

VAT Alert

EU Commission – 'Action-plan' for VAT

Summary

The current VAT system throughout the European Union was designed a quarter of a century ago and was a transitional system which was to be replaced eventually by a 'definitive' system. Much has changed in the world of commerce since then including an enlarged EU comprising 28 countries and the major impact of 'on-line' trading over the internet.

The European Commission has announced, through its 'action plan for VAT', that it is to tackle such things as the VAT gap, and the difficulties faced by SME's operating in the modern digital economy.

A definitive VAT regime for cross border trade will also be introduced and Member States will be given more autonomy in relation to the setting of VAT rates. This impacts on any group or business trading in or with the EU.

European Commission announces major VAT changes

If you have subsidiaries or branches trading in the European Union (EU), the European Commission announcement on 7 April 2016, that it has adopted an [action-plan for VAT](#) throughout the EU, should be of interest. The plan is likely to take a number of years to implement fully but the plan will focus on four key areas:

- an urgent focus on reducing the VAT 'gap' (ie the difference between forecast and actual VAT receipts – currently estimated at approximately €170 billion per year)
- the implementation of a definitive VAT regime for cross border trade based on a destination principle (ie VAT will be charged in the member state of destination of the goods)
- the removal of obstacles to e-commerce in the single market (including the extension of the current mini-one-stop-shop to distance sales, the simplification of rules for SME's and the removal of the exemption for goods of small value)
- a move to provide more freedom to individual Member States to set their own VAT rates provided that there are appropriate safeguards to prevent excessive complexity and distortion of competition, and to ensure that the operation of the Single Market is not affected.

The Commission's proposals will be far-reaching. What will this mean for your business in the EU? Well, it could mean that you need to make changes to your terms of business and your ERP system to comply with new VAT legislation in Europe. For example, the introduction of a definitive VAT system based on the destination principle will mean the end of despatches and acquisitions and the introduction of a system similar to that for supplies of digital services. Under such a system VAT will be charged to the customer by the supplier irrespective of the customer's Member State and will be accounted for through a portal similar to the mini- one-stop-shop.

Grant Thornton is here to help you understand the implications of these significant changes and navigate through them.

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