

# Summary Report of responses to European Commission's Open Public Consultation on the reform of VAT rates

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**Directorate General for Taxation and Customs Union**

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## Background

The Directorate General for Taxation and Customs Union launched an open public consultation on the Reform of VAT rates in December 2016. The aim of the consultation was to seek the views of different groups of stakeholders as regards a reform of the rules on VAT rates set by the VAT Directive and the way in which such a reform should be implemented.

In particular, the consultation aimed at obtaining stakeholders' views on the following issues:

- The need for EU action and in particular, the need to allow Member States more leeway in fixing VAT rates;
- The proper balance between harmonisation and Member States' autonomy in VAT rates setting;
- The problems and risks linked to differentiation of VAT rates within the Single Market;
- The desirable direction for reform as well as stakeholders' views on the policy options suggested by the Commission and their impacts.

The consultation on the reform of VAT rates will feed into the corresponding proposal, which is planned to be presented at the end of September 2017, alongside proposals on the definitive VAT regime, an SME package and improved administrative cooperation.


The consultation was conducted via the EU Survey platform and ran for thirteen weeks, between 21 December 2016 and 21 March 2017. Only responses received timely through the EU Survey online questionnaire have been taken into account for the purposes of this consultation.









The present report provides an overview of the responses to the public consultation. All responses and position papers submitted by the respondents are published on the Commission website. A number of responses are published anonymously, as requested by certain respondents; the position papers submitted by the latter are not published.

## Overview of consultation results

The number of responses to the questionnaire amounted to 327. In addition, 60 position papers were submitted.

The large majority of the respondents were trade/business/professional associations, followed by businesses. Participation of consumer associations/non-governmental organisations, tax experts and private citizens has been rather limited. The fact that citizens have not demonstrated increased interest in a topic which affects directly their everyday life may indicate that VAT remains a complex topic which is not easily accessible to those without expert knowledge.

Profile of respondent		Answers	Ratio
Business		85	25.99%

Tax expert, tax advisor or tax practitioner		25	7.65%
Trade/Business/Professional association		123	37.61%
Academic institution, think-tank		6	1.83%
Non-governmental organisation, consumer association		42	12.84%
National tax administration		2	0.61%
Other public authority, public institution, including national or regional parliaments		6	1.83%
Private citizen		28	8.56%
Other		10	3.06%
No Answer		0	0%

In terms of Member States, Belgium, Sweden, Germany, Bulgaria, France and the UK topped the list of the Member States with most responses. 62,5% of the trade associations which responded are registered in the EU Transparency Registry, while only 13,5% of businesses which responded are registered. No contributions were received from twelve Member States, whereas four non-EU countries were represented among respondents.

The questionnaire was divided in three main categories: questions for (a) businesses, (b) tax experts and associations and (c) all stakeholders. Certain questions were addressed to all stakeholder groups and other to specific groups, depending on its link with the experience of the stakeholder.

## Businesses

62% of the responses from businesses originated from Sweden and Bulgaria, which may be an indication of a 'campaign effect' and needs to be taken into account when interpreting the survey results for EU businesses.

42% of businesses which responded were small businesses, that is businesses with 1 to 9 employees as well as self-employed professionals; 35% were medium-sized businesses, namely businesses with 10 to 249 employees; 22% were big businesses, namely with 250 or more employees. 47% of the businesses which responded sell their goods or services only domestically, whereas 31% engage in cross-border sales to five or more Member States and 17.5% are involved in cross-border transactions to 2 to 4 Member States.

Businesses were asked whether VAT rates in their country, compared to those applied in the country of residence of their cross-border customers, have an influence on their purchasing behaviour. 50.59% of businesses did not answer. Of those that answered, 18.82% consider that rates do play an important role in the purchasing behaviour of their cross-border customers; 11.76% think that they only play a marginal factor, while the same percentage answered that the VAT rates are not important.

When asked about the impact of the complexity of the VAT rates system on cross-border sales, almost half of businesses (48.24%) indicated that they never considered potential difficulties with VAT rates to be important. A rather high percentage (29.41%) did not express an opinion while 16.47% feared difficulties due to VAT rates but this did not prevent them from pursuing sales opportunities in other Member States. 5.88% declared that different VAT rates for the same product actually hindered them from entering the market in another Member States.

In response to the question on which are the difficulties they face in identifying the VAT rate applicable to their transactions, 45.88% of the respondents stated that they do not encounter any particular difficulty, whereas 17.65% find it difficult to identify the VAT rate applicable in another Member State in case of a cross-border supply. 12.94% find it difficult to identify the applicable VAT rate in their own Member State. 9.41% encounter other difficulties, while 24.71% did not provide an answer.


Half of the responding businesses (50.59%) stated that they do not consult outside specialists (consultants, accountants etc.) to assist them in dealing with their VAT obligations related to cross-border transactions. The percentage of those that use outside consultants (44.71%) is slightly lower, while 4.71% preferred not to answer.

**All respondents**



48.71% of all respondents believe that the list of goods and services eligible for reduced VAT rates (Annex III to the VAT Directive) should include more products and services, while 30.17% find it adequate. It is worth noting that 21.12% do not provide an answer on this. Among products and services which should be included in Annex III, the following are suggested: female hygiene products, basic energy provisions, e-publications, horses, children footwear/clothes/nappies, driving licences, digital media, housing, landscape services, renovation services, beach facilities, travel agency services, ecolabel products, accommodation rents, floricultural products, cultural goods and services. It is stressed that respondents often ask that reduced rates be granted to products already included in Annex III and thus eligible for reduced VAT rate or for products that may be exempted from VAT.

In response to the question on whether granting additional flexibility to Member States could create new distortions of competition, respondents<sup>1</sup> were divided: 24.14% believe that this is very likely while 23.71% believe this is unlikely; 18.97 think that this is somewhat likely and 6.9% think this can be excluded. Last, 26.29% chose not to respond.




Opinions differed as to the priorities for reform: 51.99% of the respondents indicated a preference for simplicity of the VAT system against 28.75% who opted for flexibility for Member States. 19.27% of the respondents had no opinion (see Table below).

		Answers	Ratio
Priority should be given to more flexibility for Member States even if it implies a complication of the VAT system or greater differences between VAT rates		94	28.75%

<sup>1</sup> This question was not offered to businesses and other.



Priority should be given to maintain the simplicity of the VAT system and limit rate differences, even if this limits the room for manoeuvre of Member States		170	51.99%
Not sure/No opinion		63	19.27%



When asked about a specific element of flexibility for Member States, namely the number of VAT rates, 51.68% of the respondents seem to prefer the status quo, while 25.69% consider that Member States should have no limits on the number of VAT rates they can apply. A non-negligible percent (22.63%) do not articulate any opinion (see Table below).

		Answers	Ratio
Priority should be given to more flexibility for Member States, so Member States should have no limits on the number of rates they can apply		84	25.69%
The current number of rates provides sufficient room for manoeuvre		169	51.68%
Not sure/No opinion		74	22.63%

More than half of the respondents (52%) are satisfied with the current minimum standard rate of 15% and would like to keep it, whereas only 15.5% were against keeping it. 32% did not express an opinion on this matter. Similarly, as regards the current minimum reduced rate of 5%, half of the respondents (50%) suggested to keep it, while 19.5% would like to see it abolished. 30% do not have an opinion.

With regard to specific reform scenarios, 46% of the respondents preferred Option 1 whereas 22% preferred option 2; 17% of the respondents had no opinion. Only 14% of the respondents want to keep the current system, indicating a need for reform (see Table below).

		Answers	Ratio
Regularly review the list of goods and services that can be taxed at a reduced rate. Allow Member States to submit their proposals for adjustment, and charge the European Commission with reporting whether such changes would pose any risk of distortion of competition. Keep the minimum standard VAT rate at 15%.		150	45.87%
Abolish the list and allow greater freedom on the number of reduced rates and their level. Develop and put in place safeguards to avoid unfair tax competition, guarantee legal certainty and reduce compliance costs.		73	22.32%

It is best to keep the current system		47	14.37%
Not sure/No opinion		57	17.43%

The respondents were further asked whether granting Member States greater flexibility could, in their opinion, risk creating an erosion of VAT revenues and/or pressure to narrow the VAT tax base, because of more intense tax competition between Member States. A significant part of the respondents either did not provide an opinion (23.24%) or did not answer at all (25.69%). Of those who gave a concrete answer, most believe that revenue erosion is very (15.29%) or somewhat (17.13%) likely, whereas a smaller percentage believe that it is somewhat (11.62%) or very (7.03%) unlikely.

Last, most respondents (77.68%) did not provide an answer to what would be the best way for national administrations to provide clear and simple information on their VAT rates. Most of those who responded seem to favour a European database accessible to everyone (14.98%) while the rest are equally divided (9.79%) between harmonised rules on product categories and better Member State information on national websites. A minority of 4.89% indicated contact with administration as the most appropriate way to obtain such information.

## Conclusions

The opinions of the respondents vary widely and there is no clear consensus on any of the issues. There are also a number of apparently contradictory results; these could derive from the characteristics of respondents or, in some cases, from a lack of clear understanding of the more technical aspects of VAT. Overall, respondents seem to be fairly satisfied with the current number of VAT rates as well as with the current minimum for the standard and reduced rate. However, only 14% of the respondents want to keep the current VAT rates system, indicating a need for reform. In particular, respondents consider that the scope of the list of goods and services eligible for reduced rates should be extended to include more products and services. As to the reform options, the respondents indicated a preference for simplicity of the VAT system and a slight preference for Option 1.

## Final observations

The European Commission is grateful to all participants who took the time to make a submission. It highly appreciates the large amount of very substantial contributions and getting feedback from stakeholders of a very different nature. It was very informative to analyse all the comments and submissions provided by respondents.

Although it would have gone beyond the scope of this report to integrate every kind of comment, proposal or data, all the input provided by the stakeholders is important for the Commission's assessment of the current EU rules on VAT rates and its work on the upcoming proposal on the reform of VAT rates.