



VAT MUST ADAPT TO THE NEEDS OF THE ENLARGED EU

European taxation experts meet to discuss VAT issues. The effects of EU enlargement, lack of harmonisation and VAT fraud, combine to make VAT an increasingly complex and costly issue for business.

Brussels, 13 May 2004: The overly complex nature of the current VAT system facilitates fraud, loses EU member states revenue, and adds to the cost burden for business. That was the conclusion of a high level Round Table meeting organised today by FEE, the European Federation of Accountants.

The European Commission has found that the cost of fraud is about 10% of net VAT revenues per annum, which amounts to €80-€100 billion of lost VAT revenue per annum, or, effectively the VAT take for France. Typically, this shortfall is made up by honest businesses that end up paying the costs for the fraudulent ones.

The meeting organised by FEE, which brought together leading taxation experts from across Europe, was concerned that VAT had not sufficiently evolved over the 50 years since the introduction of the modern VAT system in Europe. As the recent EU enlargement will make VAT matters yet more complex, Mr. Stephen Dale, Chairman of the FEE Indirect Taxation Working Party, emphasised that "the VAT system needs to be updated. A mind-set change is required from VAT policy makers in order to reflect the reality of doing business in the EU today."

Considering the way forward, Mr. Chris Needham, VAT Director for GE, noted that: "more effective VAT inspection would serve to improve the situation. Better-targeted VAT inspections could be achieved through the increased use of risk analysis techniques."

Mr. Yves Bernaerts, Director Ernst & Young Tax Consultants, added that "huge efficiencies could be achieved, as the European Commission has noted, if administrations were to adapt control systems to the realities of electronic commerce and introduce widespread use of computerised procedures in auditing. Member states should avoid the introduction of blanket penalties applicable to all businesses. Where necessary, carefully targeted legislation could be adopted."

Mr. Stephen Dale concluded stating "the accountancy profession is more than willing to work with tax authorities and the European Commission to improve the current situation and ensure that VAT is adapted to business and government needs."

The Round Table also considered developments which signal a move towards harmonisation of VAT.

"The European Court of Justice (ECJ) is playing an increasingly significant role in how the tax is applied across the EU. The result is that the VAT policy evolves slowly, on a case-by-case basis, without due consideration of priorities.

However, these developments can create inconsistency, which inhibits the internal market by creating obstacles. Pan-European businesses need to know that the rules will be applied with consistency in each member state.

This could be achieved by utilising the recent change to the EU 6th VAT Directive, article 29, to allow, in principle, for a more rapid harmonisation, although adequate safeguards are required," stated Prof. Alex McDougall, Institute of Chartered Accountants of Scotland (ICAS).

He added that, "a possible solution would be for the European Commission's VAT Committee to issue guidance for application of ECJ decision's in each member state."

The Round Table also called for the creation of a *EU Tax Payers' Charter*. Explaining, Mr. Chas Roy Chowdhury, Association of Chartered Certified Accountants (ACCA), believed that "the Charter would emphasise the fundamental rights of the tax payer which should be enshrined in legislation."

Moving forward, FEE will build on the momentum gained by the Round Table discussion and develop proposals to make the VAT system more efficient. The resulting position paper will be submitted to the European Commission, European Parliament and the EU member states.

"With this proactive initiative FEE, the representative body for the accountancy profession in Europe, is looking to tackle VAT fraud and to deliver solutions which will benefit both the member states and business," added Mr. Stephen Dale.

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Notes for Editors:

1. The FEE Round Table "**VAT 50 Years Young: VAT and Businesses in a Europe of 25**" took place on Thursday, 13 May 2004 in Brussels. To obtain a copy of the conclusions of the Round Table, please contact the FEE Secretariat: Ms. Chiara Pisano (Fax: + 32 2 231 11 12, Email: chiara_pisano@fee.be).
2. Title of the European Commission's report as mentioned in the press release: *'Report from the Commission to the Council and the European Parliament on the use of administrative cooperation arrangements in the fight against VAT fraud'* (16.4.2004).
3. The **Fédération des Experts Comptables Européens** (FEE) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 41 professional institutes of accountants from 29 countries. FEE member bodies represent more than 500,000 accountants in Europe. Roughly 45% of these accountants work in public practice, providing a wide range of services to clients. The other 55% work in various capacities in industry, commerce, government and education.