

Fair Taxation: Commission proposes final technical measures to create a future fraud-proof EU VAT system

Today's package of measures substantially modifies the rules relating to VAT and should make life easier for companies across the EU, putting an end to 25 years of a 'transitional' VAT regime in the Single Market. Last October, the Commission proposed the main principles for the creation of a single EU VAT area which would help to shut down the estimated €50 billion in fraud currently affecting national budgets annually in EU Member States. With these technical measures, the Commission hopes that Member States will kick-start discussions on the broader [principles or 'cornerstones'](#) of a simpler and resilient definitive EU VAT system for the trade in goods within the EU.

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"The proposals we are presenting today represent the final building blocks in the overhaul of the EU's VAT system. They will open the way to simpler rules, less red tape and a more user-friendly system, thanks to the online one-stop shop for traders. It is time for our Member States to trust each other when it comes to VAT collection on intra-EU transactions. We estimate that our proposed reform could reduce by 80% the €50 billion lost each year in cross-border VAT fraud. I hope that Member States will now seize this opportunity to put in place a quality VAT system for the EU."*

Main Elements of the Proposal

Putting the cornerstones of the definitive VAT system into operation gives rise to important changes to the VAT Directive. Of the 408 articles in the VAT Directive, around 200 will need to be adapted in order to bring about the following benefits for businesses and national budgets:

Simplifying how goods are taxed

In the current VAT system, trade in goods between businesses is split into two transactions: a VAT-exempt sale in the Member State of origin and a taxed acquisition in the Member State of destination. Today's proposal puts an end to this artificial split of a single commercial transaction. Once agreed, the amendments contained in the VAT rules will define the cross-border trade of goods as a 'single taxable supply' which will ensure that goods are taxed in the Member State where the transport of the goods ends – as it should be. VAT fraud should be dramatically reduced.

A single online portal ('One Stop Shop') for traders

In order to make the change to VAT rules as seamless as possible for businesses, today's amendments would introduce the necessary provisions to put in place an online portal or 'One Stop Shop' for all business-to-business (B2B) EU traders to sort out their VAT, as announced by the Commission's

October 2017 reform proposals. This system will also be available to companies outside the EU who want to sell to other businesses within the Union and who would otherwise have to register for VAT in every Member State. Once in force, these businesses will simply have to appoint one intermediary in the EU to take care of VAT for them.

Less red tape

The changes reboot the self-policing character of VAT and will reduce the amount of administrative steps that need to be taken by businesses when they sell to other companies in other Member States. Specific reporting obligations linked to the transitional VAT regime will no longer be needed for trade in goods. Further invoicing regarding EU trade will be governed by the rules of the Member State of the seller, which should make it less burdensome for them.

Seller is usually responsible for VAT collection

Today's announcement clarifies that it is the seller that should charge the VAT due on an sale of goods to his customer in another EU country, at the rate of the Member State of destination. Only where the customer is a Certified Taxable Person (i.e., a reliable taxpayer, recognized as such by the tax administration) will the acquirer of the goods be liable for VAT.

Background

The common Value Added Tax (VAT) system plays an important role in Europe's Single Market. It replaced turnover taxes which distorted competition and hindered the free movement of goods and was subsequently amended to allow for the removal of checks and formalities on goods moving between Member States. It is a major and growing source of revenue for EU Member States, raising over €1 trillion in 2015, corresponding to 7% of EU GDP. One of the EU's own resources is also based on VAT. As a consumption tax, it is one of the most growth-friendly forms of taxation.

The Commission has consistently pressed for the reform of the VAT system. The Commission's 2016 VAT Action Plan announced its intention to propose a definitive VAT system for the EU. Since then, progress has been made with new rules agreed on VAT for online sales, and the Commission has already put forward its proposals on the main principles behind the future definitive EU VAT area and a major reform of how VAT rates are set in EU Member States. Today's proposal follows up on these preceding steps. We have listened to the European Parliament and the Council, which both suggested that any future VAT system should be based on the principle of taxation at destination, i.e., where the goods or services are consumed.

For More Information

[Proposal for the final technical measures to create a future fraud-proof EU VAT system](#)

[Press release on the VAT Action Plan](#)

[Press release on the cornerstones of a new definitive single EU VAT area](#)

[Communication on the cornerstones of a new definitive single EU VAT area](#)