	3.104
Constant (equation for consumption growth)	0.004	0.001	2.848

Coefficient	Estimate	Standard Error	t-statistics
Constant (equation for export growth)	0.022	0.005	4.222
Constant (equation for employment growth)	0.004	0.001	3.923
Aggregate Inflation	-0.042	0.067	-0.628
Export Price Inflation	-0.170	0.045	-3.751
1 quarter Lagged GDP Growth (in equation for GDP growth)	0.682	0.345	1.977
1 quarter Lagged Consumption Growth (in equation for GDP growth)	-0.230	0.156	-1.479
1 quarter Lagged Export Growth (in equation for GDP growth)	-0.028	0.059	-0.470
1 quarter Lagged Employment Growth (in equation for GDP growth)	0.104	0.229	0.455
1 quarter Lagged GDP Growth (in equation for consumption growth)	0.088	0.351	0.250
1 quarter Lagged Consumption Growth (in equation for consumption growth)	0.109	0.158	0.686
1 quarter Lagged Export Growth (in equation for consumption growth)	-0.123	0.060	-2.057
1 quarter Lagged Employment Growth (in equation for consumption growth)	-0.105	0.233	-0.450
1 quarter Lagged GDP Growth (in equation for exports growth)	1.233	1.434	0.860
1 quarter Lagged Consumption Growth (in equation for exports growth)	-1.284	0.633	-2.028
1 quarter Lagged Export Growth (in equation for exports growth)	-0.298	0.245	-1.217
1 quarter Lagged Employment Growth (in equation for exports growth)	-0.488	0.960	-0.509
1 quarter Lagged GDP Growth (in equation for employment growth)	0.482	0.260	1.854
1 quarter Lagged Consumption Growth (in equation for employment growth)	-0.585	0.119	-4.901
1 quarter Lagged Export Growth (in equation for employment growth)	-0.022	0.044	-0.506
1 quarter Lagged Employment Growth (in equation for employment growth)	-0.175	0.171	-1.022
2 quarters Lagged GDP Growth (in equation for GDP growth)	0.492	0.304	1.619
2 quarters Lagged Consumption Growth (in equation for GDP growth)	-0.265	0.184	-1.445
2 quarters Lagged Export Growth (in equation for GDP growth)	-0.072	0.054	-1.327
2 quarters Lagged Employment Growth (in equation for GDP growth)	-0.017	0.205	-0.082
2 quarters Lagged GDP Growth (in equation for consumption growth)	0.314	0.309	1.014
2 quarters Lagged Consumption Growth (in	-0.711	0.187	-3.809

Coefficient	Estimate	Standard Error	t-statistics
equation for consumption growth)			
2 quarters Lagged Export Growth (in equation for consumption growth)	0.045	0.055	0.812
2 quarters Lagged Employment Growth (in equation for consumption growth)	0.395	0.209	1.891
2 quarters Lagged GDP Growth (in equation for exports growth)	3.368	1.274	2.645
2 quarters Lagged Consumption Growth (in equation for exports growth)	-2.473	0.756	-3.270
2 quarters Lagged Export Growth (in equation for exports growth)	-0.365	0.229	-1.595
2 quarters Lagged Employment Growth (in equation for exports growth)	0.427	0.861	0.495
2 quarters Lagged GDP Growth (in equation for employment growth)	0.378	0.228	1.660
2 quarters Lagged Consumption Growth (in equation for employment growth)	-0.367	0.139	-2.631
2 quarters Lagged Export Growth (in equation for employment growth)	0.014	0.040	0.343
2 quarters Lagged Employment Growth (in equation for employment growth)	-0.769	0.153	-5.017
3 quarters Lagged GDP Growth (in equation for GDP growth)	0.154	0.309	0.499
3 quarters Lagged Consumption Growth (in equation for GDP growth)	-0.131	0.186	-0.706
3 quarters Lagged Export Growth (in equation for GDP growth)	-0.073	0.048	-1.498
3 quarters Lagged Employment Growth (in equation for GDP growth)	-0.068	0.231	-0.294
3 quarters Lagged GDP Growth (in equation for consumption growth)	0.374	0.314	1.191
3 quarters Lagged Consumption Growth (in equation for consumption growth)	0.049	0.189	0.258
3 quarters Lagged Export Growth (in equation for consumption growth)	-0.021	0.049	-0.429
3 quarters Lagged Employment Growth (in equation for consumption growth)	-0.096	0.235	-0.407
3 quarters Lagged GDP Growth (in equation for exports growth)	0.798	1.293	0.617
3 quarters Lagged Consumption Growth (in equation for exports growth)	-0.638	0.769	-0.830
3 quarters Lagged Export Growth (in equation for exports growth)	-0.521	0.204	-2.546
3 quarters Lagged Employment Growth (in equation for exports growth)	-0.448	0.963	-0.465
3 quarters Lagged GDP Growth (in equation for employment growth)	0.294	0.231	1.270
3 quarters Lagged Consumption Growth (in equation for employment growth)	-0.575	0.141	-4.078
3 quarters Lagged Export Growth (in equation for employment growth)	-0.073	0.036	-2.029

Coefficient	Estimate	Standard Error	t-statistics
3 quarters Lagged Employment Growth (in equation for employment growth)	-0.401	0.174	-2.303
4 quarters Lagged GDP Growth (in equation for GDP growth)	0.193	0.289	0.670
4 quarters Lagged Consumption Growth (in equation for GDP growth)	-0.356	0.196	-1.819
4 quarters Lagged Export Growth (in equation for GDP growth)	-0.037	0.051	-0.720
4 quarters Lagged Employment Growth (in equation for GDP growth)	-0.267	0.216	-1.235
4 quarters Lagged GDP Growth (in equation for consumption growth)	-0.513	0.294	-1.747
4 quarters Lagged Consumption Growth (in equation for consumption growth)	0.301	0.199	1.512
4 quarters Lagged Export Growth (in equation for consumption growth)	-0.030	0.052	-0.575
4 quarters Lagged Employment Growth (in equation for consumption growth)	0.286	0.220	1.302
4 quarters Lagged GDP Growth (in equation for exports growth)	0.769	1.197	0.643
4 quarters Lagged Consumption Growth (in equation for exports growth)	-1.197	0.819	-1.461
4 quarters Lagged Export Growth (in equation for exports growth)	-0.460	0.214	-2.144
4 quarters Lagged Employment Growth (in equation for exports growth)	-0.059	0.908	-0.065
4 quarters Lagged GDP Growth (in equation for employment growth)	0.774	0.218	3.548
4 quarters Lagged Consumption Growth (in equation for employment growth)	-0.401	0.147	-2.729
4 quarters Lagged Export Growth (in equation for employment growth)	-0.036	0.039	-0.928
4 quarters Lagged Employment Growth (in equation for employment growth)	0.270	0.162	1.672

Annex F Acknowledgements

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