



POSITION

On Green Paper on the future of VAT

General remarks to the Green Paper towards a simpler, more robust and efficient VAT

In connection with public consultation on the future of VAT, the Czech Chamber of Commerce (CCC) submits general remarks which could contribute to the modernization and simplification of the VAT system in the EU.

Extended system of reverse charge – Current system is too complex, both country of origin and consumption principles are applied. For this reason, it is needed to better elaborate the VAT system based on consumption and extend it.

VAT payments only from invoices and right of deduction from invoices - The CCC assumes that after more than 40 years when the economic structure has changed, it is necessary to modernize the VAT system in Europe. Therefore, the CCC proposes to replace current system which is based on the obligation to pay the VAT on the basis of realized performance to the concept of a cash accounting scheme. We think that current principles are one of the reasons standing behind the secondary insolvency of companies.

Unifying of turnover limits - Current rules seem to be sufficient, however the differences between turnover limits across the EU create the discrepancy within the EU.

Maximum two types of VAT rates - Different number of reduced taxes in the EU leads to the complexity of the system. We suggest that each Member States has maximum one reduced VAT rate beside the basic VAT rate. We also suggest defining at EU level which product/service can be covered by the reduced VAT rate.

Exemption of public transport from the VAT - Current VAT taxation of public transport is very complicated. Carriers are obliged to register themselves to the tax authorities in each Member State, they pass through. In the Czech Republic, this system is exempted from the VAT.

Proposed answers to particular questions

Q1 *Do you think that the current VAT arrangements for intra-EU trade are suitable enough for the single market or are they an obstacle to maximising its benefits?*

CCC: Current VAT system is limited by the administration which paradoxically generates the risk of fiscal frauds.



POSITION

Q2 *If the latter what would you consider the most suitable VAT arrangements for intra-EU supplies? In particular, do you think that taxation in the Member State of origin is still a relevant and achievable objective?*

CCC: In the light of current development, where the process of harmonization in VAT rates has been lasting for more than 20 years, we consider this goal unachievable, respectively not achievable in the next decade. For this reason it is necessary to further develop a system of taxation based on country of consumption, i.e. extend the reverse charge system. Furthermore it would be convenient to create one single database of transactions, from which the money would be transferred back to the country of origin, and to set up the same rules for all EU countries for covering the same goods/services by reduced or basic VAT rate. There should be maximum two VAT rates in each Member State, i.e. one reduced and one basic. On the basis of numerous exemptions and exceptions, the EU countries apply more than two VAT rates (reduced, super-reduced, parking etc).

Q3 *Do you think that the current VAT rules for public authorities and holding companies are acceptable, particularly in terms of tax neutrality, and if not, why not?*

CCC: We think that public authorities tend to buy goods or services from non-taxable persons to avoid VAT payments. For this reason we would welcome to include these entities into the VAT system.

Q5 *What should be done to overcome these problems?*

CCC: In the case of public authorities we propose to introduce the same VAT rules for the latter as for the private subjects. We agree with the proposal to cover all economic activities of public authorities in the VAT rules and setting up a list of activities that should be excluded.

Q7 *Do you think that the current system of taxation of passenger transport creates problems either in terms of tax neutrality or for other reasons?*

CCC: Application of VAT system to passenger transport is very complicated. Carriers are obliged to register themselves to the VAT payments in each country which they pass through. This is very burdensome on administration. Passenger transport should be exempted without any exceptions.

Q8 *What should be done to overcome these problems?*

CCC: Public transport should be excluded from VAT payments. The Czech Republic applies the exemption with the right of deduction. Other EU countries should do the same.



POSITION

Q9 *What do you consider being the main problems with the right of deduction?*

CCC: One of the main problems of the current system, also confirmed by current economic crisis, is the secondary insolvency, when the supplier is charged even if the payment of the transaction has not been paid yet. This reflects the principle that the VAT tax must be paid the day of the transaction (deliverance) and not the day of the payment.

Q10 *What changes would you like to see to improve the neutrality and fairness of the rules on deduction of input VAT?*

CCC: In the last two years, the business community has been discussing the creation of new rules for VAT obligation or entitlement. We believe that the problem of secondary insolvency could be solved by the obligation to pay the VAT tax only on the basis of paid invoices; and respectively the deduction would be made only from paid invoices. On the contrary the right of deduction would be only from paid transactiony. In this way, the fiscal neutrality will be achieved.

Q11 *What are the main problems with the current VAT rules for international services, in terms of competition and tax neutrality or other factors?*

CCC: There is no traceability of the services provided internationally.

Q12 *What should be done to overcome these problems? Do you think that more coordination at international level is needed?*

CCC: We recommend searching the possibilities of VAT payments from private consumers, for example by using online instruments. Relying on common honest international cooperation we consider as unrealizable.

Q13 *Which, if any, provisions of EU VAT rules should be laid down in a Council regulation instead of a directive?*

CCC: Council regulations should replace directives for those provisions that are new rules and should be in force for all Member States regarding intra-communitary transactions (e.g. transfer of tax obligation for cross border transactions).

Q15 *If this is not achievable, might guidance on EU VAT legislation be useful even if it is not legally binding on the MS? Do you see any disadvantages to issuing such guidance?*

CCC: If it weren't possible, we think, that it is helpful to issue guidance for MS even if they are not legally binding. The advantage of the guidelines is that they can have a unique explanation of the provision from the beginning.



POSITION

Q19 *Do you think that the current rates structure creates major obstacles for the smooth functioning of the single market (distortion of competition), unequal treatment of comparable products, notably online services by comparison with products or services providing similar content or leads to major compliance costs for businesses? If yes, in what situations?*

CCC: We consider that for simpler and clearer functioning of the single market, comparable products and services should be in the EU placed in the same category of tax rates – reduced and basic rate.

Q20 *Would you prefer to have no reduced rates (or a very short list), which might enable Member States to apply a lower standard VAT rate? Or would you support a compulsory and uniformly applied reduced VAT rates list in the EU notably in order to address specific policy objectives as laid out in particular in ‘Europe 2020’?*

We do not think it would be good to abolish reduced tax base. We would support to apply a single list of reduced rates with maximum one reduced rate in any MS.

Q21 *What are the main problems you have experienced with the current rules on VAT obligations?*

When introducing new provisions in current provisions of the law there is a problem with ambiguity. Businesses are also concerned by diverse tax declarations as well as various procedures for VAT refund.

Q22 *What should be done at EU level to overcome these problems?*

Unified forms in agreed linguistic versions and single administrative procedures. We would also welcome issuing of guidelines at EU level for new provisions of legislation.

Q 24+25+26 *Should the current exemption scheme for small businesses be reviewed and what should be the main elements of that reassessment? Should additional simplifications be considered and what should be their main elements? Do you think that small business schemes sufficiently cover the needs of small farmers?*

The review is possible, however the current rule regarding the level of limit turnover we consider as sufficient. On the other hand, turnover limits are different in the EU Member States and they should be unified.



POSITION

Q27 *Do you see the one stop shop concept as a relevant simplification measure? If so, what features should it have?*

Today, many small companies do not want to provide their services directly to final consumers in other EU countries because they have to know local legislation and administrative procedures. Therefore, we consider the one-stop-shop concept as a right solution which could cut the red tape especially for SMEs.

Q29 *In which areas of VAT legislation do synergies with other tax or customs legislation need to be promoted?*

VAT + excise taxes + customs

Q30 *Which of these models looks most promising in your view and why, or would you suggest other alternatives?*

We prefer the first model connected with the one-stop-shops concept.

Q31 *What are your views on the feasibility and relevance of an optional split payment?*

Today when the business has to fight for a client, for the reason of relation supplier- purchaser it is not realistic and therefore irrelevant.

Q32 *Would you support these suggestions to improve the relationship between traders and tax authorities? Do you have other suggestions?*

Complying with the legislation on the voluntary basis is ineffective. We suggest putting stress on information technologies.

Q33 *Which issues, other than those already mentioned, should be addressed in considering the future of the EU VAT system? What solution would you recommend?*

We perceive the future in ICT systems interconnecting legal and factual framework of the VAT. This should be the main objective for the future of the EU VAT system.

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