European Union

European Commission presents Action Plan on VAT

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On 7 April 2016, the European Commission adopted a Communication (COM(2016) 148 final) presenting the Action Plan on VAT, which intends to modernize the current VAT rules and eliminate certain flaws of the VAT system, such as vulnerability to fraud and complexity when it comes to cross-border trade.

The key actions revealed in the Action Plan are as follows:

– Removing the obstacles that the current VAT system is posing to intra-Community e-commerce, especially for small and medium-sized enterprises (SMEs). In this regard, the Commission will present a legislative proposal by the end of 2016 that, among other actions, will extend the current One Stop Shop mechanism to EU and non-EU online supplies of goods made to final consumers and will also include a threshold for start-up e-commerce businesses. Furthermore, the Commission will present a more specific and comprehensive simplification package for SMEs in 2017.

– Taking urgent measures to tackle the VAT gap (i.e. the difference between the amount of VAT due and the amount actually collected by tax authorities), which will be aimed at improving cooperation between Member States and with third countries, improving voluntary compliance and increasing the efficiency of tax collection processes and the tax authorities. Proposals on this issue are envisaged to be presented during 2016 and 2017.

– Creating a robust single VAT area. In 2017, the Commission will present a legislative proposal that will change the current rules of intra-Community supplies and acquisitions in the sense that these transactions will be treated as domestic transactions. VAT will then be charged according to the rules of the originating country of the supply but at the rate applicable in the country of consumption. Subsequently, VAT will be collected by the authorities of the originating Member State and remitted where the goods or services are deemed to be consumed.

– Modernizing the VAT rates policy. The Commission intends to give more flexibility to the Member States by either (1) extending (and reviewing) the list of goods and services eligible for reduced rates or by (2) allowing Member States to follow the reduced rate policy of their election, as long as this does not create tax distortions. A legislative proposal on this topic is expected to be presented in 2017.

More information on the VAT Plan can be found on the website of the Commission.

See also

European Union-2, News 24 February 2016
European Union-2, News 4 September 2015