

## **SPEECH AT CHELCOVAT**

Your Excellency Minister of Finance,

Dear Guests,

It is with great pleasure that I have accepted the invitation of Mr. Tselepis to address the symposium because I believe that the gathering of so many professionals in one place as well as the interaction between them can only have positive results to all parties involved.

VAT is the most important international development in taxation in the last 50 years and plays an important role in Europe's single market. It was originally put in place to do away with turnover taxes which distorted competition and hindered the free movement of goods and to remove fiscal checks and formalities at internal borders.

A properly designed tax cannot only collect sufficient revenues but would also be one of the least distortionary. VAT is now levied in more than 160 countries and typically it contributes some 25% - 30% of total tax revenue. It should only be used to fulfill the key objective of raising revenues, not any other objectives such as tax burden distribution, industry promotion, trade protection, or charging for social costs.

We are all aware that the European VAT system has undergone a lot of changes since its introduction. However, the enlargement of the EU as well as political issues, quite often, unfortunately are causing a lot of delays in making the necessary changes to adopt the system so as to cope with the challenges of today's global, digital and mobile economy.

The current VAT system, which was intended to be a transitional system, is fragmented, complex for the growing number of business operating cross-border and leaves the door open to fraud: domestic and cross-border transactions are treated differently and goods or services can be bought free of VAT within the single market.

It is no surprise to us that this fragmentation has created the playground for the fraudsters to design their own plans; as a result the EU VAT GAP in 2014 has reached the astronomic amount of nearly €160 billion lost in uncollected VAT revenues, a figure higher than the annual EU budget. It is estimated that at least €50 billion of this figure is attributed to cross border VAT fraud.

In response to these significant economic losses, the European Commission launched a comprehensive Action Plan on VAT in April 2016, bringing forward reforms to simplify the VAT system for SMEs and define a new regime for cross border trade. With VAT compliance costs estimated to be 11% higher for cross border than domestic trade, this new simpler system is particularly important for increasing intra-EU businesses – to – business (B2B) cross border trade.

In December 2016, as part of the VAT Digital Market Strategy Package, the European Commission further presented a package of proposals to modernize the VAT system and to remove obstacles to e-commerce allowing the extension of Mini-One-Stop-Shop system to all online retailers. More, the Commission has presented a proposal for a Council Directive to tackle the VAT GAP as an intermediary step preceding more comprehensive report: by temporarily implementing a generalized reverse charge

mechanism (GRCM), some member states, more affected by cases of carousel fraud, would be granted the opportunity to derogate to the present principle of fractionated payment of VAT.

All these deficiencies of the current system lead to the conclusion that a definitive EU VAT system for cross-border trade is now needed more than ever. There is a desperate need to reduce the opportunities for fraud. The current VAT system for cross-border trade which came into force in 1993 was intended to be a transitional system; however, it leaves the door open to fraud. A proposal is urgently needed to put in place definitive rules for a single European VAT area.

The history of the European Commission is full of ambitious proposals and reforms. We are all aware that a number of them have been moved to the archives of the European Commission; proposals which have never progressed due to political unwillingness.

Despite these ambitious measures, significant legislative and political steps are still required. With the country of destination principle becoming the new guide for VAT action, new rules will need to be shaped accordingly. Moreover, the harmonization of VAT across member states will also be crucial to simplify trading for SMEs, including a common set of rate exceptions and reductions for similar goods.

Simultaneously, a review of VAT rates established over 20 years ago will be necessary, possibly granting member states more freedom in setting the rates. Furthermore, national tax administrations must modernize and better co-operate in order to move Europe towards a more business friendly environment.

In the meantime, however, closer cooperation will be needed between the tax administrations to exchange information related to VAT fraud, fraud schemes and good practices.

I am sure that this symposium will provide participants a timely and invaluable opportunity to understand the strategy put forward by the European Commission to harmonize the European VAT system, and explore the sector specific implications of the forthcoming reforms. I am also sure, that the event will allow all participants to exchange information and ideas with experts and practitioners.

I will conclude my short speech with some quoted lines from another speech:

**“Our Member States are losing tens of billions of euros in uncollected VAT revenue. This is unacceptable. The current regime is woefully ill-equipped to deal with the problems of VAT fraud and miscalculations, and it is clear that the numbers will not get better by themselves. Member states must now quickly agree on a definitive fraud-proof EU VAT system, as laid out by the Commission [...]. I therefore urge all our Member States to have a frank and meaningful discussion in order to feed into next year’s proposals, so we tackle this issue once and for all.”**

These are the exact words of Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation and Customs, September 2016.