



Council of the
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OUTCOME OF PROCEEDINGS

From: General Secretariat of the Council

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To: Delegations

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Subject: VAT Action Plan "Towards a single EU VAT area"

- VAT Action Plan "Towards a single EU VAT area - Time to decide"
 - Special Report no 24/2015 by the European Court of Auditors "Tackling intra-community VAT fraud: more action needed"
 - = Council conclusions
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Delegations will find in the annex the Council conclusions on the Commission 2016 Action Plan on VAT and European Court of Auditors Special Report No. 24 on VAT fraud, adopted by the Council at its 3468th meeting held on 25 May 2016.

**COUNCIL CONCLUSIONS ON
THE COMMISSION 2016 ACTION PLAN ON VAT AND
EUROPEAN COURT OF AUDITORS SPECIAL REPORT No. 24 ON VAT FRAUD**

The Council of the European Union (ECOFIN):

- WELCOMES the Commission Communication "Towards a single EU VAT area – Time to decide" (VAT Action Plan) and TAKES NOTE of the Special Report of the Court of Auditors No. 24: "Tackling intra-Community VAT Fraud: More action needed", as well as of the findings and recommendations set out therein;
- RECALLS Council conclusions of 15 May 2012 "On the Future of VAT", where the Council has emphasised that the EU needs a simpler VAT system, which at the same time is more efficient, more robust, fraud-proof and tailored for single market and has pointed out the following principles and legal considerations, which should be taken into account in furtherance of any future action: cost-efficiency, proportionality, unanimity, data protection legislation, compliance with the subsidiarity principle and full respect for the respective competences of the Union and the Member States;
- AGREES that the EU VAT system needs to be modernised and improved with these general objectives in mind, while stressing the importance of keeping the EU's business environment competitive;
- ACKNOWLEDGES the objectives outlined in the VAT Action Plan, which provide a framework to achieve a Single EU VAT area, and
- ADOPTS the following conclusions:

I. ON URGENT MEASURES TO FIGHT VAT FRAUD AND TACKLE THE VAT GAP

The Council of the European Union:

1. RECALLS the utmost importance of robust legal rules which hamper VAT fraud and AGREES with the Commission and the Court of Auditors that improving administrative cooperation between tax authorities is of significant importance in the fight against VAT fraud, and hence UNDERTAKES to pursue discussion on means of enhancing the scope of administrative cooperation and stepping up efforts to exchange information between tax administrations;
2. CONFIRMS that there is a need for further co-operation in a spirit of good understanding among business and tax administrations, as well as between tax administrations of EU Member States;
3. UNDERLINES that further initiatives in this area should form an efficient addition to existing rules and instruments and also seek to guarantee high standards of data protection, and fully take into account the principles of sovereignty, subsidiarity and proportionality;
4. TAKES NOTE of the Commission's intention to table in 2017 a legislative proposal that will aim at improving the exchange, sharing and analysis of key information and foresee conducting of joint audits;
5. ACKNOWLEDGES that improvement of information exchange could result in a clear improvement of efficiency in the fight against VAT fraud, and CALLS upon the Commission to propose ways of addressing legal obstacles and practical limitations that might exist in the EU and in the Member States that prevent from making a qualitative leap in this area in the EU;
6. HIGHLIGHTS that this work should promote co-operation and cover the full range of available means and methods and alignment of procedures, including, *inter alia*, VIES, Eurofisc, feedback procedures and customs procedure 42, where the challenges both to customs and tax authorities must also be addressed;

7. LOOKS FORWARD to the other measures referred to in the VAT Action Plan that the Commission will propose to the Council with the objective of improving cooperation between tax administration and customs authorities;
8. UNDERLINES that as discussed during an informal meeting of ECOFIN ministers in Amsterdam, automatic exchange of information is one of the ways forward in the fight against fraud;
9. CONFIRMS that risk assessment and analysis remains a major area for further improvement in the EU, and INVITES the Commission, after the results of the feasibility study on Transaction Network Analysis have been evaluated by Member States, to present relevant initiatives enabling the Member States, wishing to start this tool on a voluntary basis, to exercise such an option, and at the same time ASKS the Commission to consider the possibilities of an explicit legal basis;
10. RECOGNISES that some Member States are more heavily affected by VAT fraud than others and the need to find practical and short-term solutions rapidly, and TAKES NOTE of the position of the Commission regarding a possible temporary derogation for certain Member States to apply the reverse charge mechanism in a wider scope and that the implementation of such derogation would require legislative measures;
11. CONFIRMS that such derogations should not disproportionately hamper the proper functioning of the internal market;
12. UNDERLINES, without prejudice to a definitive VAT system, that the information obtained from a temporary derogation could be useful to decide on the most efficient way of fighting VAT fraud, and LOOKS FORWARD to an in-depth analysis by the Commission on possibilities for a temporary derogation, to be presented at the upcoming June ECOFIN;
13. TAKES NOTE of the non-legislative measures whereby the Commission intends to tackle the VAT gap and STRESSES that the Council will examine these non-legislative measures on the basis of the principles of sovereignty, subsidiarity, and proportionality.

II. ON SHORT AND MEDIUM-TERM ACTIONS IN VAT AREA AND SMEs

The Council of the European Union:

14. WELCOMES the call by the Commission to reduce VAT compliance burdens for business, particularly for SMEs, both within Member States and across borders, and TAKES NOTE of the Commission's intention to make legislative proposals in 2016 and 2017;
15. EMPHASISES that the ultimate objective remains that VAT compliance costs in the single market are brought closer to the levels of those in domestic trade, however, further simplification should not result in an increase of VAT fraud risks or disproportionate rise of the costs of tax administration;
16. HIGHLIGHTS the importance of reflecting upon the position of micro-SMEs in the VAT system, in order to promote growth, jobs and real economy in the EU, without causing distortions of competition;
17. In the context of the Digital Single Market Strategy, STRESSES the importance of finding an EU-level solution rapidly to eliminate the competitive disadvantage for EU suppliers and UNDERTAKES to review the scope and discuss the possibility of repealing the VAT exemption for final importation of small consignments of goods into the EU by non-EU suppliers, considering also the impact of possible changes on the customs administration;
18. RECOGNISES the need to simplify cross-border e-commerce, and the opportunity to extend the "One Stop Shop" for online sales of tangible goods to final consumers and CALLS FOR further analysis and technical work to be undertaken on a common EU-wide simplification measure, including a threshold;
19. NOTES that the debate will continue concerning a possible introduction of legal means allowing for home country checks, including a single audit of cross-border businesses;

20. In this context, LOOKS FORWARD to receiving the results of the ongoing Commission' study on VAT obstacles to cross-border e-commerce and the legislative proposals by the Commission;
21. STRESSES that improvements on the current system could be possible and necessary in the short term.

III. ON THE DEFINITIVE VAT SYSTEM (SINGLE EU VAT AREA)

The Council of the European Union:

22. TAKES NOTE of the points made by the Commission in its VAT Action Plan as regards the way forward towards the definitive VAT system and of its intention to present a legislative proposal in 2017 for the definitive VAT system for cross-border trade, as a first step;
23. NOTES, while working towards the definitive VAT system in the EU, the importance of fully respecting the principles of subsidiarity and proportionality and taking full account of how potential EU-level solutions would best fit with the aspects upon which Member States continue to exercise their competence;
24. REITERATES that the principle of “taxation in the Member State of origin of the supply of goods or services”, as envisaged in article 402 of Directive 2006/112/EC on the common system of value added tax, should be replaced by the principle of “taxation in the Member State of destination” for the definitive VAT system for B2B transactions, as stated in the Council conclusions of 15 May 2012;
25. WELCOMES the in-depth technical work conducted by the Commission so far, as well as the broadly based dialogue it initiated with Member States to examine in detail the different possible ways how to best implement the destination principle;
26. STRESSES nevertheless that the work has to continue to set ground for the political choice to be made with regard to the definitive VAT system;

27. TAKES NOTE that taxation with cross-border reverse charge in the Member State of destination could be analysed as an option to the proposed taxation of cross-border supplies for the definitive VAT system;
28. UNDERSCORES that the Council will continue to follow up the debate to reach an agreement on the political guidance to the Commission to conduct further analysis that would enable it to carry this work forward and enable the Council to properly evaluate the impact of possible technical solutions and adopt those that suit the common EU objectives best.

IV. ON VAT RATES

The Council of the European Union:

29. TAKES NOTE of the directions of action proposed in the Commission Action Plan on VAT with regard to the VAT rate system and its intention to make a legislative proposal in 2017, proposing a reform to give more freedom to Member States in setting up rates and proposing two options;
30. RECALLS the conclusions of the **European Council** of 17-18 March 2016 which welcomed "the intention of the Commission to include proposals for increased flexibility for Member States with respect to reduced rates of VAT, which would provide the option to Member States of VAT zero rating for sanitary products";
31. WELCOMES the intention of the Commission to present a proposal for increased flexibility for Member States, so that they could benefit from the existing reduced and zero rates in other Member States, INVITES the Commission to include an impact assessment, and STRESSES that a sufficient level of harmonisation in the EU remains required and the adopted solution has to be carefully balanced to avoid distortion of competition, rise in business costs and negative impact on the functioning of the single market;
32. INVITES the Commission to present a legislative proposal which integrates provisions concerning VAT rates for e-publications in the context of Digital Single Market initiatives by the end of 2016 and include an impact assessment;

33. CALLS UPON the Commission, in line with the March 2016 European Council conclusions, to present to the Council a legislative proposal foreseeing an option to Member States of VAT reduced or zero rating for women's sanitary products at the earliest opportunity.
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