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European Commission proposes far-reaching reform of the EU VAT system

The European Commission has launched plans for the most far-reaching VAT reform in years. The proposal calls for a definite VAT system which makes the system more robust and simpler to use for companies.

Despite many reforms, the VAT system has been unable to keep pace with the challenges of today's global, digital and mobile economy. The Commission estimates that – overall - over €150 billion of VAT is lost every year, meaning that Member States miss out on revenue that could be used for schools, roads and healthcare. On 4 October 2017 the Commission proposed to fundamentally change the current VAT system by taxing sales of goods from one EU country to another in the same way as goods are sold within individual Member States. This will create a new and definitive VAT system for the EU.

According to the Commission's proposals, VAT will now be charged on cross-border trade between businesses. Currently, this type of trade is exempt from VAT, providing an easy loophole for unscrupulous companies to collect VAT and then vanish. It will be simpler for companies that sell cross-border to deal with their VAT obligations thanks to a 'One Stop Shop'. Traders will be able to make declarations and payments using a single online portal in their own language and according to the same rules and administrative templates as in their home country. Member States will then pay the VAT to each other directly, as is already the case in the area of e-services.

The Commission also proposes a move to the principle of destination whereby the final amount of VAT is always paid to the Member State of the final consumer and charged at the rate of that Member State. This is already in place for sales of e-services.

The proposal foresees a simplification of invoicing rules, allowing sellers to prepare invoices according to the rules of their own country even when trading across borders. Companies will no longer have to prepare a list of cross-border transactions for their tax authority.

The proposal also introduces the notion of a Certified Taxable Person – a category of trusted business that will benefit from much simpler and time-saving rules.

The Commission's legislative proposal will be sent to the Member States in the Council for agreement.

The entire press release from the EU Commission can be found [here](#).

Keywords

VAT reform, VAT system