

Overview of the European VAT and reasons for the 2015 changes

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Building a better
working world

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"No, it doesn't stand for vodka and tonic!"

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Overview of the European VAT and reasons for the 2015 changes

VAT

Big revenues
low administration costs !!!

VAT - I love it !!!

... a **V**ery **A**tttractive **T**ax



... particularly in a world with big budget gaps !!!

What VAT is and how it works



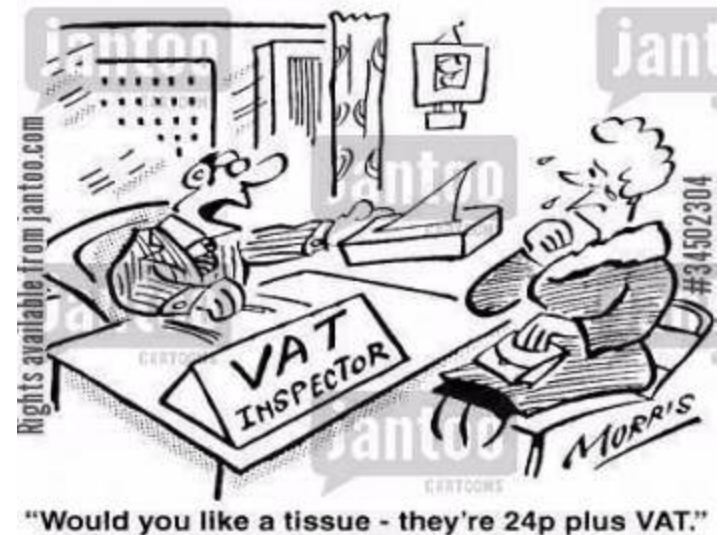
What is a Value Added Tax?

- ▶ An indirect tax on transactions rather than on profit
- ▶ Borne by the final consumer
- ▶ It aims to tax “value added” through the supply chain
- ▶ Businesses should not bear the burden of VAT, but they incur compliance cost, having to act as tax collector
 - ▶ They charge VAT on supplies and collect this from their customers (output tax)
 - ▶ And they can (usually) deduct VAT incurred on their purchases and expenses (input tax)
- ▶ Self declaration tax
- ▶ In principle a neutral tax...

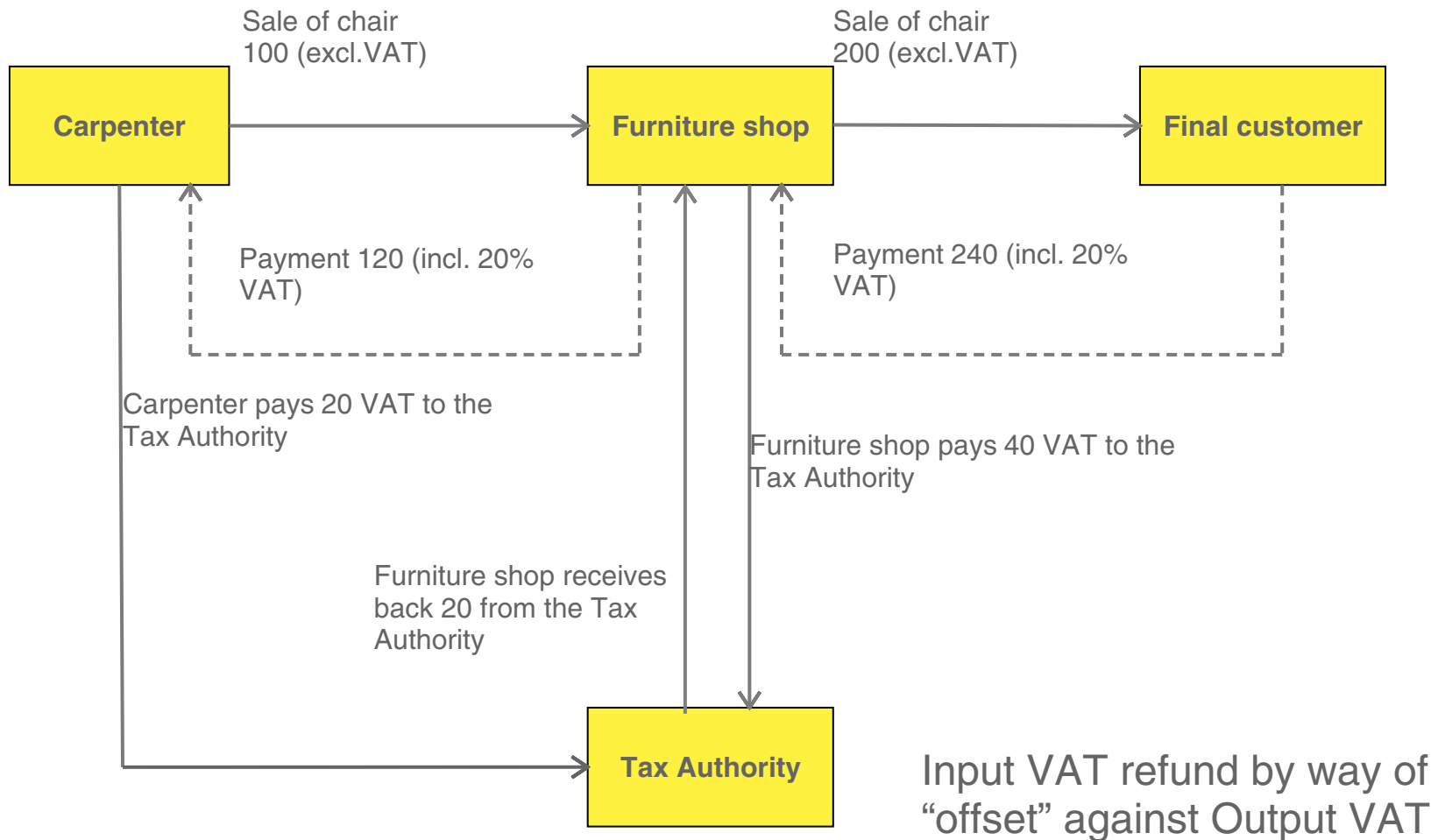


What is subject to VAT?

- ▶ **All goods and services** are taxable unless specifically excluded by the rules
- ▶ Inter-company recharges (between different legal entities) count as taxable VAT transactions
- ▶ VAT is chargeable any time that value is exchanged for consideration
- ▶ Also subject to VAT:
 - ▶ Importation of goods and services from outside the EU
 - ▶ Intra-community acquisition of goods and services from another EU country



A Business Transaction VAT Chain



Comparison VAT – Sales Tax



Comparison VAT – Sales Tax

VAT	Sales and Use Tax
Comprehensive tax (all goods and services, incl. electronic services)	Tax limited to the supply of goods mainly
Universal approach: everything is taxed unless there is an exemption	Tailored approach: Taxed only what is explicitly in scope
Harmonized across the EU	Varies among the States
Imposed at every level of the transaction chain (multi-stage)	Imposed only at retail level (single stage)
Business can deduct VAT incurred on purchases (input tax)	Final cost for business (if applicable)
Comprehensive taxation of intrastate commerce	Limited taxation of intrastate commerce
Treatment of a supply depends on form	Treatment of a supply depends on content

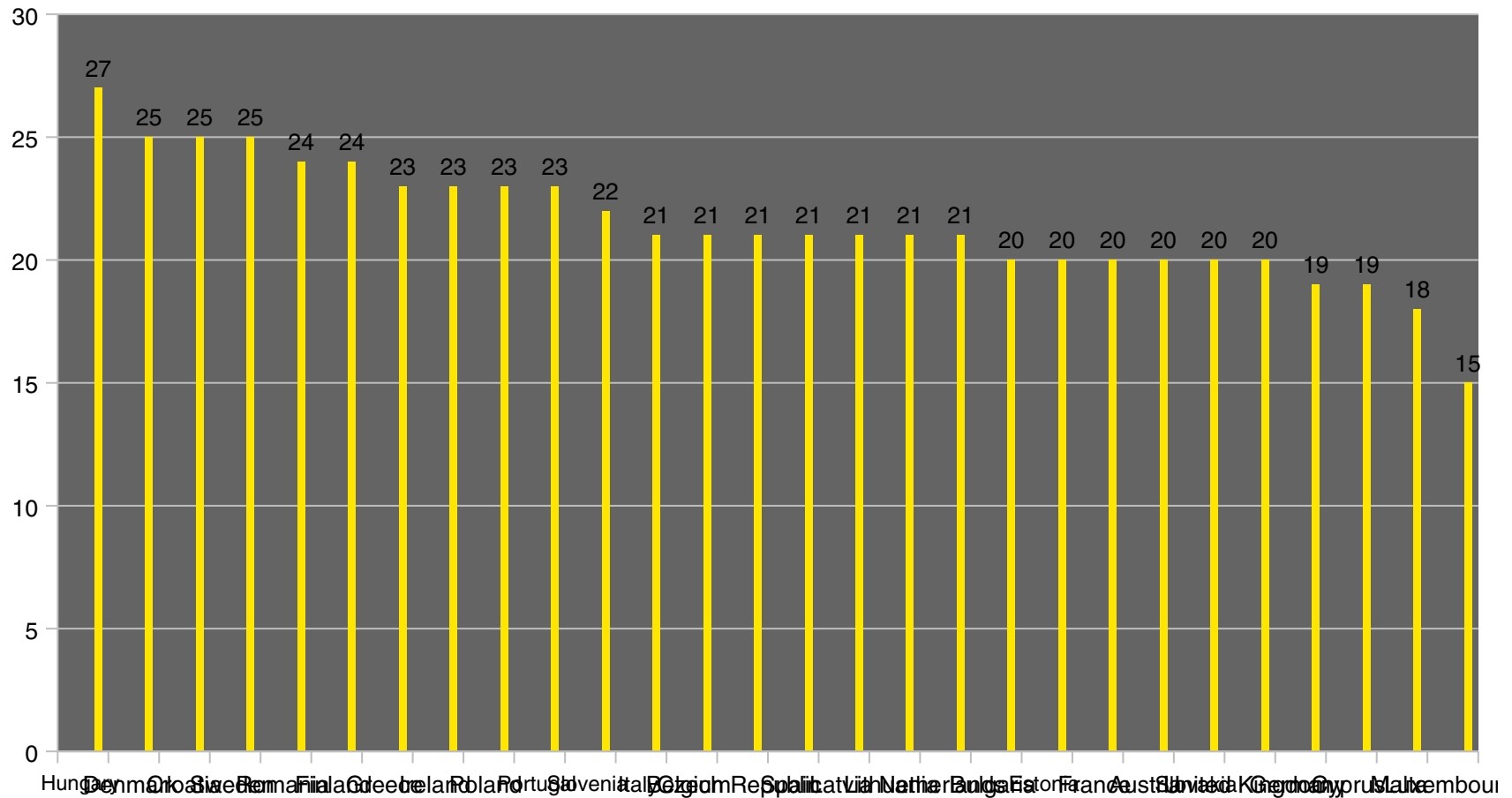
VAT in Europe



VAT in Europe

- ▶ Europe consists of
 - ▶ 28 member countries of the European Union (EU); and
 - ▶ A number of other (“third”) countries (e.g. Switzerland, Norway)
- ▶ The EU has a harmonized system of VAT
 - ▶ But “harmonized” is not the same as “identical”
 - ▶ The detailed rules in each Member State will often differ
- ▶ The rules in non-EU countries are often based on the EU VAT model
 - ▶ But, even then, there will be quite some differences
- ▶ The EU countries are
 - ▶ Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and UK
 - ▶ There are over 20 languages and a big variety of different VAT rates in the EU

EU Standard VAT Rates (August 2014)



EU VAT System – what does it mean in practice?

- ▶ One EU legal VAT framework (VAT Directive) but 28 different ways of implementation in EU Member States
- ▶ Political set up in Brussels: Commission has legislative power, Council (EU countries representatives) decides by unanimous voting
- ▶ 28 different VAT administrations around the EU
- ▶ 28 approaches towards compliance and control – mistakes can be expensive
- ▶ 28 different penalty regimes, in the worst case penalties of up to 200% of the tax due
 - ▶ Input tax can be disallowed in cases of error
- ▶ Large admin burden and cost for both business and tax administrations – cooperation is key
- ▶ A smooth functioning of the 2015 changes in practice is of utmost importance - both for business and tax authorities

2015 changes and what it is about



2015 changes – history and reasons

- ▶ Mid 90's start of e-commerce boom – technological developments, increase in providing services cross-border
- ▶ The world starts to become only “1 click” away
- ▶ Big impacts on VAT as a consumption tax, particularly in the B2C sector
- ▶ Consumers can purchase services from abroad without VAT
 - ▶ Distortion of competition - local vendors vs. foreign vendors
 - ▶ Impact on VAT revenues – particularly in B2C scenarios

EU perspective – history and reasons

- ▶ 1977: The following principles enshrined in EU legislation:
 - ▶ Principle of taxation: where the supplier is established
 - ▶ B2B and B2C
 - ▶ Within and outside EU
 - ▶ WHY? Place of the vendor was considered to match with the place of Consumption
 - ▶ EU Directive allowed EU countries to apply the so-called “use and enjoyment” rule on services - no uniform application across the EU, need for a more uniform EU approach

Global developments

- ▶ 1998: OECD Ottawa principles on the taxation of e-commerce
 - ▶ consumption taxes (such as VAT) should result in taxation at the place where consumption takes place
 - ▶ Development of digital economy shows that place of the vendor does not match any more with the place of Consumption

EU developments (1)

- ▶ 2003: Based on the Ottawa principles EU decides taxation of electronic services at the place of the customer in relation with third countries
 - ▶ Aim: level playing field between EU and Non-EU vendors
 - ▶ Within the EU, taxation at the place of the vendor remains applicable
 - ▶ **WHY? Considered at that time that it ensured properly fair taxation of electronic services**
- ▶ One-stop-shop for non-EU businesses
- ▶ Real life showed – this fostered distortion of competition within the EU (between EU Member Countries because of VAT Rate differences)

EU developments (2)

- ▶ 2008: New EU legislation introduces changes to rules for cross border sales of services – so called VAT Package
 - ▶ Telecommunications, broadcasting and electronic services
 - ▶ B2B and B2C
 - ▶ Within and outside EU
 - ▶ 1 January 2015: in all the cases taxation at the place of the customer
- ▶ One-stop-shop for all businesses
- ▶ Creating a level playing field – getting rid of distortion of competition within the EU, but this requires a collection mechanism which is easy to use for foreign vendors

Questions / Comments



... welcomed and highly appreciated at the end of this panel
!!!