

Green Paper on the Future of VAT – Towards a Simpler, More Robust and Efficient VAT System

Introduction

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to respond to the European Commission's (the Commission) Green Paper on the future of VAT – Towards a simpler, more robust and efficient VAT system. The views expressed in this response are those of Grant Thornton UK LLP and are based on our practical experiences of dealing with the existing EU VAT system. They are not intended to represent the views of any particular client or class of clients.

We recognise that any proposal to overhaul the EU VAT system is fraught with economic and political difficulties as there are likely to be winners and losers in whichever system is finally adopted. However, we fervently hope that the Commission will listen to the views expressed by all contributors to this consultation exercise and drive through those changes that are deemed necessary to achieve the stated aim of ensuring a simpler, more robust and efficient VAT system within the EU.

We share the view of many others that the current VAT system has not kept pace with the way that goods and services are now supplied. For example, electronic commerce and the growth of the global economy have significantly altered the manner in which consumers make purchases and the locations from which they are sourced.

Given the global financial crisis of 2008/2009 and the apparent move away from direct taxation, we accept that the revenue raising focus needs to be on indirect taxation. However, the current lack of harmonisation will continue to be a significant constraint to doing business in the Single Market until such time as convergence is achieved across the system. We do not consider that a definitive system can be achieved if rates, exemptions, interpretations, regulations and derogations etc are not harmonised.

Response to 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?

In our view, the current VAT arrangements for intra-EU trade are not suitable enough to achieve the objectives of the single market. Indeed, the current system can, at times, act as an obstacle to undertaking business within the EU.

In theory, the aim of the single market was to allow goods and services to be traded between Member States with no internal fiscal borders. However, the evolution of the VAT system has effectively created 27 separate markets. Although there are some similarities, each operates with its own set of rules. For the EU VAT system to function properly, it is extremely important that these variations are eliminated. Only then will it be possible for the operation of a true single market.

The different interpretations applied to the VAT Directive by Member States, the adoption of derogations, and the introduction of extra statutory concessions create uncertainty and unnecessary complexity for businesses trading in the EU, their advisors and the fiscal authorities. We also believe that the following act as obstacles to maximising the benefits of a single market and add to the complexity of doing business in Europe

- Different VAT registration thresholds in Member States

- A lack of harmonisation of VAT rates
- A lack of harmonisation of deductible expenditure
- Differing interpretations of the characteristics of what constitutes an economic or business activity
- Complex primary legislation resulting in differing interpretations (eg in respect of the Tour Operators Margin Scheme, the place of supply of land related services, and supplies incorporating the installation of goods).

The current destination system is administratively burdensome and complex. It is not only difficult for businesses to understand and comply with, but is equally difficult for tax advisors, academics and civil servants. Keeping abreast of EU-wide VAT developments and the nuances in each Member State is exponentially more difficult and complex the smaller the enterprise.

Research that we undertook with the Manchester Business School a few years ago revealed that 60% of British business traded or intended to trade with EU counterparts. It is therefore not just the sophisticated top 10% of enterprises (with their depth of finance/tax departmental resources) that have to comply with the complexities of the current system. VAT is costly to comply with and, in relative terms presents a distinctly greater barrier to trade for smaller enterprises.

As an example, under the current rules, if a business supplies other businesses (B2B) and also supplies consumers (B2C), it effectively has to operate two VAT systems. We consider that this is both burdensome and costly and presents a barrier to doing business in Europe.

The current VAT system is a hybrid of origin and destination systems, (depending on whether the transactions are B2B or B2C), which is made even more complex by anti-avoidance legislation that seeks to address specific weaknesses in the system. For example the variable treatment applied by different Member States to face value vouchers, and the UK's unilateral attempt to correct perceived tax losses in this area through the introduction of complex anti-avoidance legislation.

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?

The underlying principle of VAT is that it is a tax on consumption. We recognise therefore that powerful arguments can be made for moving wholly to a destination system. However, whilst we appreciate the enormous political challenges of moving to an origin system, we would encourage the Commission to keep this firmly on the agenda, even if it has to remain as a long term objective. We consider that if one accepts firstly, that VAT remains as the principal system of indirect taxation within the EU and secondly, that the Single Market is to continue, this is the most effective way of achieving the Commission's objectives of moving to a simpler, more robust and efficient system.

We recognise that for the origin system to function efficiently, it will be necessary for VAT rates across the EU to be much more aligned than at present. However, as the Commission itself indicates, the rates around the EU are naturally harmonising. As a consequence, we consider that a mandatory EU wide harmonisation of rates over (say) a five year period will enable the EU to move towards a VAT system based on the origin principle.

If VAT rates were more or less harmonised, a system based on the origin principle would provide major benefits. In particular, it would;

- Reduce the need for multiple VAT registrations
- Remove the requirement to operate two different VAT systems ie B2B and B2C transactions

- Reduce (if not eliminate) the risk of MTIC and similar fraud
- Reduce the compliance burden in relation to the recording of acquisitions and despatches
- Greatly simplify the overly complex place of supply rules

The removal of these and other complexities would simplify the VAT system in the EU and reduce the possibility of the tax being a barrier to the expansion of trade elsewhere in the single market.

We believe that a move to the origin system cannot happen without the concomitant harmonisation of VAT rates. Indeed, irrespective of whether we have a destination system, an origin system or continue with a hybrid of some sort, we urge the Commission to set in train a mandatory EU-wide rate harmonisation programme as soon as possible as the current variations in rates and variations in the treatment of the same or similar supplies have the potential to distort competition. However, we believe that any increase in the rate of VAT above circa 20% will start to have a detrimental effect on the economies of Member States as high taxation rates have a tendency, borne out by history, to drive business into the black economy. Therefore, our preference is to see lower harmonised rates across a much wider range of goods and services. There are precedents for this in other parts of the world (eg New Zealand).

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?

Q4. What other problems have you encountered in relation to the scope of VAT?

Q5. What should be done to overcome these problems?

We believe that where Public Authorities supply goods or services that are in competition with the private sector, there has to be neutrality from a tax perspective if the market is to operate fairly. Consequently, we consider that supplies by Public Authorities must be taxed on the same basis as those of the private sector (i.e. with a right to deduct VAT incurred at the preceding stages). Excluding Public Authorities from VAT undermines the principles of the tax. In cases where a Public Authority acts solely within the confines of public law and is not in competition with bodies governed by private law, then to avoid VAT going round in a government funding circle, the activities and income generated by such a Public Body should, in our view, be treated as outside the scope of VAT but with a right of recovery for VAT paid. In order to achieve this, we consider that the definition of what does and does not constitute a Public Body requires greater clarification. We suggest that an EU wide definition similar to that contained within Directive 92/50 EEC should be adopted. We do, of course, recognise that this is a politically sensitive issue.

As far as holding companies are concerned, we consider that they play a unique and vital role in the business cycle. We are therefore generally supportive of both pure holding companies and holding companies which actively manage their subsidiaries being part of the VAT system, including being admitted to VAT groups. The current law relating to holding companies and their ability to reclaim VAT on expenditure (such as acquisition costs and the cost of sale of investments etc) has become extremely complex. We consider that the inevitable result of prolonged attacks by the tax authorities on holding companies will lead to businesses deciding not to establish themselves within the EU and that such a policy would be contrary to the aim of encouraging trade in the EU.

We believe that the holding of shares by holding companies (other than in the case of deriving income by way of dividends) ought to be regarded as the exploitation of intangible property. As such, we consider that holding companies should be regarded as taxable persons even where they are not involved in the active management of their subsidiaries.

By Article 137, the VAT Directive currently allows Member States the discretion to allow taxpayers to opt for the taxation of supplies in connection with:

- certain financial transactions referred to in points (b) to (g) of Article 135(1);
- the supply of a building or of parts thereof, and of the land on which the building stands, other than the supply referred to in point (a) of Article 12(1);
- the supply of land which has not been built on other than the supply of building land referred to in point (b) of Article 12(1);
- the leasing or letting of immovable property

We consider that such flexibility to opt in or out of taxation does not fit well with the concept of a uniform taxation system and gives rise to uncertainty.

Q6. Which of the current VAT exemptions should no longer be kept? Please explain why you consider them problematic. Are there any exemptions which should be kept and, if so, why?

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? Should VAT be applied to passenger transport irrespective of the means of transport used?

Q8. What should be done to overcome these problems?

Conceptually, VAT is a tax on final consumption and it is, therefore, difficult to understand why, in principle, the supply of all goods and services consumed within the EU should not be subject to the tax. In other words, we consider that, in principle, there is no reason why all transactions carried out by taxable persons (and by public bodies competing with private business) should not be subject to VAT. However, we recognise there may be a need to retain certain exemptions. For example, those exemptions in the public interest and those intended to facilitate the growth of EU trade with third countries (eg bonded warehousing, diplomatic and consular exemptions and exemption for exports of goods or services outside the EU).

If exemptions are deemed necessary for socio-economic or other reasons, we consider that they should be applied consistently throughout the EU and should not be left to the discretion of individual Member States.

The Commission asks a specific question about public transport. However, in our view the issue is wider than this single example. In many areas, the rules are too complex - making it very difficult to comply with them. We believe that any system of taxing public transport should be applied uniformly throughout the EU irrespective of the means or the size of transport used. Ideally, in an origin system, public transport should be taxed, regardless of the destination, at the point of departure. However, for all the reasons laid out by the Commission we recognise that moving to the origin system is a continuous process. In the meantime, until such time as the origin system is achieved, it is imperative to ensure that the taxation of passenger transport does not create a barrier to doing business within the EU. The Commission could therefore consider an exemption for passenger transport with a right to recovery of VAT incurred at the preceding stage.

The other key industry affected by the taxation of international passenger transport is tourism and leisure. Inbound tourism is an important part of many EU economies and, therefore, the question of whether taxation of passenger transport could result in reduced inbound tourism within the EU and increased outbound tourism, which could have a profound effect on the overall EU economy, must be a factor in any such decision.

Q9. What do you consider to be the main problems with the right of deduction?

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

We consider that the main problem associated with the right of deduction is the inconsistent approach by Member States as to what expenditure is eligible for deduction. To give businesses certainty throughout the EU, and to reduce their administrative costs, the Commission should encourage Member States to

agree to common deductible expenditure (ie to implement the draft 12th Directive). If we are to move to an origin system, we consider that the 8th Directive procedure would be otiose in its current form and, regardless of where the tax is incurred, a business should be entitled to reclaim the VAT incurred through its VAT return in the Member State where it is established.

In relation to the deduction mechanism, we consider that there are advantages and disadvantages for operating a VAT accounting system on a cash basis versus an invoice basis. However, in order to provide EU businesses with VAT accounting rules that are easy to understand and to implement, we would recommend that one common system be adopted throughout the EU. If that system is based on invoicing then, we would further recommend a cash accounting system for all EU businesses operating below a certain turnover. There has been much litigation in relation to the deduction of input tax used for business and non-business purposes. We consider that where goods or services are purchased and are used or to be used for both business and non-business purposes, an 'up front' apportionment should be undertaken. However, where capital items are concerned a uniform basis of determining the life of an asset should be agreed within the EU. In our view, Article 173 therefore needs to be extended to deal with the apportionment issue in relation to non-business purchases.

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

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

In our view, the VAT treatment of international services is arguably the most difficult that the EU faces because consumers operate in a global market and are not just limited to the EU. Problems arise because although tangible products can be identified and taxed at the physical point of entry into the EU, intangible services cannot be taxed in the same way.

We understand that the German government has previously proposed that taxes on intangible services could be collected through the payment processors (ie the main clearing banks). However, we feel that such a system would place an unfair burden on the banks. Even if the financial institutions were amenable to such a suggestion, we can see challenges arising from the fact that some payment processors may themselves be established outside the EU. In such cases, difficulties would arise - not least with regard to how the EU would ensure compliance.

An alternative would be for final consumers established within the EU to declare the extent of services purchased from outside the EU on periodic tax returns, with the appropriate VAT paid by those consumers when the return is submitted. We acknowledge that this is a radical suggestion but, short of prevailing on the financial institutions to collect the tax, there appears to be no simple solution.

Perhaps a more practical solution is for non-EU suppliers to be asked to register for VAT through one central EU administration centre, accounting for VAT on all EU supplies at one VAT rate, with the resulting revenue shared between all Member States. However, for the EU to be able to enforce compliance, much more coordination would be needed at an international level as the EU would require the tax authorities of non-EU countries to assist with enforcement and collection in instances where a business was not compliant.

For services valued below a particular level (say €30), it may be more feasible to introduce a relief from VAT similar to the Low Value Consignment Relief that is available in relation to the purchase of goods from outside the EU. In any event, we would recommend the adoption of a single set of principles to be applied to both goods and services.

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

Q14. Do you consider that implementing rules should be laid down in a Commission decision?

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

Q16. More broadly, what should be done to improve the legislative process, its transparency and the role of stakeholders in the process, from the initial phase (drafting the proposal) to the final phase (national implementation)?

We consider that the current system of enacting VAT legislation by means of Directives addressed to Member States inevitably leads to differences in the interpretation, implementation and emphasis when the issue is adopted into the national legislation of the Member States. It is our view that legislation by Council Regulation having direct effect would help to eradicate these differences. Furthermore, we consider that most provisions should be mandatory not discretionary to achieve uniform application. (ie where the legislation states that a Member State 'may', we would prefer it to say that a Member State 'shall')

In our view, when legislation is being introduced, implementing rules should be laid down by the Commission which should set out the purpose of the regulation and how it is to be interpreted by the Member States. Moreover, in our view, the Commission should take active and robust steps to ensure uniform adherence to regulations and to the implementation of the rules by Member States.

If the above is not achievable, we agree that, as an alternative and at the very least, non-legally binding guidance issued to Member States would be preferable to leaving each Member State to interpret and implement the legislation based on its particular understanding.

As far as Q16 is concerned, stakeholders should be consulted well in advance of any proposed changes. However, it is recognised that such consultation invariably leads to delay and in cases where changes to the law are required quickly, this consultative process may have to be curtailed. We are also concerned with what appears to be a recent trend of judgments being made by the European Court of Justice without the benefit of an Advocate General's opinion. Taxpayers, in our view, have a right to be able to access the reasoning behind a decision. Recent Court decisions, without an Advocate General's opinion, have been difficult to understand and are sometimes illogical (eg C53/09 LMUK / Baxi).

We consider that, if necessary, legislation should be introduced which compels the Court to provide a detailed analysis of the rationale behind its judgment and to cover all of the issues pleaded before it, or compels the use of an Advocate General to provide a detailed opinion in all cases. Drawing on our experience of other taxes such as Customs Duties and Transfer Pricing, we would favour a system whereby businesses operating within the EU could obtain certainty on the VAT treatment of their supplies through a system of binding rulings (similar to the Binding Tariff Information system operated for Customs Duty).

Q17. Have you encountered difficulties as a result of derogations granted to Member States? Please describe these difficulties.

Q18. Do you think that the current procedure for granting individual derogations is satisfactory and, if not, how could it be improved?

Derogations, such as those granted to Ireland, Denmark and The Netherlands in respect of internet based travel agents/tour operators, can create a distortion of competition. Those particular derogations provided businesses in the sector, which were established in those countries but with a capacity to sell to consumers elsewhere in the EU, with an advantage over those established in other Member States.

The distortion created by that type of derogation can influence important investment decisions within a sector, which in turn can affect EU competition much more widely.

All applications for derogations should, therefore, be considered in light of the impact that they could have on international trade between the EU and third party countries. Furthermore, we believe that the consideration of applications should be limited to those situations where only the domestic trade of the applicant will be affected to an insignificant degree.

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?

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 consider that it is not strictly necessary to converge to a single rate. Indeed, we can see that in certain circumstances it is arguably economically and politically helpful to have both a reduced rate and a standard rate so long as all Member States harmonise the nature of the goods or services covered by the rates.

For example, Luxembourg currently operates a reduced rate for the supply of 'copyright', a standard rate of only 15%, and a 3% rate applied to the supply/resupply of copyright in the field of electronically supplied services. This combination has resulted in an increasing number of EU and non-EU consumer orientated businesses establishing operations Luxembourg in order to take advantage of the lower rates.

This move towards 'rate shopping' has led to the proposed introduction of the one stop shop and 2015 place of supply of services changes. However, as noted in our response to Q1, the use of harmonised VAT rates and an origin based VAT system could remove this distortion of trade without imposing a significant administration burden.

Clearly, where different rates apply in different Member States to the supply of the same or similar goods or services, the difference in rate can lead to the creation of obstacles to trade and to distortion of competition. In a true single market, no tax advantage should be derived from decisions to locate a business in one particular Member State or another or to sell particular goods or services from a particular jurisdiction.

Although we accept that there is a place for dual rates (ie a standard rate and a reduced rate), we are not in favour of multiple rates. Where such multiple rates exist, we believe that they should be converged to create a single standard and a reduced rate.

We also favour the application of a compulsory and uniformly applied reduced rate to a specific group of goods and services across the EU. This would provide both certainty, and a level playing field for businesses to trade.

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

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

Q23. What are your views particularly on the feasibility and relevance of the suggested measures including those set out in the reduction plan for VAT (N° 6 to15) and in the opinion of the High Level Group?

In our view, the main problem with the current rules on VAT obligations is not necessarily the physical completion of the relevant returns etc (although in larger entities, this is indeed a major and costly undertaking). We consider that the main problem for businesses is the complexity associated with determining the appropriate VAT liability and/or treatment of transactions that are irregular or unusual in terms of their normal trading experience. Understanding the potential output and input tax implications of a particular transaction can consume a great deal of time and resource.

We are also of the view that, whilst businesses must be compelled to fulfil their fiscal obligations, any penalties imposed by Member States for compliance failures should be levied as a last resort and must be levied wholly in accordance with the principle of proportionality. To ferment a collaborative regime, we consider that a more sympathetic approach to genuine errors should be adopted. However, where poor compliance is persistent or where fraud is suspected, we consider that, in fairness to the vast majority of taxpayers who strive to comply, a proportionate penalty system should be robustly applied.

We have already stated in our answer to Q 2 that the main problems associated with the current rules would be resolved by moving to the origin system. As discussed earlier, this would help to achieve significant compliance savings by:

- providing a single place to file VAT returns
- removing distance selling compliance obligations
- removing obligations to file European Sales Lists
- removing the accounting requirement for acquisitions and despatches
- removing Intra EU reverse charge compliance
- removing the need to obtain and retain evidence of counterparts business status and
- removing the need to submit 8th Directive claims if all expenditure can be reclaimed through a single VAT return.

A move to the origin system, removal of many of the existing VAT exemptions and the removal of unnecessary derogations will, in our view, help to make the VAT system more harmonised and transparent. However, even if a destination system were to be the common system, a move to a single Information Systems platform, with a single VAT return covering supplies in all Member States ie both B2B and B2C, achieves many of same benefits noted above.

In principle, we agree with the majority of the measures set out in the document COM (2009) 544 and welcome any measures which will have the effect of reducing and simplifying the obligations placed on EU businesses and the costs associated with the administration of the tax.

In summary, we consider that the EU should strive for a single VAT system, applied uniformly in all Member States. There should be one common compliance process, harmonised rates, binding rulings and easy access to guidance and information.

Q24. Should the current exemption scheme for small businesses be reviewed and what should be the main elements of that reassessment?

Q25. Should additional simplifications be considered and what should be their main elements?

Q26. Do you think that small business schemes sufficiently cover the needs of small farmers?

We welcome any measures that are aimed at supporting small businesses

We consider that a mandatory VAT registration threshold of circa €150,000 should be adopted in all Member States.

We also consider that the EU should contemplate the introduction of voluntary cash accounting, annual accounting and Flat Rate schemes for all small enterprises with a turnover below €1,000,000. This would assist with cash flow and reduce the burdens associated with the submission of monthly and quarterly returns.

In relation to UK Income Tax, HMRC undertake to perform the actual calculation of tax liabilities provided that the relevant information is supplied by the taxpayer in a timely manner. Whilst we accept that the VAT system currently operates on the premise of self-assessment, we consider that a similar service to aid smaller businesses would be of great assistance and reduce costs.

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

If the destination system is to be the preferred system going forward, we agree that a one stop shop concept is a relevant simplification measure. A one stop system should, in our view have the following features;

- A single VAT registration
- A 'single payment' system and
- A central payment clearing system to redistribute tax revenues between Member States.

Q28. Do you think that the current VAT rules create difficulties for intra-company or intra-group cross-border transactions? How can these difficulties be solved?

In many instances, the imposition of VAT on intra-company or intra-group cross-border transactions creates additional VAT costs on otherwise cost effective management controls for internationally focused businesses. Such charges reduce the effectiveness of central purchasing/management functions.

We therefore welcome any measures that would simplify intra company or intra-group cross border transactions, and we would be in favour of either a pan EU cost sharing arrangement or pan EU VAT grouping regime. As previously indicated in relation to Q3, such cost sharing arrangements or VAT groups should be applicable to and include holding companies of corporate groups.

Whilst we understand the apprehension that some tax authorities may have in relation to tax avoidance or abuse, we consider that sufficient sanctions are currently available to the tax authorities to deal with any perceived practices of that nature.

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

We believe that, when considering the system of collecting VAT, the Commission should examine the synergies with the operation and collection of Excise and Customs duties. We suggest that if the VAT system is to be replaced, an alternative which the Commission may wish to consider might be an extension of the Excise system.

We also suggest that the Commission might like to examine the synergies which may be obtained from the Transfer Pricing regimes around the world.

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

We have doubts that any automated or computerised system will work effectively. We consider that human judgment and intervention are both necessary for a collection system to work properly. We therefore consider that the fourth model (the certified trader regime) looks the most promising.

We also believe that the tax authorities should allocate more human resources to the areas where the most risk is perceived to exist.

In our view, the Commission and Member States should not forget that taxable persons are intermediaries in the process of VAT collection. We appreciate that the Governments of each Member State would not wish to see their cost of collection and administration rise significantly. However, the Commission and the Member States may wish to consider incentivising the unpaid tax collectors to assist them in the collaborative collection of the tax. The use of technology should be investigated further in this regard but, we are not convinced that any of the solutions identified in the feasibility study are viable options.

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

We have already commented that a move to an origin based system would help to reduce or minimise the impact of missing trader fraud. We do not believe that the proposed split payment method eases the position, not least because it would not cover B2C transactions or cash and barter transactions. In our view, a split payment system is commercially impractical and is likely to lead to significant cash flow burdens for participants who would lose the benefit of accrued input tax deduction. However, we do recognise that this system has its attractions in that it has the potential to reduce missing trader fraud.

Q32. Would you support these suggestions to improve the relationship between traders and Tax Authorities? Do you have other suggestions?

We are in favour of any measures which would improve the relationship between traders and the tax authorities. However, it is important to remember that businesses throughout the EU are unpaid and unrewarded tax collectors. We therefore believe that the tax authorities need to adopt a positive and proportionate approach to businesses rather than, as is quite often the case, treating them as 'tax avoiders' when things go wrong. In particular, the Commission should consider reviewing and harmonising the penalty regimes across the EU which, in many cases, seem to be disproportionate to the errors made.

We also consider that tax authorities need to continually up-skill their human resource to ensure that there is better interaction and more efficient contact with taxpayers. Tax authorities should continue to focus on the 'black market' and on the prevention of fraud.

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?

As indicated in our introduction, we believe that for the foreseeable future, the emphasis will fall on indirect taxation. Many regard taxation on consumption to be a fairer means of raising revenue. However, we would encourage a debate about whether the current Value Added Tax system remains the most suitable for that purpose and hope that as part of that process the Commission will consider possible alternative such as Sales Tax/Purchase Tax and, or, the adoption of something akin to an EU wide Excise regime. In its current form, the cascading nature of the Value Added Tax system lends itself to tax leakage and fraud. This may be alleviated by the adoption of an alternative tax system such as a Sales Tax.

As stated earlier, we would be disappointed if the Commission was give up on the origin system. However, if that was to be contemplated at any stage, we would hope that any alternative system under consideration would be tested against the simplicity of the origin system.

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