










Procedure file

Basic information		
INI - Own-initiative procedure	2020/2263(INI)	Procedure completed
Implementation of the 6th VAT Directive: what is the missing part to reduce the EU VAT gap?		
Subject 2.70.02 Indirect taxation, VAT, excise duties		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 Economic and Monetary Affairs	 CHASTEL Olivier	28/10/2020
European Commission	Commission DG Taxation and Customs Union	Shadow rapporteur	
		 PEREIRA Lúdia	
		 SANT Alfred	
		 PETER-HANSEN Kira Marie	
		 BECK Gunnar	
		 JURZYCA Eugen	
		 SCHIRDEWAN Martin	
	Commissioner	GENTILONI Paolo	

Key events			
17/12/2020	Committee referral announced in Parliament		
06/12/2021	Vote in committee		
20/12/2021	Committee report tabled for plenary	A9-0355/2021	Summary
14/02/2022	Debate in Parliament		
16/02/2022	Decision by Parliament	T9-0034/2022	Summary

Technical information	
Procedure reference	2020/2263(INI)
Procedure type	INI - Own-initiative procedure

Procedure subtype	Implementation
Legal basis	Rules of Procedure EP 54
Other legal basis	Rules of Procedure EP 159
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/04860

Documentation gateway

Committee draft report	PE662.096	06/09/2021	EP	
Amendments tabled in committee	PE697.828	21/10/2021	EP	
Committee report tabled for plenary, single reading	A9-0355/2021	20/12/2021	EP	Summary
Text adopted by Parliament, single reading	T9-0034/2022	16/02/2022	EP	Summary

Implementation of the 6th VAT Directive: what is the missing part to reduce the EU VAT gap?

The Committee on Economic and Monetary Affairs adopted the own-initiative report by Olivier CHASTEL (Renew Europe, BE) on the implementation of the Sixth VAT Directive: what is the missing part to reduce the EU VAT gap?

In 1977, the Council adopted the Sixth VAT Directive with a view to achieving a uniform tax base under which harmonised rates were to be set out. The aim was to abolish fiscal borders and controls at internal borders for all operations carried out between Member States with a view to the completion of the internal market on 31 December 1992.

The VAT Directive has recast and repealed the Sixth VAT Directive, for the purposes of greater clarification. The Directive provides for the transitional rules to be replaced by a definitive system based on taxation in the Member State of origin. However, the transitional system is complex, flawed and structurally vulnerable to fraud. This report also analyses the VAT gap between Member States.

Tax rates, tax bases and VAT gaps in Member States

The VAT gap is the difference between expected VAT revenues and VAT actually collected. VAT revenue is one of the chief sources of public revenue, accounting for some 21 % of total tax revenue in the EU on average. Members welcomed the fact that the overall trend is positive, with the VAT gap falling to 10 % in 2019 from 20 % in 2009 in the Member States, which suggests that VAT fraud in the EU is in decline and VAT revenue as a proportion of gross domestic product is on the rise.

The report called on national tax authorities to take initiatives to reduce the VAT gap in order to improve public finances, especially in the light of the economic downturn caused by the COVID-19 pandemic and increase EU own resources.

Members stressed that the system is becoming increasingly complicated because of the different rates, but also because of exemptions and derogations. The COVID-19 pandemic justified VAT-related exception rules, which proves the need for a degree of flexibility when facing urgent or unexpected circumstances.

Impact of the wide variety of reduced rates on businesses

The current diversity of reduced rates creates additional administrative burdens for businesses with the total cost of VAT compliance ranging from 1 % to 4 % of company turnover within the Member States. Digitalisation can contribute greatly to the reduction of compliance costs for businesses. While digitisation can help cut costs, it imposes a burden in the short term on businesses, and particularly SMEs, as they must acquire the latest technology and know-how. Looking ahead, the Member States will need a harmonised IT system.

Members also support the idea of expanding the scope of the VAT One-Stop Shop, which has been in place since 2015, to the declaration and payment of VAT. More specifically, they underlined the need to specifically target the adaptation of the One-Stop Shop at the expanding e-commerce market.

Moreover, Members called for the expansion of e-invoicing and for the introduction of an EU e-invoicing standard harmonising, in particular, the information contained in an e-invoice in order to facilitate cross-border interoperability, ensure legal compliance, increase transparency in commercial transactions and thus limit fraud and errors.

The report underlined the urgency of tackling VAT cross-border fraud and carousel fraud through the proper implementation of efficient exchange of information mechanisms and adequate means (both human, financial, technical and technological) for national authorities and other authorities such as OLAF. Companies need simplified and centralised access to information on rates, the correct VAT rates for different goods and services in the different Member States, and the conditions for zero-rate VAT, as well as and clear and unambiguous VAT rules to encourage cross-border business and reduce their administrative burdens.

Impact of reduced VAT rates on consumers and social and environmental objectives

Reduced rates normally pursue the legitimate purpose of ensuring that essential goods are accessible to everyone. They can be more effective in societies with significant income disparities and a high level of social and economic inequality. The report noted that in order to promote environmentally friendly consumption, it is of primary importance for Member States to phase out all zero VAT rates and reduced rates for harmful environmental goods and services. Evidence suggests that reduced VAT rates are often a rather inefficient instrument to

achieve social or environmental objectives since they lead to considerable costs for governments owing to the size of the rate gap, reduced tax revenues, increased administrative costs, costly checks and inspections, pressure from social and economic representatives compliance costs, economic distortions or even tax evasion, and difficulties in reaching target groups.

The Commission and the Member States are called on to explore all the possibilities of the taxpayer identification number as a mechanism to safeguard high efficiency standards for reporting.

Stressing the importance of guaranteeing the full transposition and proper implementation of the VAT e-commerce package, Members called on the Commission to evaluate the state of play in this regard and present concrete proposals to adapt the rules, where needed, taking the exponential growth of e-commerce into consideration.

Lastly, the report stressed the need to move to a definitive VAT system based on the principle of taxation in the country of destination. It called on the Council to adopt the [proposal for a directive](#) of 25 May 2018 as soon as possible, given the extent of the loss of national and EU budgetary resources under the current regime.

Implementation of the 6th VAT Directive: what is the missing part to reduce the EU VAT gap?

The European Parliament adopted by 510 votes to 74, with 108 abstentions, a resolution on the implementation of the Sixth VAT Directive: what is the missing part to reduce the EU VAT gap?

This resolution assesses the implementation of the transposition of the 6th VAT Directive, as recast in Council Directive 2006/112/EC, in order to draw conclusions and to suggest ways to improve its application. It also aims to assess the VAT gap between Member States which is the difference between expected VAT revenues and VAT actually collected.

Tax rates, tax bases and VAT gaps in Member States

Members recalled that VAT revenue is one of the chief sources of public revenue, accounting for some 21 % of total tax revenue in the EU on average. They welcomed the fact that the overall trend is positive, with the VAT gap falling to 10 % in 2019 from 20 % in 2009 in the Member States, which suggests that VAT fraud in the EU is in decline and VAT revenue as a proportion of gross domestic product is on the rise.

Parliament called on national tax authorities to take initiatives to reduce the VAT gap in order to improve public finances, especially in the light of the economic downturn caused by the COVID-19 pandemic and increase EU own resources.

Members stressed that the system is becoming increasingly complicated because of the different rates, but also because of exemptions and derogations. The COVID-19 pandemic justified VAT-related exception rules, which proves the need for a degree of flexibility when facing urgent or unexpected circumstances.

Impact of the wide variety of reduced rates on businesses

The current diversity of reduced rates creates additional administrative burdens for businesses; notes that the total cost of VAT compliance ranges from 1 % to 4 % of company turnover within the Member States. Members considered that digitisation could make a significant contribution to reducing compliance costs for businesses. They noted that differentiated VAT regimes within the EU can discourage intra-EU trade for all businesses, especially SMEs which face proportionately higher compliance costs.

Parliament highlighted the potential of distributed ledger technology to prevent VAT fraud e.g. missing trader intra-community fraud and looks forward to the legislative proposal for modernising VAT reporting obligations. It pointed to the EU One-Stop Shop as an example of digital innovation allowing EU businesses to simplify their VAT bills and thus compliance costs in the area of e-commerce sales within the EU.

Members called for the expansion of e-invoicing and the introduction of an EU e-invoicing standard harmonising, in particular, the information contained in an e-invoice in order to facilitate cross-border interoperability, ensure legal compliance, increase transparency in commercial transactions and thus limit fraud and errors.

Member States are called on to increase and improve cooperation between themselves and thoroughly apply the set of rules on the exchange of VAT payment data to facilitate the detection of tax fraud in cross-border e-commerce transactions, which were adopted in February 2020.

The resolution underlined the urgency of tackling VAT cross-border fraud and carousel fraud through the proper implementation of efficient exchange of information mechanisms and adequate means (both human, financial, technical and technological) for national authorities and other authorities such as OLAF.

Impact of reduced VAT rates on consumers and social and environmental objectives

Members noted that the application of reduced rates does not always result in permanent price reductions for the consumer and that the effectiveness of a reduced rate depends on a number of factors, such as the extent to which businesses pass it on to consumers, its duration over time, the size of the reduction and the complexity of the rate system.

Reduced rates normally pursue the legitimate purpose of ensuring that essential goods are accessible to everyone. They can be more effective in societies with significant income disparities and a high level of social and economic inequality. However, Members pointed out that that empirical evidence on the effectiveness of reduced VAT rates in promoting socially desirable or environmental goods is scarce and ambiguous.

Parliament recalled that the effectiveness of reduced rates as a policy tool should always be assessed in the specific context of other existing policy tools. It added that reduced rates are often complementary to existing social and environmental policy instruments and that direct tax incentives are instruments that better target low-income households - for example a tax exemption threshold and progressive tax rates - and are generally less costly, provided that other conditions are met.

Towards a modernised and simplified system

Parliament called for a simplified and modernised VAT system with limits on exemptions and non-standard rates to promote fair and efficient business competitiveness within the internal market, reduce compliance costs and improve voluntary compliance. Such a simplified VAT system would still benefit from a one-stop shop in order to reduce compliance costs for EU businesses and boost intra-EU trade.

Members noted the proposals of the Portuguese and Slovenian Council presidencies to phase out at Member State level all zero and reduced VAT rates on environmentally harmful goods and services, such as fossil fuels, chemical pesticides and chemical fertilisers.

The resolution called for consideration to be given to the implementation of social measures for low-income households to compensate for the reduction in disposable income resulting from higher VAT rates on polluting goods and services. Member States are urged to adopt the proposal for a revised VAT rates directive rapidly.

Lastly, Parliament stressed the need to move to a definitive VAT system based on the principle of taxation in the country of destination. It called on the Council to adopt the [proposal for a directive](#) of 25 May 2018 as soon as possible, given the extent of the loss of national and EU budgetary resources under the current regime.