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Fédération des Experts comptables Européens


## FEE Taxation workshop

### Copenhagen - Sept 2008

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[www.fee.be](http://www.fee.be)



## Indirect taxation – the opportunities and risks for SMEs

- Indirect taxation – VAT – what is happening and how will SME's be impacted?
- Environmental taxes – how should SME's react?
- VAT recovery across borders for SMEs


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## Indirect taxation – the opportunities and risks for SMEs

- Overview of current situation and upcoming changes within the next two years
- Risks,
  - additional reporting on cross-border services,
  - increased knowledge requirement regarding environmental taxes for cross-border activities,
  - control and management of indirect taxes in a company from the business perspective
- Tax simplification, e.g. simplification for VAT refunds, reduced VAT rates

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## Overview of the current situation

- A clear objective of the Lisbon Conference to stimulate SME growth
- Taxation seen as being a barrier to growth
- Commission's proposals on
  - “labour intensive services”
  - “one stop shop”
  - simplifying the refund schemes.
- VAT Package
- Environmental taxes

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## Indirect Taxation as a barrier to growth

### Obstacles faced by SMEs in developing outside their home territories

- One common VAT system – 27 different ones
- Reporting and compliance obligations non-harmonised – except for Intrastat reporting.
- Different rules for established and non-established businesses;
  - Eg identification of the taxpayer – supplier or customer
  - Registration thresholds
  - Invoicing requirements.
- Abolition of tax representatives – a positive move?
- Additional taxes – eg environmental.

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## Indirect Taxation as a barrier to growth

### Obstacles faced by SMEs in developing outside their home territories

- Risks of non-compliance can be high.
  - penalties – up to 200%
  - interest charges
  - delays in recovery of input tax
  - or non-recovery – through lack of knowledge
  - as VAT is a tax on final consumption incorrect charging can generate a significant cost.
  - Cashflow effects of non-optimal VAT regimes...

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## Commission's proposals

**The Commission is attempting to address some of the barriers.**

- Labour intensive services – new proposal of the Commission of July 2008 – to take effect from 1 January 2010.
  - Reduce taxation on services using a high labour component.
  - Reduce the “black economy” – and increase competitiveness of SMEs
- One stop shop – but very much diluted - will only apply to electronic type services supplied at a distance – a long way from the original proposals.
- Simplification of the 8th VAT Directive refund scheme.

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## Commission's proposals

### VAT refunds to non-residents

- leaves principles unchanged but modernises procedure by
  - introducing fully electronic procedure
  - giving more legal certainty for businesses
  - providing for better control
  - and increased VAT recovery – less than 50% currently recovered.

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## Commission's proposals

The Commission is attempting to address some of the barriers.

- VAT Package – extends further the “reverse charge” system for supplies of services. This will impact the majority of services and will simplify the application of VAT.
  - Comes into effect in stages
  - First stage 1 Jan 2010
  - Will impact Information Systems
  - Exceptions remain:
    - Real Estate
    - Training ...
- But:
  - Additional reporting ie an Intrastat for services – with no de minimus – FEE is fighting on this.
  - New legislation difficult to interpret.
  - Possibility that the MS will extend usage of the “use and enjoyment” test

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## Environmental taxes

Increasing numbers of taxes – no common basis – or very little and the Commission will not intervene – provided that the taxes do not contravene the VAT Directive

- Taxes on polluting activities
- Taxes on goods for their destruction
- Taxes on advertising materials
- Taxes on fuel consumption
- Taxes on packaging
- Taxes on extractive activities...

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**FEE** Agenda

- Environmental taxes
  - ↳ Overview and examples
  - ↳ Impact on cross border activities
  
- VAT
  - ↳ Tax simplification for VAT refunds

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**FEE** Environmental taxes – overview and examples  
EU Reduction targets by 2020

Sectors not covered by the Emission Trading System and share of renewables in final energy demand

- Environmental taxes are seen by many governments as a vehicle to drive the necessary development

*Table I Legally-binding targets for Member States*

(1)	(2)	(3)
Targets 2020	Reduction target in sectors not covered by the EU ETS compared to 2005	Share Renewables in the final energy demand by 2020
AT	-16.0%	34%
BE	-15.0%	13%
BG	20.0%	18%
CY	-8.0%	13%
CZ	0.0%	13%
DK	-20.0%	30%
EE	11.0%	20%
FI	-16.0%	38%
FR	-14.0%	23%
DE	-14.0%	18%
EL	-4.0%	18%
HU	10.0%	13%
IE	-20.0%	16%
IT	-13.0%	17%
LV	17.0%	42%
LT	15.0%	23%
LU	-20.0%	11%
MT	5.0%	10%
NL	-16.0%	14%
PL	14.0%	15%
PT	1.0%	31%
RO	19.0%	24%
SK	13.0%	14%
SI	4.0%	25%
ES	-10.0%	20%
SE	-17.0%	48%
UK	-16.0%	16%

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**FEE** Environmental taxes – overview and examples  
Economics of climate change:  
the importance of sectors

**Global Emissions by Sector**

Sector	Percentage	Category
Power	24%	Energy Emissions
Transport	14%	Energy Emissions
Buildings	8%	Energy Emissions
Industry	14%	Energy Emissions
Other energy related	5%	Energy Emissions
Land use	18%	Non-Energy Emissions
Agriculture	14%	Non-Energy Emissions
Waste	3%	Non-Energy Emissions

Total emissions in 2000: 42 GtCO<sub>2</sub>e.

Source – Stern Review  
Note – more recent IPCC data (2004) is similar  
Source IPCC AR4

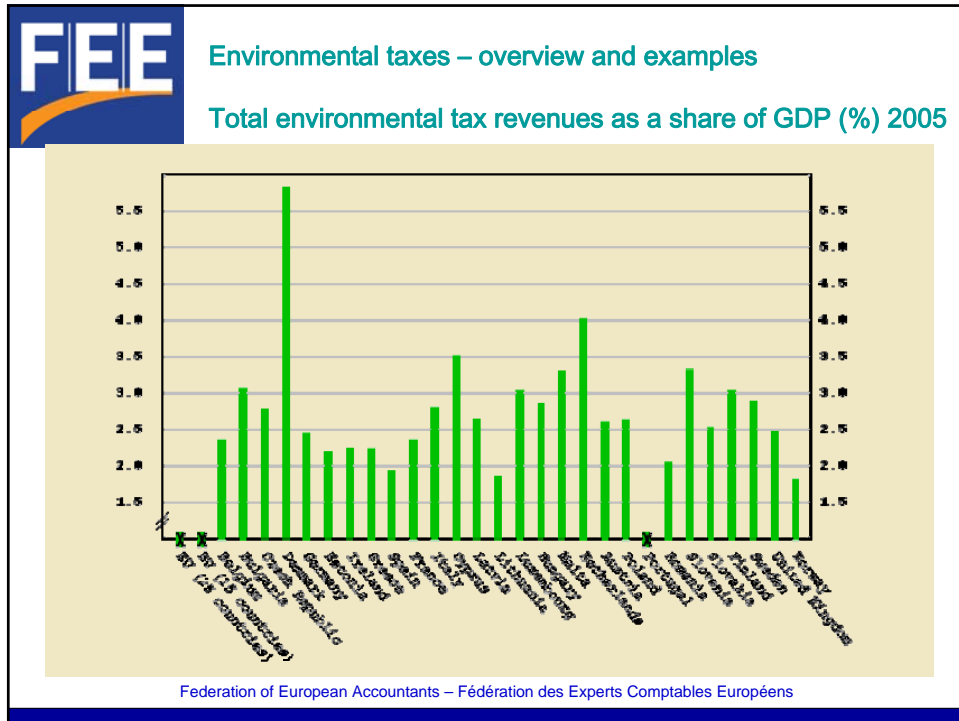
➤ Reducing emissions requires action across many sectors:

- ✚ Energy approx 61%, mainly CO<sub>2</sub>
- ✚ Non-energy approx 31%, mainly deforestation (CO<sub>2</sub>), CH<sub>4</sub> and N<sub>2</sub>O from waste and agriculture

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**FEE** Can environmental taxes reduce/control Climate Change?

**NORTH POLE MELTS AWAY**




**FEE** Environmental taxes – impact on cross border activities

- Many different environmental taxes are already introduced
- Environmental taxes are often very complicated from a tax technical point of view
  - ↪ Difficult to determine taxable products
  - ↪ Difficult to determine tax base (measuring)
  - ↪ Complicated refund rules
- Businesses have to carefully consider their position when trading cross border
  - ↪ Check local environmental taxes
  - ↪ Register for local environmental taxes?
- Impact on systems set-up is most likely
- => Cross border activities are affected




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## Environmental taxes – Conclusions



- Most environmental taxes are (still) local
- The common emission reduction targets within the EU will lead to introduction of more environmental taxes based on an "excise duty platform"
- This is expected to lead to a demand for further harmonisation within the EU
- Cross border activities for businesses are affected
- Businesses will have to carefully watch and adapt to future changes

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## VAT – simplification for VAT refunds

- 8th Directive refund mechanism:
  - ↪ The 8th Directive refund procedure will be replaced by an improved electronic refund process (Council Directive 2008/9/EC)
  - ↪ The basic requirements remain the same:
    - VAT liable activities, no requirement to register locally etc.
  - ↪ Foreign VAT incurred by a taxpayer will be recoverable through an electronic platform in the Member State of the establishment of the taxpayer
  - ↪ Invoice information to be supplied electronically
  - ↪ Local pro rata calculation to be included (no refund of VAT related to non VAT-able activities – no "refund shopping")

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## VAT – simplification for VAT refunds

- 8th Directive refund mechanism:
  - ↪ It is anticipated that the time frame to obtain a refund will be reduced from 6 months (as set out in the current legislation – but in practice much longer) to 4 months maximum
  - ↪ If the authorities require more information with respect to the refund, the process may take up to 8 months
  - ↪ Interest will be payable by the tax authorities if the refund is not effected within the time limits set out in the rules
  - ↪ Appeal processes must be available in all Member States

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## VAT – simplification for VAT refunds What businesses should consider

- Amount of foreign VAT paid.
- Possibility to recover VAT according to the rules of the Member State where the cost has occurred.
- Possibility to set up effective procedures for handling VAT refunds.
- Cost benefit analysis.
- Possible use of external advisors.



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## SMEs are in the forefront of economic development.

- The Commission is trying hard to breakdown the tax barriers
- There are obstacles – FEE is fighting very hard.
- Rise in other taxes
- Lack of information for SMEs
- Risks involved of non-compliance are high.