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## **PROPOSAL**

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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	18 January 2018
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2018) 8 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT Accompanying the document Proposal for a Council Directive amending Directive 2006/112/EC as regards rates of value added tax

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Delegations will find attached document SWD(2018) 8 final.

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Encl.: SWD(2018) 8 final



Brussels, 18.1.2018  
SWD(2018) 8 final

**COMMISSION STAFF WORKING DOCUMENT**

**EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT**

*Accompanying the document*

**Proposal for a Council Directive**

**amending Directive 2006/112/EC as regards rates of value added tax**

{COM(2018) 20 final} - {SWD(2018) 7 final}

<b>Executive Summary Sheet</b>
Impact assessment on VAT rates
<b>A. Need for action</b>
<b>Why? What is the problem being addressed?</b>
When the common system of VAT was established in 1967 a commitment was made to establish a definitive VAT system on the basis of the principle of taxation in the Member State of origin. With the creation of the single market in 1993 the aim of introducing an origin-based VAT system was kept and transitional VAT arrangements together with the current rules on VAT rates entered into force. The proposal on the definitive system abandons this aim and provides for the implementation of a definitive VAT system based on taxation in the Member State of destination. However, the current rules on VAT rates are still consistent with an origin-based system and excessively restrictive for a destination-based VAT system. In addition, special provisions allowing certain Member States to derogate from the restrictions will expire with the entry into force of the definitive VAT system.
<b>What is this initiative expected to achieve?</b>
The initiative sets a permanent minimum of 15% of the standard VAT rate. In a definitive VAT system equal treatment of Member States will be achieved and Member States will no longer be prevented from granting reduced rates to certain goods and services, if there is no risk of distortion for the functioning of the single market.
<b>What is the value added of action at the EU level?</b>
The subsidiarity requirements of Article 113 TFEU are implemented in the VAT Directive.
<b>B. Solutions</b>
<b>What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?</b>
Two policy options, both requiring a change of the VAT Directive and making permanent the 15% minimum for the standard VAT rate, were considered. Option 1 aims at granting existing derogations to all Member States by integrating the national provisions in the VAT Directive, which would however be difficult to achieve. The preferred option 2 solves the derogations problem by abolishing the constraints that created the need for such derogations, viz. the 5% minimum for reduced VAT rates and the list of goods and services to which reduced VAT rates can be applied (Annex III), which would be replaced by a negative list to which the standard rate must be applied.
<b>Who supports which option?</b>
Member States and respondents to the Open Public Consultation support equal treatment of Member States.
<b>C. Impacts of the preferred option</b>
<b>What are the benefits of the preferred option (if any, otherwise main ones)?</b>
The selected option successfully removes restrictions on Member States that are no longer justified under destination-based taxation and provides the a solution to expiry of derogation.
<b>What are the costs of the preferred option (if any, otherwise main ones)?</b>
The preferred option requires safeguards to avoid potential risks.
<b>How will businesses, SMEs and micro-enterprises be affected?</b>
The risk of increase of compliance costs stemming from higher complexity will be limited by providing operators with information on VAT rates based on a statistical classification in a modified web portal.
<b>Will there be significant impacts on national budgets and administrations?</b>
Member States will continue to determine any budgetary impact. Extending the scope of reduced VAT rates or lowering reduced VAT rates without offsetting measures would decrease VAT revenue.
<b>Will there be other significant impacts?</b>
The risk of increased litigation could be a consequence of increased flexibility for Member States.
<b>D. Follow up</b>
<b>When will the policy be reviewed?</b>
Before the entry into force of the definitive VAT system Annex III would be reviewed and after the entry into force the negative list would require a regular review.