Study on behalf of the European Commission

Implementing the ‘destination principle’ to intra-EU B2B supplies of goods

21 October 2015

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Objectives of today’s presentation

To provide delegates with an overview of the:

1. Background to the study – case for change
2. Assessment criteria
3. Outline of the options & assessment results
4. Conclusions

Background to the study – the case for change

Since 1967, the EU has been committed to an **origin-based system** of VAT accounting.

Under the current transitional arrangements most goods are taxed at the rate applicable in the country of destination and VAT is accounted for by the customer.

In December 2011, the European Commission in its “Communication on the Future of VAT” concluded that there was no longer political support for keeping the origin system of taxation. Two fundamental problems were identified with the current origin system:

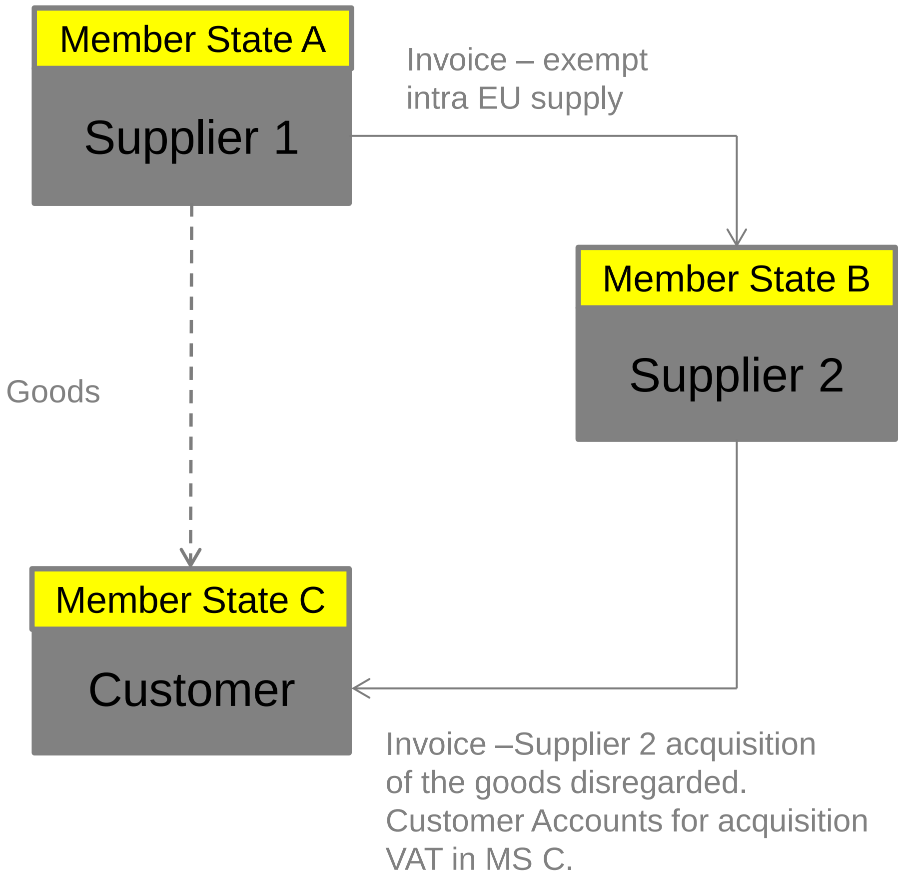
1. **The additional VAT compliance obligations and costs associated with cross border trade.**
2. **The existing levels of VAT fraud within the EU such as MTIC (“Missing Trader Intra-Community”) and diversion fraud.**

Assessment Criteria

As part of the study we identified five assessment criteria upon which to determine the effectiveness of the options under consideration:

1. Business compliance costs
2. VAT fraud
3. Member State administration costs
4. Business reporting requirements
5. Economic impact

Option 1: Limited improvement of the current rules

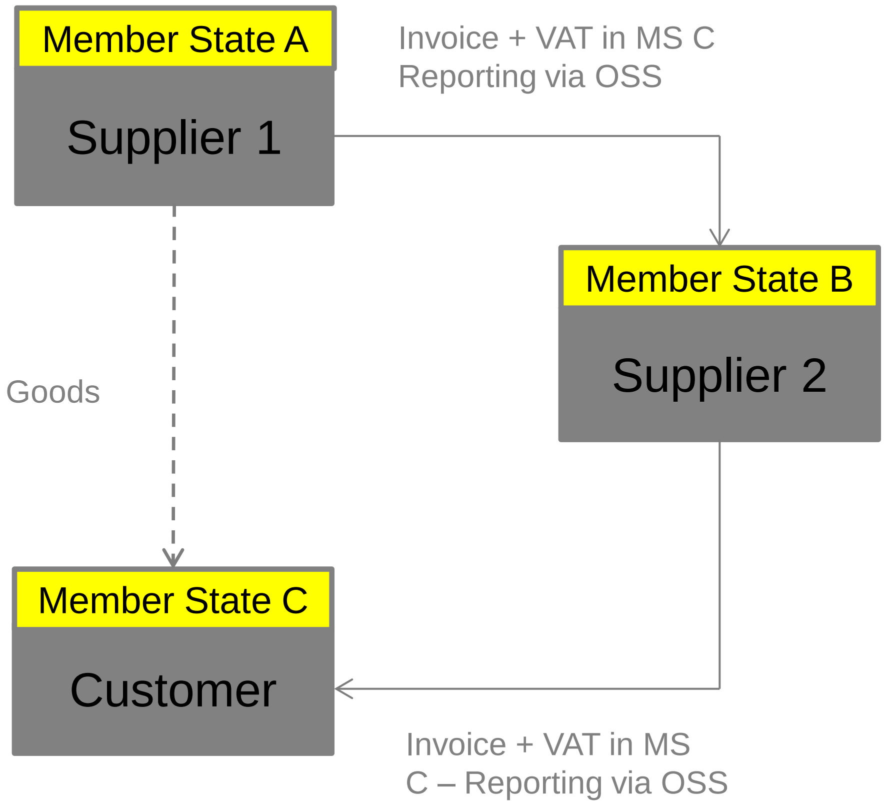


Assessment against criteria

1. 23% average compliance cost reduction*
2. No significant changes are expected to the scale of MTIC fraud
3. MS ongoing administration costs would increase by €34.5m.
4. Resolves reporting issues identified with current taxation model – although issues relating to triangulation will remain.
5. Small but positive effect on EU economy – 0.004% real GDP growth.

*Will only impact c.13% of the business population.

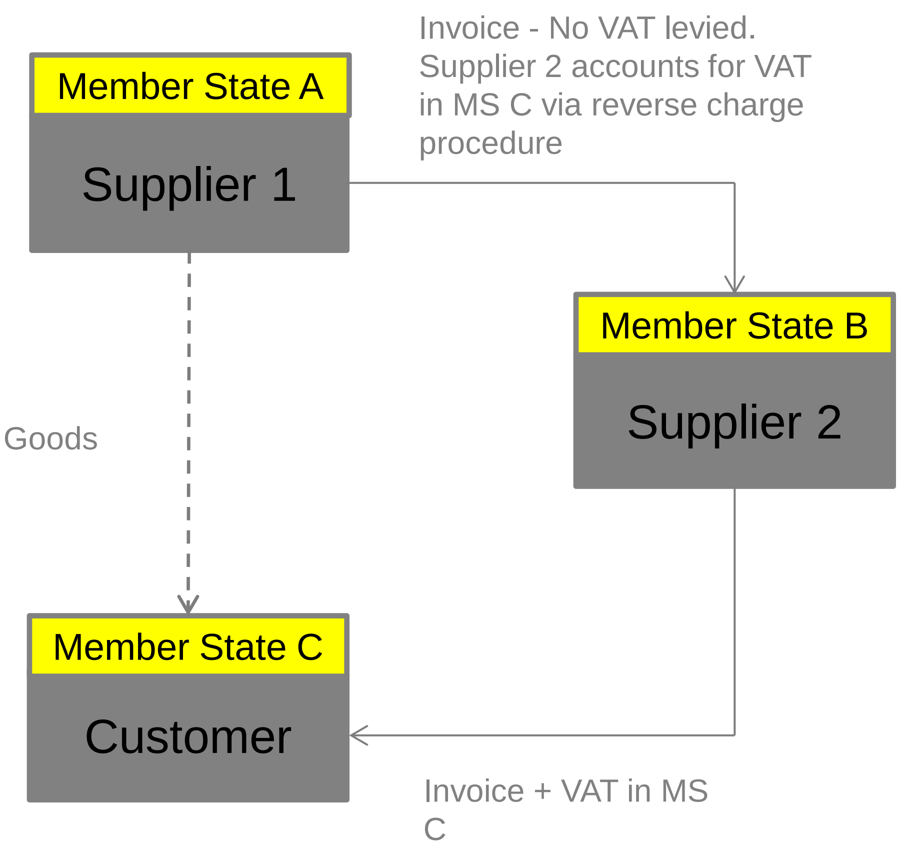
Option 2: Taxation following the Flow of the Goods



Assessment against criteria

1. 5/6% average compliance cost reduction.
2. MTIC fraud will reduce by approximately €41bn (ie c. 80% of current levels).
3. MS ongoing administration costs would increase by €128.7/ 131m.
4. Resolves all reporting issues identified with current taxation model.
5. Positive impact on EU economy – 0.157% real GDP growth.

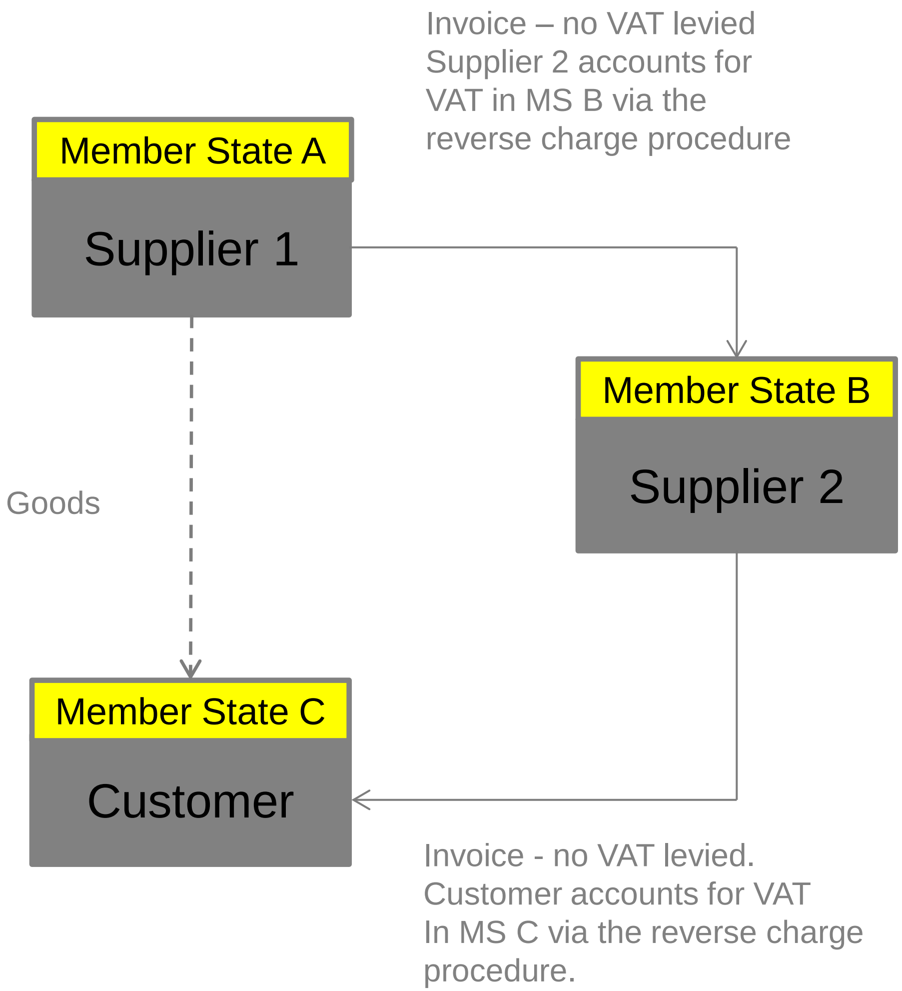
Option 3: Reverse Charge following the Flow of the Goods



Assessment against criteria:

1. 5% average compliance cost reduction.
2. No significant changes are expected to the scale of MTIC fraud.
3. MS ongoing administration costs would increase by €43m.
4. Does not resolve any of the reporting issues identified with the current taxation model.
5. Small but positive effect on EU economy – 0.005% real GDP growth.

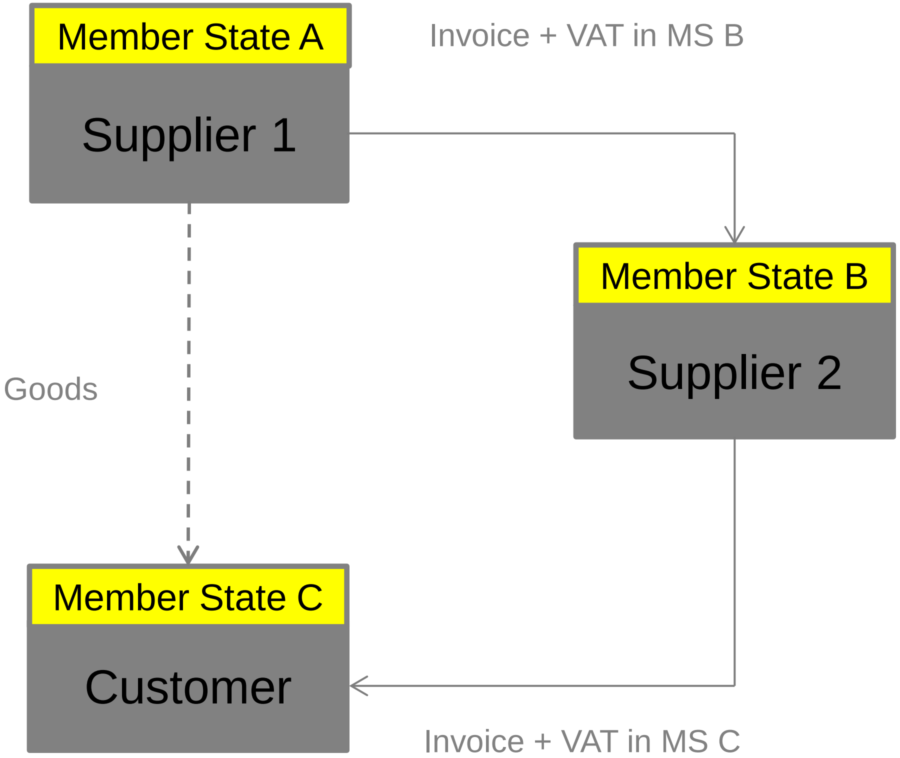
Option 4: Reverse Charge Where Customer is Established



Assessment against criteria

1. 15% average compliance cost reduction.
2. Potential increase in the level of fraud, as no significant change to the sale of MTIC fraud plus opportunity to engage in other forms of fraud.
3. MS ongoing administration costs would increase by €82.4m
4. Resolves all reporting issues identified with taxation model.
5. Small but positive effect on EU economy – 0.017% real GDP growth.

Option 5: Taxation following the Contractual Flow



Assessment against criteria

1. 6/8% compliance cost reduction.
2. MTIC fraud will reduce by approximately € 41bn, although may be susceptible to a different type of fraud.
3. MS ongoing administration costs would increase by €151.1/140.7m.
4. Resolves all reporting issues identified with taxation model.
5. Positive impact on EU economy – 0.158% real GDP growth.

Conclusion

The table below summarises which options performed strongly in each of the criteria assessed.

Policy Options	Compliance cost	VAT fraud	Administrative cost	Reporting requirement	Economic impact
Option 1			✓	✓	
Option 2		✓		✓	✓
Option 3					
Option 4	✓				
Option 5		✓		✓	✓

Next steps

- The EY study has been published:

http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/ey_study_destination_principle.pdf

- The Commission intends to choose one or possibly two options for further consideration.
- In the meantime further studies will be undertaken re: SME's:
  - EASME – Study on tax compliance costs for small and medium enterprises.
  - DG TAXUD – Special scheme for small enterprises under VAT Directive 2006/112 EC – Options for review.

Thank you

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