



**GREEN PAPER ON THE FUTURE OF VAT
“TOWARDS A SIMPLER, MORE ROBUST
AND EFFICIENT VAT SYSTEM”**

- CONSULTATION -

- UGAL COMMENTS -

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UGAL RESPONSE

Preliminary remarks

- 1.1 UGAL welcomes the Commission's intention to fundamentally review the VAT system in order to achieve a simpler, more robust and efficient VAT system.
- 1.2 UGAL agrees with the European Commission's statement in its Green Paper that VAT compliance costs are a major administrative burden for EU businesses. As such, UGAL supports the European Commission's assessment that reducing this burden would significantly contribute to increasing the competitiveness of European companies.

Current complexities and administrative burdens

- 1.3 The current VAT system is extremely complex, detailed and based upon a number of national, European and international rules, rates, derogations and exemptions. Fraud has also been on the increase under the current system. Fraud in particular leads to lost VAT revenue.

→ Rather than concentrating on harmonizing national rules, which are always likely to differ in taxation issues, focus should be placed on eliminating fraud from the system. A more secure VAT system could help to reduce lost revenue.

- 1.4 The current VAT system is particularly burdensome to the SME retailers represented by UGAL. One such burden is the current internet based system of filing VAT refund requests that came into force on 1 January 2010. It should be recalled that this system is, in theory, meant to reduce administrative costs for businesses that are active in more than one Member State. Cost reductions are supposed to be achieved by allowing businesses to submit all refund requests through a web portal in the country where the business is based.
- 1.5 In practice, this system has led to delays in receiving VAT refund requests. In some scenarios this could lead to the foreclosure of a business. It has been reported that some businesses have submitted a lower volume of VAT refund requests than was previously the case under the old paper based regime. This is testament to the current lack of confidence in the system.
- 1.6 Further problems have been caused by a lack of standardization in the type and size of electronic files that national online authorities can accept online. For example, there is no uniform Electronic Data Interchange (EDI) standard used in the field of VAT. Different systems are used in Austria, Denmark, Germany and Hungary. This leads to high costs for tax assessments for companies transacting across borders. This is particularly the case for those groups of independent retailers that do business cross-border (for example with suppliers). One further EDI related difficulty that

has been brought to UGAL's attention is the differing categorisation of "goods" and "services" across Member States. If something is categorised as a "good" in one Member State but as a "service" in another Member State then the electronic VAT treatment of that "good" or "service" is given added complexity.

→ UGAL believes that when standard models for VAT assessments or data exchanges are chosen, they must be those of the EU Member State that has the simplest VAT system containing the least administrative burdens.

A simple VAT system would favour cross-border transactions

- 1.7** An ideal VAT system is a simple VAT system. As a result of the existing complexities, there is current uncertainty of VAT treatment, which can lead to companies having to charge more for their products. Indeed, B2B, B2C and e-commerce transactions occasionally appear to be treated differently for VAT purposes. This does not favour the development of cross-border transactions or competitive product offerings. This is in spite of the economic benefits that setting up cross-border retail operations potentially offers.

Derogations

- 1.8** UGAL agrees with the European Commission's assessment that the current variation in the standard rate in the EU and the reduced or zero rates applied by some Member States do not seem to cause major disruption in the Single Market. This is partly because many goods, for which reduced rates or derogations exist, e.g. certain fresh produce, are often bought and sold locally/nationally.
- 1.9** It should be noted that reduced rates and derogations are a result of national policies on citizens' health/diets, on healthcare systems, and on the environment.

Legislative process

- 1.10** UGAL opposes any move towards altering the current legal process required in order to amend VAT policy.
- 1.11** To ensure fiscal sovereignty, VAT should be dealt with at national level. This would have the added benefit of ensuring that a majority of SMEs, who often do not have the time, or resources, to actively be involved in EU debates, could still have a strong voice on the issue at the level of national government.
- 1.12** The suggestion to remove the need for unanimity, even in the area of implementing measures is of particular concern. The requirement for unanimity is vital to preserve the fiscal sovereignty of each Member State and to

accommodate the legal differences (such as in property and commercial law) that are in place throughout the EU.

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*Established in 1963, **UGAL** – the **Union of groups of independent retailers of Europe** – is the European association that acts as an umbrella organisation for the main groups of independent retailers in the food and non-food sectors.*

These groups are set up like wholesale businesses by independent retailers and craftsmen. Their aim is not only to provide their members with the best purchasing conditions. What they are also seeking is to jointly contribute technical and material resources, together with all the services and the human capacity required to guarantee the operation and development of modern commercial and distribution enterprises for retailers to effectively respond to consumer expectations.

To achieve this, these groups seek economic performance through networks of points of sale – consisting of SMEs usually working under a common brand name.

UGAL represents nearly 300.000 independent retailers, who manage more than 540.000 sales outlets. This represents a total employment of more than 5.000.000 persons.

More information about UGAL under www.ugal.eu