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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a Council Directive

**amending Directive 2006/112/EC as regards harmonising and simplifying certain rules
in the value added tax system and introducing the definitive system for the taxation of
trade between Member States**

{COM(2017) 569 final}
{SWD(2017) 325 final}

Executive Summary Sheet

Impact assessment on the Proposal for a Council Directive Amending Directive 2006/112/EC as regards harmonising and simplifying certain rules in the value added tax system and introducing the definitive system for the taxation of trade between Member States

A. Need for action

Why? What is the problem being addressed?

Transitional arrangements in the [VAT Directive](#) regarding intra-EU transactions in goods between businesses result in (i) revenue losses for Member States (MS) of about € 50 billion due to MTIC (Missing Trader Intra-Community) fraud, which finds its roots in the endemic weakness of such system that allows for goods being bought cross-border VAT-free; (ii) complexity causing higher costs for businesses trading cross-border compared to businesses trading only domestically (11% higher) due to additional obligations for cross-border traders and divergent application by MS of VAT rules. Without action at EU level solutions would continue to be fragmented and have limited benefits.

What is this initiative expected to achieve?

Definitive arrangements for the taxation of intra-EU trade are meant to make the EU VAT system more robust by addressing its endemic weakness and simpler by addressing its complexities and to provide a level playing field for businesses whether engaged in domestic or cross-border transactions.

What is the value added of action at the EU level?

A modification in the VAT Directive is necessary to change the transitional arrangements which have reached their limits.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

- Option 1: customers continue to purchase goods cross-border VAT-free but changes affect certain transactions (VAT number and simplifications granted to CTPs¹);
- Option 2: suppliers charge VAT in the MS where the goods arrive (except for CTPs). A One Stop shop (OSS) allows businesses to pay the VAT due in any MS in their home MS;
- Option 3: technical change equivalent to current system (discarded);
- Option 4: alignment with rules on services;
- Option 5: similar to Option 2 but taxation occurs in the MS where the customer is established.

Option 2 is the preferred one (addresses fraud + complexity) combined with Option 1 that allows a soft transition to Option 2.

Who supports which option?

MS and businesses support Option 1. Further, MS could also support Option 2 and businesses Options 4 and 5.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

Option 2: MS: Reduction of MTIC fraud by EUR 41 billion.

Businesses: Compliance costs decrease (EUR 1 billion).

Internal market: Equal treatment of domestic and cross-border supplies of goods and net increase of EUR 18.5 billion in EU GDP over a 3-year period.

Option 1 decreases compliance costs for businesses (EUR 0.5 billion annually).

Environmental and social impacts are not significant.

¹ A Certified Taxable Person (CTP) is a business recognised as "reliable" by the tax administrations.

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| What are the costs of the preferred option (if any, otherwise main ones)? |
| <p>Option 2: MS: increase of administrative costs for MS by EUR 385 million in the year of implementation and EUR 311 million in the years after.</p> <p>Businesses: Certain SMEs might experience an annual compliance cost increase of 6%.</p> <p>Option 1 increases administrative costs for MS by EUR 35 million and does not bring equal treatment between domestic and cross-border supplies of goods</p> <p>Environmental and social impacts are not significant.</p> |
| How will businesses, SMEs and micro-enterprises be affected? |
| <p>The initiative does not foresee a preferential treatment for SMEs. It addresses the problems for all businesses. Micro-businesses will continue benefitting from the VAT exemption scheme and from new simplification measures specifically targeted to them by the upcoming SME simplification package².</p> |
| Will there be significant impacts on national budgets and administrations? |
| <p>At EU level, a net benefit of around EUR 43 billion is expected due to the reduction of MTIC fraud and cash flow incidence that would more than compensate for the increase in administrative costs.</p> |
| Will there be other significant impacts? |
| <p>Transition to the new system requires MS and businesses to adapt to the new rules (implementation + control).</p> |
| D. Follow up |
| When will the policy be reviewed? |
| <p>Gradual implementation:</p> <p>First Directive (September 2017): implementation of Option 1 ("quick fixes" with CTP) and introduction of the cornerstones of Option 2.</p> <p>Second Directive (2018): full implementation of Option 2.</p> <p>Monitoring (e.g. number of CTPs, implementation issues) via the VAT Committee, the Group on the Future of VAT and the VAT Expert Group.</p> <p>Evaluation: five years after entry into force of the second Directive.</p> |

² Commission Action Plan ([COM\(2016\) 148 final](#)).