SOPHER + CO
Chartered Accountants

EUROPEAN COMMISSION PROPOSES MAJOR REFORMS TO THE EU VAT SYSTEM

On 4 October 2017, the European Commission have issued details of proposed major changes to the EU VAT systems to be effective from 2021. These changes may or may not impact the UK if we achieved Brexit by then but they will impact on some businesses regardless.

These proposed changes have come about because of a major leakage (€50bn annually) due to fraud using the current charging and accounting for cross border EU trade. These proposals aim to cut the annual loss to €10bn, which is still a staggering sum.

Current situation
Intra-EU trade uses what is known as the "Origin" basis whereby the VAT is due in the country of the vendor but to alleviate buyers from having to recover this VAT from other Member States, the "Reverse Charge" simplification is used and the purchaser accounts for and recovers the VAT in the country of destination. So a UK company selling to a Spanish customer does not account for any UK VAT but the Spanish customer charges himself Spanish VAT and recovers it to the extent he is allowed on his Spanish VAT return.

What is going to change?
The new proposal which uses the "Destination" principle which will mean in the above scenario the UK company will charge the Spanish company Spanish VAT and declare that Spanish VAT on his UK VAT return which as you can imagine will have to have boxes foe every Member State in the EU. The fun then begins because the UK then has to pay to the Spanish tax authority the Spanish VAT which was charged and collected by the UK company. This is a mechanism already adopted by the Mini One Stop Shop (MOSS). However, this proposal is on a far greater scale.

This proposed system has never been adopted (although it was supposed to be in 1977) for a number of reasons:

1. The rates of VAT are different in many Member States and are not uniformly applied to goods and services. For example the UK has a Zero rate for a large number of food items which in other Member States are liable to full or reduced rate of VAT;
2. This proposal adds further complexities for businesses as they also have to track frequent changes to VAT rates in different Member States to ensure VAT is charged correctly;
3. Potentially all businesses will be required to go onto monthly VAT returns to minimise any cash flow losses or advantages in different Member States;
4. There is also likely to be an inherent mistrust between different Member States about the remittance of VAT collected by one Member State which is due to another. For example, will Germany trust Greece to remit all the German VAT that Greek businesses have collected?

Issue
The problem is that the current VAT system is rife with fraud and cross-border trade and needs a fundamental review of its workings, but the question is whether national tax authorities are prepared to accept further harmonisation of their VAT systems to alleviate the vast sums of money being lost to fraud.

Furthermore, how will the UK fit into this proposed new world of indirect tax accounting?

Please note that this publication is intended as a general overview of the proposed changes. It is important that professional advice is sought on specific issues relevant to your personal circumstances and the legislation in force before any action is taken.

If you need any further clarification please do not hesitate to contact **Shaun King** at **shaunk@sopherco.com**