



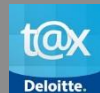
VAT alert Belgium

European Commission publishes VAT action plan

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On 7 April 2016, the Commission released its "VAT action plan", containing the key areas where it will propose legislative change during 2016 and 2017 ([press release](#)). If unanimity can be reached by the Member States to adopt these measures, the VAT landscape in 2020 will undergo significant change.

Making the case for a single EU VAT area, the Commission highlights that the current system has been unable to keep pace with the challenges of today's global, digital and mobile economy. Although it has facilitated trade, compliance costs for cross-border transactions are high and the "VAT gap" (difference between VAT revenues expected and VAT actually collected) is sizeable, due in part to cross border VAT fraud.

The VAT system's reform in the Commission's view would work around four pillars.

Ongoing policy initiatives on e-commerce and SMEs

The Commission will propose, by the end of 2016, amendments to the VAT directive with respect to e-Commerce in the Single Market. Following the Digital Single Market Strategy, the scope of the Mini One Stop Shop (MOSS) currently applicable to B2C telecommunication, broadcasting and electronic services will be broadened to include cross border B2C sales of goods and services. A VAT threshold for small businesses will also be proposed, as well as home country audits and the removal of the Low Value Consignment Relief for imports from non-EU countries.

By the end of 2017, as part of a broader simplification package for SMEs, the Commission intends to propose an amendment to the VAT directive on points which concern such companies.

Urgent measures to tackle the VAT gap

The Commission calls for urgent action at European and Member State level to tackle the "VAT gap", through better cooperation, improving voluntary compliance and collectively improving the performance of European tax administrations.

Medium term measure to tackle the VAT gap: "single European VAT area"

A proposal will be made in 2017 to move away from the current "transitional" regime built in 1993, towards a "definitive" system built on a destination principle where cross-border transactions would be treated in the same way as domestic transactions.

In practice, a cross border supply from Member State A to Member State B would be subject to Member State B VAT, which would be collected by the supplier in Member State A and paid over to its tax authorities, who in turn would pass on this VAT to the tax authorities in Member State B. Potentially, businesses certified by their tax authorities could still acquire goods cross-border without paying over VAT to their supplier.

This regime would be supported by a broadened One Stop Shop, allowing suppliers to only be registered in the Member State where they are established and report different Member States' VAT through this single registration.

With this regime, the Commission takes another direction than the generalised reverse charge mechanism advocated by certain Member States. Under such regime, VAT on B2B transactions would actually be 'suspended' along the whole economic chain, preventing fraudulent traders to collect VAT without paying it over to the tax authorities. Nevertheless, the Commission also expresses that in the short

term, it will be open to requests from Member States for temporary reverse charge mechanisms aimed at tackling national and structural fraud.

Towards a modernised rates policy

In a destination based VAT system, there is no incentive for businesses to establish themselves in Member States with lower VAT rates and hence there is no need for strict VAT rate regulation. The Commission thus intends to provide more leeway to Member States to freely set VAT rates. Currently, the possibility for Member States to apply or introduce reduced VAT rates is restricted by an EU wide list of eligible goods and services, as well as by historic 'standstill derogations'.

The increased flexibility could be realised either through an extension and regular review of the list of goods and services eligible for the reduced rate or through an outright abolition of this list. In the latter case, Member States may face increased pressure from interest groups to tailor the VAT rate system. Proposals in this respect are planned for 2017.

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