

Table of Contents

[1. Introduction 3](#_Toc498335640)

[2. The importance of VAT as an EU revenue 3](#_Toc498335641)

[3. Main findings 4](#_Toc498335642)

[3.1. General remarks 4](#_Toc498335643)

[3.1.1. Tax administration organisation 4](#_Toc498335644)

[3.1.2. Digitalisation and Information Technology (IT) 5](#_Toc498335645)

[3.1.3. Analysing the VAT Gap 6](#_Toc498335646)

[3.2. VAT registration and de-registration 7](#_Toc498335647)

[3.2.1. VAT registration 7](#_Toc498335648)

[3.2.2. VAT de-registration 10](#_Toc498335649)

[3.2.3. VIES registration and de-registration 10](#_Toc498335650)

[3.3. VAT filing and payment 11](#_Toc498335651)

[3.3.1. Filing 11](#_Toc498335652)

[3.3.2. Payment 12](#_Toc498335653)

[3.4. Recovery of VAT debts 13](#_Toc498335654)

[3.5. VAT refund 14](#_Toc498335655)

[3.6. VAT audit and investigation 15](#_Toc498335656)

[4. Implementation of recommendations from the Seventh Article 12 Report and Staff Working Document 16](#_Toc498335657)

[5. Towards better Tax (VAT) Administration by cooperation 18](#_Toc498335658)

**List of Tables**

[*Table 1: EU’s total revenue from the VAT own resource in the reporting period (2013-2015)* 3](#_Toc498335659)

[*Table 2: Evolution of VAT returns in EU Member States for the period 2013-2015* 12](#_Toc498335660)

**List of Figures**

[*Figure 1: VAT Gap in EU 2011-2015 (in percent of VAT total liability (VTTL) and in EUR billion)* 4](#_Toc498335661)

[*Figure 2: Evolution of VAT registration requests in 21 EU Member States (2013-2015)* 7](#_Toc498335662)

[*Figure 3: Availability of main features in registration procedures in 28 EU Member States (2016)* 8](#_Toc498335663)

[*Figure 4: Time needed for obtaining a VAT and a VIES number in 22 EU Member States (2013-2015)* 10](#_Toc498335664)

[*Figure 5: Possibility to file electronically in 28 EU Member States (2013-2015)* 11](#_Toc498335665)

[*Figure 6: Electronic filing rate in 28 EU Member States (2013-2015)* 11](#_Toc498335666)

[*Figure 7: Possibility for VAT e-Payments in 28 Member States (2013-2015)* 12](#_Toc498335667)

[*Figure 8: Late payment reminders in 28 Member States (2013-2015)* 12](#_Toc498335668)

[*Figure 9: Recovery of VAT debts - overview of main tools and practices used in 28 EU Member States (2016)* 13](#_Toc498335669)

[***Figure 10****: VAT collection and VAT assessed after audits in 22 EU Member States (2013 – 2015)* 15](#_Toc498335670)

[*Figure 11: Implementation rate of the recommendations per section for 27 Member States* 17](#_Toc498335671)

[*Figure 12:* *Overall implementation rate of previous recommendations* 17](#_Toc498335672)

**List of Recommendations**

[Recommendation 1: Tax administration organisation 5](#_Toc498335673)

[Recommendation 2: Digitalisation and IT 6](#_Toc498335674)

[Recommendation 3: VAT Gap calculation and analysis 7](#_Toc498335675)

[Recommendation 4: VAT registration for foreign taxpayers 8](#_Toc498335676)

[Recommendation 5: VAT identification numbers 9](#_Toc498335677)

[Recommendation 6: Validity of VAT and VIES registration 9](#_Toc498335678)

[Recommendation 7: Post registration controls 11](#_Toc498335679)

[Recommendation 8: Post registration controls 14](#_Toc498335680)

[Recommendation 9: Late VAT refund payments 14](#_Toc498335681)

[Recommendation 10: Audit and compliance strategy 16](#_Toc498335682)

[Recommendation 11: Customs 42 procedure 18](#_Toc498335683)

1. Introduction

Article 12 of Council Regulation 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from VAT requires the Commission to submit a report every three years to the European Parliament and the Council on the procedures applied in the Member States for registering taxable persons and determining and collecting VAT, as well as on the modalities and results of their VAT control systems.

The present eighth report covers the developments in the period 2013 to 2016. The numerical data refer to the period between 2013 and 2015. For the preparation of this report, the Commission collected information from all EU Member States tax authorities through a questionnaire. Additionally, in order to obtain more precise information and clarify some of the answers to the questionnaire, the Commission services visited ten Member States.

Chapter 2 of the report explains the importance of VAT and the challenges stemming from the VAT gap for tax administrations. The main findings are presented in chapter 3 of this report, following the core phases of VAT administration: VAT registration and deregistration, VAT filing and payment, recovery of VAT debts, VAT refund, VAT audit and investigation. The findings reveal certain trends in VAT administration and lead to recommendations so as to complement the ongoing modernisation of the EU VAT System. The recommendations are presented with the relevant findings. Chapter 3 reports on the implementation of recommendations made in the previous Article 12 report that encompassed suggestions for tax administration improvements. Finally, a strategic view on the VAT administration is highlighted in chapter 4.

This report is based on information received from national tax administrations. The quality and accuracy of the data varied significantly. Furthermore, since tax administrations are increasingly organised around integrated processes for all types of taxes, it was sometimes difficult to isolate specific VAT issues from the wider tax administration structure. Finally, social political, geographical, economic and historical specificities influencing the structure and organization of a national VAT collection and control system are beyond the scope of this report.

2. The importance of VAT as an EU revenue

**VAT revenues** are an important source of income for the Member States' and the EU budgets. The total VAT based own resource revenue for the EU budget increased from EUR 14.019 billion in 2013 to EUR **18.087 billion** in 2015. This corresponds to the relative share of VAT own resource revenue paid by the Member States in total own resources increasing by three percentage points from 9.4 percent in 2013 to 12.4 percent in 2015.

*Table 1: EU’s total revenue from the VAT own resource in the reporting period (2013-2015)*

|  |  |  |
| --- | --- | --- |
| VAT OWN RESOURCE  (EUR million) | Total EU VAT revenue | Percentage of EU's total revenue |
| 2013 | **14 019** | **9.4 %** |
| 2014 | **17 667** | **12.3%** |
| 2015 | **18 087** | **12.4 %** |

*Source: EU budget (DG BUDG Financial reports 2013, 2014, 2015)*

However, the size of the **VAT Gap**, that is the difference between the amounts of total VAT revenue collected and the theoretical amounts that are expected to be collected, is significant in the EU. In the period 2011-2015, the VAT Gap first increased, reaching its top in 2013, and then decreased, reaching its lowest percentage in 2015 (around **152 billion euro**).

*Figure 1: VAT Gap in EU 2011-2015 (in percent of VAT total liability (VTTL) and in EUR billion)*

|  |  |
| --- | --- |
| VAT Gap (percent of VTTL) | VAT Gap (EUR billion) |
|  |  |

*Source: Study and Reports on the VAT Gap in the EU-28 Member States: 2017 Final Report[[1]](#footnote-1)*

The collection of VAT is among others impacted by the efficiency and effectiveness of tax administration processes and procedures. Consequently, the performance of tax administration influences the amount of VAT own resources due by Member States to the EU. Therefore, managing the VAT system is a critical part of tax administration.[[2]](#footnote-2)

3. Main findings

3.1. General remarks

3.1.1. Tax administration organisation

In the period 2013 – 2016, several **Member States have reformed or are in the process of reforming (parts of) their tax administration**. The trend of changing from a tax-type based administration towards a tax administration organised around types of taxpayers (large companies, SME's and private persons) or functions (registration, filing, payment, etc.) is continuing. Therefore, instead of separate processes for Value Added Tax (VAT), Corporate Income Tax, Personal Income Tax etc., these processes are integrated into a single one for all taxes. Hence, measuring the effectiveness of VAT procedures as mentioned in Article 12 of the Regulation implies an assessment of the main functions of a tax administration regardless of the type of tax.

Tax authorities are facing increasing challenges that are often perceived as risks, such as the complexity and innovations in business models (in particular in the field of the so-called collaborative economy), new financial products, large numbers of taxable persons and services, digitalisation of the economy and the booming of e-commerce. At the same time, tax administrations are requested to improve their efficiency and accountability while reducing budgets and staff recruitments. This forces tax administrations to look for new and flexible actions and approaches to collect taxes, including VAT.

To create synergies and cut costs, several Member States merged the tax administration with the customs administration and/or financial investigation departments. Furthermore, all tax authorities are using to a greater or lesser extent a risk-based approach when performing their core tax administration functions. Several tax administrations have created a dedicated data analytics and risk management function responsible for the detection of risks and the design and implementation of a risk management strategy. Others have incorporated risk-based procedures in all or part of the core functions of tax administration in order to better allocate resources and be more efficient and effective.

Moreover, due to legislative changes (for instance the introduction of the Mini One Stop Shop[[3]](#footnote-3), the application of the reverse charge mechanism in certain sectors, changes in VAT rates or the cash accounting scheme[[4]](#footnote-4)), the VAT system had to be modified at national level.

Recommendation 1: Tax administration organisation

*For assessing the impact of changes in managing the VAT system (i.e. reforms in organisation, processes and procedures), Member States should have a monitoring and evaluation system in place to report on the efficiency and effectiveness of the measures taken.*

3.1.2. Digitalisation and Information Technology (IT)

Current administrative processes are characterised by digitalization and IT. These developments impact the relationship between taxpayers and tax administrations: they facilitate the fulfilment of taxpayers' obligations and help tax authorities in detecting and analysing VAT risks. Due to a need for more revenues, greater efficiency and improved compliance in an environment of shrinking resources, tax authorities are increasingly relying on digital tax data gathering and analysis. It allows tax authorities to collect tax data in almost real time, in particular when the information can be collected directly from the taxpayer’s own systems. VAT is one of the first taxes to be fully digitized. E-services, taxpayer accounts, e-invoicing, the use of national control statements[[5]](#footnote-5) are examples of these developments.

In the reporting period, this **trend towards an increasing use of IT** is clearly identified, although the level of implementation differs between the Member States. Data mining and analysis are playing a growing role in compliance and audit initiatives. Based on the data received from taxpayers, tax authorities are better equipped to uncover complex business relationships and fraudulent activities, which for instance trigger audits or stop the payment of refunds.

**The use of data analytics for compliance purposes is expanding**. In the field of VAT, several Member States have taken or are in the process of introducing initiatives to collect information on invoice level, with a view to improving the transparency of transactions in their territory or are gathering data about movements of goods. Whereas IT helps tax administrations in gathering more and more data, increasing amounts of information do not necessarily lead to a better risk assessment: too much information could even hinder the identification of relevant data and result in less compliance. Therefore, tax administrations need to strike a proper balance between the need for information and its proper processing and analysing on the one hand, and the administrative burden put on businesses on the other hand.

Furthermore, tax authorities feel constraints when it comes to investing in IT. Often, IT systems (hardware and software) are costly and not always compatible with each other, which can hamper the exchange of information between tax authorities and/or with other government bodies. **Member States may benefit from a closer cooperation** between each other in order not to duplicate efforts and systems, cut IT-costs and gain mutual advantages by investing in compatible IT solutions.

Recommendation 2: Digitalisation and IT

*As digitalisation and IT turned into critical elements of tax administration, Member States should carry on digitalizing and automating data and tasks. Subsequently, together with other Member States, they should explore ways how their domestic data could be best used in also helping other Member States. To this end, the ongoing Transaction Network Analysis (TNA) project[[6]](#footnote-6) could serve as useful point of reference.*

3.1.3. Analysing the VAT Gap

In the reporting period the VAT Gap showed a slight decrease in volume as well as percentage (see figure 1). Nevertheless, at individual level the differences in the VAT Gap between the Member States are still significant (ranging from 0 percent to 36.9 percent). Although there might be various reasons for the decrease in the size of the VAT Gap, for instance improved data or economic growth, the reduction might be related to better tax administration as well. In the assessed years (2013-2016) many tax authorities have taken a number of sometimes far-reaching measures aiming at reducing the VAT Gap.[[7]](#footnote-7) Although there is no hard evidence of the impact of these measures on the size of the VAT Gap, it is likely that they influenced the level of compliance and thus, the size of the VAT Gap. In addition to the VAT Gap report published by the Commission, an increasing number of Member States are calculating their own VAT Gap, and at a more detailed level, for instance by calculating the VAT Gap per economic sector or geographical area.

Recommendation 3: VAT Gap calculation and analysis

*Member States should invest or continue investing in calculating their own VAT Gap and analysing this gap in more detail.*

3.2. VAT registration and de-registration

Member States must have in place a tax registration system that identifies their VAT taxpayers[[8]](#footnote-8) and must store the relevant data on intra-EU taxable transactions in the VIES system[[9]](#footnote-9).

3.2.1. VAT registration

An efficient registration procedure and correct attribution of VAT identification numbers strengthen key administrative processes associated with filing, payment, assessment, collection and dispute resolution. To this aim, the information collected at the moment of registration and stored in the tax administration databases should be complete, accurate and up-to-date. It is critical that tax authorities follow the registration and deregistration procedures accurately, since **non-performance in this area will have a major impact on VAT collection in the other Member States**.

While the registration process needs to be fast in order not to hamper taxpayers in doing business, it is vital to avoid that VAT identification numbers are given to taxpayers with fraudulent intentions. Therefore, a balanced approach between rapidity and safekeeping is important.

*Figure 2: Evolution of VAT registration requests in 21 EU Member States (2013-2015)[[10]](#footnote-10)*

|  |  |  |
| --- | --- | --- |
|  | Legend: | |
|  | VAT Registration Requests |
|  | (total number) |
|  |  |
|  | VAT Registration Requests |
|  | compared to 2013  (evolution) |
|  |  |
|  | Refused registrations |
|  |  |
|  | |

*Source: Member States' answers to 2017 Questionnaire*

In the reporting period the overall number of registration requests for VAT purposes in the 21 Member States in the graphic is more or less stable, while the number of deregistrations from the VIES system increased significantly in 2015. No specific reason for this increase has been identified.

Registration procedures are in place in all the Member States. "One-stop-shop" registration facilities are available in some countries. Instead of registering for different purposes in several offices (for instance Chamber of Commerce, Commercial Court and tax office) businesses can register for all commitments in one single place. This implies integrated databases and exchange of information between the relevant institutions.

*Figure 3: Availability of main features in registration procedures in 28 EU Member States (2016)*

|  |  |  |
| --- | --- | --- |
|  | VAT registration info for taxpayers is available  In foreign languages  Online VAT registration is possible  Authenticity of VAT registration is verified  Pre-VAT registration checks are in place  IT assisted VAT and VIES registration system  VIES post-registration verifications |  |

*Source: Member States' answers to 2017 Questionnaire*

In line with the trend towards better services to taxpayers, on-line registration is also becoming a standard practice[[11]](#footnote-11).

Information about registration procedures and obligations is communicated to the taxpayers mainly via the tax administration’s website. However, still in some Member States this **information is not available or accessible in a foreign language**, which may cause difficulties for non-established taxpayers to fulfil the registration conditions.

Recommendation 4: VAT registration for foreign taxpayers

*Despite the recommendation in the previous report, some Member States should still invest more in assisting foreign taxpayers in fulfilling their VAT registration obligations.*

**Member States have different numbering practices in place to identify taxpayers**. It varies from one single identification number for all taxes including VAT to different identification numbers for VAT and other taxes. In some Member States, even the VIES registration number is different from the VAT identification number. **This fragmentation of VAT identification practices may result in extra administrative burdens for businesses operating in different Member States.**

Recommendation 5: VAT identification numbers

*With a view of reducing this administrative burden, Member States and the Commission should reflect on the allocation of VAT identification numbers and VIES registration numbers.*

In order to avoid that a VAT registration number is used for fraudulent activities, tax administrations have to ensure that the information provided by the taxpayer is authentic, accurate and complete. For this purpose, a large number of Member States have in place an end-to-end process that includes verification of the taxpayer’s identity, preliminary checks before registration, based on risk analysis, cross-checks with third party information, post-registration monitoring programs for risky traders, and deregistration procedures in case taxpayers no longer fulfil the conditions for registration. Although a number of Member States have implemented this end-to-end process, the accompanying activities are often carried out on an ad hoc basis, which increases the risk of unreliable data in the registration system. With a more systematic approach tax administrations are better equipped to tackle risks in the registration procedure.

Recommendation 6: Validity of VAT and VIES registration

*Member States should check the validity of the VAT and VIES registration data in a more systematic way.*

In general**, Member States are moving towards a registration procedure based on risk assessment**. In order to avoid that such an approach could entail a delay in issuing VAT identification numbers, several tax administrations have put in place procedures that mitigate this risk.[[12]](#footnote-12) Member States indicated in their replies that the time needed for submitting a VAT and/or VIES identification number is within one week, ranging from one to five days. **Therefore, it seems that the risk assessment approach does not result in significant delays of submitting a registration number for VAT and/or VIES**.

*Figure 4: Time needed for obtaining a VAT and a VIES number in 22 EU Member States (2013-2015)[[13]](#footnote-13)*

*Source: Member States' answers to 2017 Questionnaire*

In all Member States the VAT registration database is available in electronic format, which allows tax authorities to link the registration information with other IT subsystems dedicated to VAT filing and payments, collection and audit.

Finally, it should be noted that the vast majority of tax administrations have compliance strategies in place that include initiatives to detect non-registered taxable persons. Information campaigns[[14]](#footnote-14), on-the-spot visits and checks of domestic control statements[[15]](#footnote-15) are examples of such initiatives.

3.2.2. VAT de-registration

In all Member States tax administrations deregister taxpayers on their request or *ex officio*, when the economic activities have ceased. A few Member States introduced a possibility of deregistering taxpayers when for a number of months they did not submit VAT returns. In other cases, such as suspicion of fraud, most Member States do not have a legal possibility to deregister these taxpayers from the VAT system.

3.2.3. VIES registration and de-registration

There are different approaches towards registration of VAT taxpayers in the VIES. In some Member States, all national VAT registrations are automatically included in the VIES system. Other Member States only include in VIES those taxpayers that, at the moment of registration or subsequently, declare to carry out intra-EU transactions.

Member States' replies showed **that more than thirty percent of the tax administrations did not implement a post-registration control procedure.[[16]](#footnote-16)** Other Member States' tax administrations only carry out *ad hoc* post registration controls.

Recommendation 7: Post registration controls

*Member States which conduct only preliminary checks before registration, should implement post-registration controls to ensure the reliability of VIES data*

3.3. VAT filing and payment

VAT is a consumption tax. It is paid by the final consumer to the supplier, who is a VAT taxable person that collects the output VAT on its sales, offsets it with input VAT on its purchases and pays the balance of VAT due to the State Budget. Since the taxable person serves as a tax collector for the State Budget, it is important that VAT returns are filed and payments are made on time.

3.3.1. Filing

To improve compliance almost all Member States offer the possibility to file the VAT returns electronically. In most Member States, electronic filing is compulsory for all VAT-registered companies. Some Member States have allowed some exceptions, for instance for small companies.

All Member States offer electronic filing and a large number of Member States made it compulsory for many VAT taxpayers. The electronic filing rate increased from over 83 percent in 2013 to almost 95 percent in 2015.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Figure 5: Possibility to file electronically in 28 EU Member States (2013-2015)* | | |  | *Figure 6: Electronic filing rate in 28 EU Member States (2013-2015)* |
|  | Available |  |  |  |
|  | (optional) |
|  |  |
|  | Compulsory |
|  |  |
|  | Compulsory |
|  | (for some taxpayers only) |
|  |  |

*Source: Member States' answers to 2017 Questionnaire Source: Member States' answers to 2017 Questionnaire*

All Member States monitor filing deadlines in an automatic way. In the period 2013 - 2015 the compliance rate for on-time filing of VAT returns increased and almost reached 89 percent in 2015. When taking into account the VAT returns submitted within 30 days after the deadline was expired, the compliance rate reached over 96 percent.

*Table 2: Evolution of VAT returns in EU Member States for the period 2013-2015[[17]](#footnote-17)*

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** |
| Number of expected returns in EU Member States (million) | 127.9 | 130.1 | 132.3 |
| VAT returns submitted on time (%) | 87.1 | 88.6 | 88.9 |
| VAT returns delayed for less than 30 days (%) | 4.6 | 4.4 | 4.7 |
| Compliance rate in VAT returns (received/expected; %) | 91.2 | 95.9 | 96.4 |

*Source: Member States' answers to 2017 Questionnaire*

In case of late filing, most Member States send reminders (automatically or manually) after the deadline has expired. A few Member States send alerts prior to the forthcoming deadline. According to these Member States, this practice reduced the number of late-filers.

All Member States have a sanction system in place to encourage taxpayers to file declarations on time. If no VAT returns are filed the majority of Member States calculate an estimation of the VAT due and add a penalty. A simplified VAT filing system for small taxpayers is applied in half of the Member States.

3.3.2. Payment

In the majority of Member States, tax authorities offer the possibility to pay the VAT due electronically. However, only in 50 percent of the Member States electronic payment of VAT is compulsory. A few Member States still offer the possibility to pay the VAT due in cash, but are promoting the use of electronic means.

Also payment deadlines are monitored electronically. The general practice is that when deadlines expire, the tax authorities send automatic reminders. For small taxpayers, tax authorities offer a special simplified payment regime[[18]](#footnote-18).

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *Figure 7: Possibility for VAT e-Payments in 28 Member States (2013-2015)* | | |  | *Figure 8: Late payment reminders in 28 Member States (2013-2015)* | | | |
|  |  |  |  |  |  | |  |
|  |  | | Issued automatically |
|  | Available |  | |  |
|  |  | | Issued  ad-hoc |
|  | Not available |  | |  |
|  |  | | Not  issued |
|  |  |  | |  |
|  |

*Source: Member States' answers to 2017 Questionnaire Source: Member States' answers to 2017 Questionnaire*

In case of late payment, all Member States apply a penalty and interest system. **The Commission is currently in the process of identifying Member States' practices in the field of imposing penalties, so as to analyse legal constraints and the impact of penalties on compliance[[19]](#footnote-19).**

3.4. Recovery of VAT debts

VAT collection is based on self-assessment and voluntary payment. Tax administrations aim at achieving high rates of voluntary on-time payment and low numbers of tax arrears. To reach this goal, a high level of on-time filing of VAT returns is required for establishing the amounts of VAT owed and a quick follow-up action is needed when payment is overdue. In general this action consists of imposing penalties and interest and executing a debt recovery plan.

To improve efficiency, all Member States have established dedicated debt collection units or trained specialist debt recovery staff in their tax administration, or outsourced the recovery of debts to a semi-governmental body. In case of "in-house" recovery activities, these are mainly operated at national level.

The vast majority of tax administrations have an accurate overview of the VAT arrears, often classified by year, amount or origin (i.e. self-assessed or a result of an audit). For some of the Member States this overview is real-time available.

*Figure 9: Recovery of VAT debts - overview of main tools and practices used in 28 EU Member States (2016)*

|  |  |  |
| --- | --- | --- |
|  | New debtors: early contacting procedure  Procedure for offsetting tax credits  Use of instalment plans  Possibility to write-off uncollectable debts  Liability of company's management for VAT  VAT can be paid by the buyer (outside the reverse charge) |  |

*Source: Member States' answers to 2017 Questionnaire*

The legal tools and approaches for debt collection differ between the Member States. The general approach in tax debt collection is to put resources where there is a chance of collecting the money. Many Member States have a procedure in place that provides for early contacts with new debtors[[20]](#footnote-20) (by phone or email), either systematically or occasionally. Furthermore, emphasis is put on "young" claims for which assets have been identified. Practice indeed shows that the rate of success in recovering old debts is more limited.[[21]](#footnote-21) However, some tax administrations have a legal obligation to enforce all their claims, and recovered amounts are first imputed on their oldest claims.

Instalment arrangements and offsetting tax credit entitlements (e.g. VAT refunds) against outstanding VAT debts are common practice. **Less conventional and under discussion is the offsetting of a foreign VAT debt against a foreign VAT refund**.

In case of uncollectable tax debts, a large number of tax administrations may apply write-off procedures, as part of their management of public tax debts. Although several Member States have the legal possibility to enforce VAT arrears against a company's management or a buyer (joint and/or several liability), this tool is difficult to apply because the burden of proof is on the tax administration.

The Commission is publishing an evaluation of the Directive on mutual assistance in the field of recovery. Member States are invited to take notice of this report.

Recommendation 8: Post registration controls

*As recovery contributes to tax fairness, Member States should enhance the use of all available recovery instruments, including the mutual assistance mechanism.*

3.5. VAT refund

Resource constraints on the side of the tax administration and the need for businesses to receive the money within due time require that tax authorities strike the right balance between a swift repayment of VAT to legitimate businesses and a thorough control in case of mistakes and fraud.

Almost all Member States' tax administrations have procedures in place based on risk assessment methods, which ensure that a significant part of low-risk VAT refund requests are promptly processed, while the risky ones are closely controlled. In most Member States, these procedures are automated through electronic processes. In a few Member States, all requests for VAT refunds need to be controlled before the payment can be made (systematic prior controls), which may cause a delay in the refund procedure. Budget constraints may also have an impact on the timeline for refunding VAT. **Both situations (systematic prior controls and late refunds due to budget constraints) put financial pressure on legitimate businesses and cause an obstacle for cross-border trade.**

Recommendation 9: Late VAT refund payments

*The Commission launched a study on domestic and cross border VAT refunds. In the context of this study, and together with Member States, it will explore how to improve and speed up this process.*

3.6. VAT audit and investigation

All tax administrations have audit departments within their organisation that in many cases also include dedicated anti-fraud units. Furthermore, in addition to the traditional way of auditing, all tax administrations implemented e-audit techniques.[[22]](#footnote-22)

General audit strategies and/or programmes are designed; often targeted ones for VAT are added. A variety of VAT audits (comprehensive field audits, issue-related audits, desk audits, etc.) are carried out to check the correctness of the data declared in the VAT returns. However, audit is an expensive tool as it is time-consuming and requires a large number of human resources. Moreover, the percentage of audit contribution to the total VAT collection is limited.

Nowadays, **many tax administrations recognise that (full) audit coverage is no longer expected to be the most efficient and effective means to deter non-compliant behaviour.** Instead, these administrations consider audit as an ultimate enforcement measure to be applied when other proactive initiatives that focus on enhancing voluntary compliance with the tax laws and obligations are not or no longer effective. Striking the right balance between compliance increasing initiatives and VAT control is one of the major challenges of a tax administration.

***Figure 10****: VAT collection and VAT assessed after audits in 22 EU Member States[[23]](#footnote-23) (2013 – 2015)*

*Source: Member States' answers to 2017 Questionnaire*

Other tax administrations base their (VAT) compliance approach mainly on monitoring and control. Under this approach, it is standard practice to use risk management techniques to improve the effectiveness of audits, in particular in audit case selection. Measures are taken to support risk analysis, for instance by introducing control statements that allow the tax authorities to cross-check sales and purchases at domestic level. Also, the increased use of third party information contributes to a more targeted audit approach. The information gathered from this approach proved to be an important element for the detection of fraud.

An obstacle from moving away from an audit approach to preventative measures is the way tax administration’s efficiency is measured. If the efficiency is measured based on audit/collection statistics, shifting to a compliance-based approach requires that other metrics are used, such as VAT Gaps and the assessment by businesses of fairness in treatment received from the tax administration within the competitive environment.

Recommendation 10: Audit and compliance strategy

*Member States should ensure that their audit strategy is part of an overall (VAT) compliance strategy and not a stand-alone approach.*

Finally, combatting VAT fraud is still one of the priorities of tax administrations and of the Commission.[[24]](#footnote-24) In particular in the case of combatting cross-border VAT fraud, administrative cooperation between Member States' tax authorities needs to be strengthened. This is why the **Commission has evaluated the current administrative cooperation arrangements and is tabling a proposal to amend the Council Regulation on Administrative Cooperation in the field of VAT**.

4. Implementation of recommendations from the Seventh Article 12 Report and Staff Working Document[[25]](#footnote-25)

The seventh Article 12 report and accompanying Staff Working Document include 32 recommendations addressed to twenty-seven Member States.[[26]](#footnote-26) The recommendations were grouped into seven sections: (a) VAT Identification, registration and deregistration; (b) Customs Procedure 42; (c) Filing and Payment of VAT returns; (d) VAT collection and debt recovery; (e) VAT audit and investigation; (f) Tax dispute resolution and (g) VAT compliance. Each recommendation was applicable for at least two up to twenty-seven Member States.

*Figure 11: Implementation rate of the recommendations per section for 27 Member States[[27]](#footnote-27)*

*Source: Seventh Article 12 Report (previous recommendations); Member States' answers to 2017 Questionnaire*

Based on the Member States’ replies, it appears that over two third of the recommendations were fully or partially taken on board. However, a closer look at the individual implementation rates per Member State and per recommendation shows a considerable variation. Some Member States hardly took the proposals on board, while others implemented most of the suggestions. Some recommendations were well received (for instance on VAT registration and audit), while others were hardly implemented (for instance in the field of dispute resolution).

In particular, **keeping the VIES system accurate and up-to-date remains a major concern**. Still today in a number of Member States the validity of the data in the VIES system is not checked on a regular basis, which causes considerable difficulties for traders doing business in the internal market (see also paragraph 2.2.3).

*Figure 12:* *Overall implementation rate[[28]](#footnote-28) of previous recommendations*

|  |  |  |
| --- | --- | --- |
|  |  | *Not implemented* |
|  |  |
|  | *Implemented* |
|  | *out of which:* |
|  | *Fully implemented* |
|  |  |
|  | *Partially implemented* |

*Source: 7th Article 12 Report (previous recommendations); Member States' answers to 2017 Questionnaire*

Furthermore, as also stressed by the European Court of Auditors[[29]](#footnote-29), **the application of the Customs 42 procedure[[30]](#footnote-30) continues to be problematic.** A systematic check by customs of the VAT number in VIES is still lacking, as well as the transmission of data to the national tax authority, the inclusion of risk criteria, etc.

**The weaknesses relating to the functioning of the VIES and the Customs 42 procedure have serious consequences and affect the functioning of the internal market.** In fact, fraudsters take profit of these shortcomings by remaining in the VAT system and thus causing VAT losses to Member States' Budgets and consequently having a negative impact on the VAT own resources.

This demonstrates that the overall 70.8 percent implementation rate of the recommendations (as resulting from the answers received by the Member States) does not give as such a real indication of the improvement of tax administrations' efficiency in VAT collection. Other self-assessment tools could help Member States to carry out a more systematic and reliable evaluation of the performance of their tax administration. Tools such as the Fiscal Blueprints[[31]](#footnote-31) and the Tax Administration Diagnostic Assessment Tool[[32]](#footnote-32) are publicly available to support Member States in this exercise.

Recommendation 11: Customs 42 procedure

*Recalling the recommendation in the previous report, Member States should still ensure that the Customs authorities check the VIES number and exchange the information with the tax authorities.*

5. Towards better Tax (VAT) Administration by cooperation

**In a continuously changing environment, the collection of taxes is becoming increasingly challenging**. Digitalisation, globalisation, new business models, tax fraud and avoidance, and resource constraints urge tax administrations to review their practices and find additional or alternative ways of collecting taxes. Also, the quality of tax administration in terms of efficiency and effectiveness should be ensured to avoid impacting the collection of VAT revenues in their own and other Member States.

**Thus, it is time to act and work together.** Many tax administrations realize that they can no longer act in isolation. Already today, tax authorities of smaller Member States are working closely together on common issues so as to benefit from economies of scale (Benelux, Nordic countries and Baltic States). Topics in the field of IT, compliance approaches, risk management, fight against tax fraud and administrative capacity building appear on their agendas. However, the beneficiaries of these regional initiatives are confronted to the limits of their geographical coverage in a larger Union, and often try to expand their initiatives to the EU level. Sometimes the Member States do not manage to give a proper follow-up to their commitments because of lack of resources or political engagement. In addition, some tax administrations are engaged in structural reforms and would like to share their experiences. With the support of the Commission, these Member States can inform and assist other administrations when reforming their organisation. There are already tools such as the Fiscalis 2020 Programme[[33]](#footnote-33) and the Structural Reform Support Programme[[34]](#footnote-34) that can be used by Member States to enhance their tax administrations capacities.

In view of the above, Member States may benefit from a **structured strategic dialogue at EU level** **on the main challenges** such asthe impact of the digital economy and new technologies, the use of administrative cooperation to fight against VAT fraud, investing in data analytics tools and processes and in IT collaboration, sharing experiences in reforming tax administrations and assess their performance, compliance approaches and risk management.

Together with the Member States, the Commission will organise a meeting for Heads of Tax Administration in 2018 to discuss these challenges and how to address them.

Furthermore, IT systems are essential for the implementation of tax policies, the fight against fraud and the use of data for better policy-making. Tax administrations are increasingly relying on data collected from different sources (taxpayers, other government bodies and institutions, other Member States, etc.). Handling this enormous amount of data has become a major challenge as it can no longer be dealt with in a traditional way. New tools are needed to be able to process and analyse the data. Thus, Member States are forced to continue investing in IT solutions. Further cooperation, coordination and transparency between EU Member States in this area would help to significantly reducing costs by benefiting from a joint approach and economies of scale.[[35]](#footnote-35)

Member States as well as the Commission are exploring the use of new technological products and digital techniques for data sharing and analytics. Enhanced collaboration between the Commission and the Member States’ tax administrations, and between these administrations, is the best way to bring compatible benefits for all in the single market. Moreover, it would facilitate the implementation by the Member States of their commitments in the field of tax administration.

1. <https://ec.europa.eu/taxation_customs/sites/taxation/files/study_and_reports_on_the_vat_gap_2017.pdf> [↑](#footnote-ref-1)
2. Tax administration can be described as a set of measures, procedures and tools, which a Tax Authority uses to administer and manage the tax policy decisions, with the aim of collecting the correct amount of revenue according to the laws in the most effective way and at the least administrative costs. [↑](#footnote-ref-2)
3. The Mini One Stop Shop legislation is in force as of 1 January 2015. It concerns the place of supply for telecommunication services, radio and television services and electronically supplied services. Council Regulation (EU) No 967/2012 of 9 October 2012 amending Implementing Regulation (EU) No 282/2011 as regards the special schemes for non-established taxable persons supplying telecommunications services, broadcasting services or electronic services to non-taxable persons. [↑](#footnote-ref-3)
4. The scheme allows taxpayers to account for VAT on the basis of received payments instead of issued invoices [↑](#footnote-ref-4)
5. Control statements cover the VAT invoices, enabling the tax authorities to cross-check transactions [↑](#footnote-ref-5)
6. The purpose of the TNA-software is to apply a data mining technique to VAT-related data in order to rebuild fraudulent networks. This tool is to improve the current working practices of Eurofisc.  [↑](#footnote-ref-6)
7. Examples: Bulgaria, Estonia and Slovak Republic – Domestic control statements; Belgium – Transaction network analysis for detection of VAT fraud. [↑](#footnote-ref-7)
8. Council Directive 2006/112/EC on the common system of Value Added Tax, 28 November 2006, Article 214. [↑](#footnote-ref-8)
9. VIES is the VAT Information Exchange System. The information available through VIES and the use of the system are regulated in Chapter V of Council Regulation (EU) No 904/2010. [↑](#footnote-ref-9)
10. Data is available only for 21 out of 28 Member States (no data sets for Austria, Croatia, Finland, France, Germany, Luxembourg and Sweden) [↑](#footnote-ref-10)
11. In 25 Member States it is possible to register for VAT on-line (currently Croatia, Cyprus and Romania do not offer on-line VAT registration). [↑](#footnote-ref-11)
12. For instance by separating the requests for registration in a green line (no risk - immediate registration) and a red line (potential risk - further enquiries needed before registering). [↑](#footnote-ref-12)
13. Data is available for 22 out of 28 Member States (no data sets for Cyprus, Estonia, Finland, France, Ireland and Spain). [↑](#footnote-ref-13)
14. For example in the tourism sector taxpayers are made aware via media to register when they rent their apartments during the holiday season. [↑](#footnote-ref-14)
15. Domestic control statements are submitted by VAT taxpayers and include declarations of sales and purchases within the territory of registration. [↑](#footnote-ref-15)
16. According to Article 22 of Council Regulation (EU) 904/2010 Member States are obliged to conduct post registration controls if they conduct only preliminary checks before registration. [↑](#footnote-ref-16)
17. Based on complete datasets from 21 Member States and 6 partial datasets; no datasets for Croatia were available. Data was collected in 2017 for years 2013-2015. For EU figures, *median* values are used. [↑](#footnote-ref-17)
18. An example is the VAT cash accounting scheme, which allows small businesses to pay their VAT due when they have received the money from their buyers (which in practice is later than in the standard practice where they have to pay when the invoice is issued). [↑](#footnote-ref-18)
19. See: *Twenty measures to tackle the VAT Gap.*

    <https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/tax_cooperation/vat_gap/2016-03_20_measures_en.pdf>. [↑](#footnote-ref-19)
20. New debtors are VAT taxpayers that enter into the debt collection database for the first time. [↑](#footnote-ref-20)
21. See: OEDC, Forum on Tax administration, *Working smarter in tax debt management*, September 2013. [↑](#footnote-ref-21)
22. In a traditional audit the auditor visits the premises of the taxpayer or his accountant to check the bookkeeping. E-audit is an audit methodology with data acquisition via internet-connected applications so that auditors can access financial and non-financial data in real time from their office. [↑](#footnote-ref-22)
23. Data is available for 22 out of 28 Member States (no data sets for Belgium, Germany, France, Netherlands, Sweden and United Kingdom). [↑](#footnote-ref-23)
24. The Commission has recently released a video about VAT carousel fraud to raise awareness of EU citizens. <https://www.youtube.com/watch?v=7rPzXzCoxkI> [↑](#footnote-ref-24)
25. Report from the Commission to the Council and the European Parliament, *Seventh report under Article 12 of Regulation (EEC, Euratom) no. 1553/89* on VAT collection and control procedures, COM (2014) 69 final; Commission Staff Working Document accompanying the document *Seventh report under Article 12 of Regulation (EEC, Euratom) no. 1553/89*, SWD (2014) 38 final. [↑](#footnote-ref-25)
26. Croatia was not part of the EU at that time. [↑](#footnote-ref-26)
27. For the computation of the "Implementation rate" (%) the total number of previous recommendations and the number of recommendations appearing as implemented is used. The calculation is based on Member States' replies (self-evaluation) and takes into account only the Member States who were concerned by the respective recommendations. [↑](#footnote-ref-27)
28. The line between "not implemented" and "partially implemented" is not very clear and the degree of partial implementation varies from one Member State to another. The data result from a self-assessment by the Member State providing the answers. [↑](#footnote-ref-28)
29. Court’s Special Report No 24/2015 “Tackling intra-Community VAT fraud: More action needed”, paragraph 83. [↑](#footnote-ref-29)
30. Customs procedure 42 is a mechanism an EU importer uses in order to obtain a VAT exemption. It is applied when goods imported from outside the EU into one Member State will be transported to another Member State. In such cases, the VAT is due in the latter Member State of destination. [↑](#footnote-ref-30)
31. See: <https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/common/publications/info_docs/taxation/fiscal_blueprint_en.pdf> [↑](#footnote-ref-31)
32. See: <http://www.tadat.org/> [↑](#footnote-ref-32)
33. Fiscalis 2020 is an EU cooperation programme enabling national tax administrations to create and exchange information and expertise. It allows developing and operating major trans-European IT systems in partnership, as well as establishing various person to person networks by bringing together national officials from across Europe. [↑](#footnote-ref-33)
34. The EU structural reform support programme is intended to help Member States to design and implement institutional, administrative and structural reforms and to use EU funds that are available for such purposes more efficiently and effectively. [↑](#footnote-ref-34)
35. An example of such collaboration is the Commission expert group: the IT Catalyst Group [↑](#footnote-ref-35)