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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Ninth report from the Commission on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89

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1. Introduction

Public services – from medical care to infrastructure development, from education to national defence – are essential to our daily lives yet cost money. Taxes are needed to fund them, and value added tax (VAT) is an essential and often primary contributor to the budgets of Member States[1]. Underperforming administration of VAT compromises development, growth and trust in government. Effective VAT administration with efficient processes and procedures is therefore in everybody's interest – national administrations, EU institutions, taxpayers and citizens.

Council Regulation No 1553/89 of 29 May 1989[2] tasks the Commission to assess, every 3 years, the national procedures for registering taxable persons and for determining and collecting VAT, as well as the modalities and results of national VAT control systems. Possible revisions can then be considered with a view to improving the effectiveness of these procedures. This report complies with that mandate and examines the period 2016–2019.

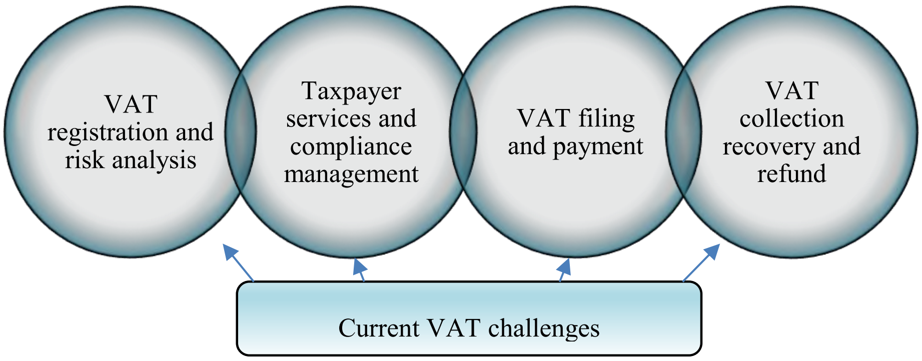
Since 1989, eight assessment reports of this kind have been issued[3]. The most recent report[4], published in December 2017, advocated breaking the silos and improving VAT administration through better cooperation between tax administrations. The present report[5] identifies some of the probable causes of revenue loss and explicitly outlines recommendations for measures to tackle it by strengthening VAT administration (the recommendations are listed in boxes in the sections below. Furthermore, for a summary of the recommendations, see Annex 1). This is important especially in the context of the changes that digitalisation and new technologies are bringing to our economies. This report also presents experiences and good practices by national VAT administrations.

Fair and efficient taxation will be even more important in the months and years ahead, as the EU and the global community seek to recover from the fallout of the COVID-19 crisis. Member States quickly implemented VAT-related measures together with other targeted measures to pave the way towards recovery. This report assesses the readiness of tax administrations to face difficult situations, including the COVID-19-related emergencies and continue functioning with as little disruption as possible.

1.1. A new approach: building on success stories

Tax administrations are all in the same business: collecting taxes. Especially in a rather harmonised area such as VAT, they have many similar functions but can vary in terms of organisation, operations, tax policy and priorities.

This report takes a step back and looks at VAT administration from a broader angle to capture what Member States are doing. It recommends a possible course of action to achieve similar performance across the EU. It follows the entire VAT life cycle, from registering VAT-taxable persons to the post-refund control of VAT.



[1] VAT-type taxes account for approximately 7% of gross domestic product (GDP) on average (about one fifth of total government revenue) and are thus one of the most important sources of revenue (https://ec.europa.eu/eurostat/statistics-explained/index.php/Tax_revenue_statistics).

[2] OJ L 155, 7.6.1989, p. 9.

[3] The references to the eighth previous reports are listed in Annex 3: References.

[4] COM(2017) 780 final.

[5] Since VAT is also an own resource of the EU budget, the current legislative arrangements (Regulation No 1553/89) require the Commission to produce a report on the VAT-administering procedures applied in the Member States and to submit it to the European Parliament and the Council. The official text of Regulation No 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax is available online (https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A31989R1553).

Comparing performance information is the most straightforward way of identifying good performance and good practice. However, different definitions, lack of completeness and robustness of data, and the incomparability of similar functions in diverse environments (size, political organisation, social structures, etc.) make full benchmarking impossible. The existing diversity presents, indeed, the biggest challenge in comparing the costs and performance of tax administrations.

Additional factors such as the behaviour of VAT payers (e.g. predisposition to pay taxes), the quality of VAT application law and other VAT determinants (e.g. size of retail, taxpayer structure, geography, size of the country, economic environment, unemployment) influence the VAT gap, but are nearly impossible to assess.

Although the current report is not a benchmarking exercise, it nevertheless identifies opportunities for change and improvement while paying attention to each country's specificities. Such opportunities are often of a qualitative ('soft') nature and difficult to spot.

1.2. Data gathering and analysis

To gather the data, the Commission submitted a survey on selected issues to all Member States. Using 109 different question sets (free text, single and multiple choice, matrix, etc.) and tables, the Commission collected 8 700 data entries.

We used validating methods (e.g. cross-checks, comparisons with other sources and key verification questions) to verify and confirm the quality of the data received. The Commission reached out to Member States through multiple channels to discuss detected anomalies. All Member States had the opportunity to review their answers. The quality and accuracy of the data still vary significantly. Member States should strive to provide high-quality data within the set time frame.

The United Kingdom withdrew from the European Union on 31 January 2020. Since the period reflected in the report is 2016–2019, and Union law remained fully applicable to and in the United Kingdom throughout the transition period, any reference to 'Member States' and all calculations (e.g. different ratios and percentages) include the United Kingdom. The United Kingdom fully participated in the exercise.

2. A common interest: the importance of VAT for Member States, the European Union and taxpayers

2.1. Compliance gap (VAT gap)

The capacity of tax administrations to collect value added tax (VAT) is an urgent matter for the Member States, the EU, European businesses and citizens. VAT is an essential and major contributor to the state budgets of Member States[6] as well as an important Own Resource of the EU budget. However, VAT due but uncollected by the tax authorities was estimated at EUR 134 billion in nominal terms and 10.3% expressed as a share of the VAT Total Tax Liability in 2019[7] (Figure 1). This is what is referred to as the 'VAT gap': the difference between the VAT total tax liability (VTTL) and what is actually collected by the Member States' tax authorities and as such, represents VAT revenues lost compared to a theoretical VAT calculation. The Commission calculates and publishes the VAT gap annually[8], with a view to gathering comparable data and indicators on the scale of VAT revenue losses. The VAT gap provides an estimate of revenue loss to reasons that can be grouped into four broad categories: (1) VAT fraud and VAT evasion, (2) VAT avoidance practices and optimisation, (3) bankruptcies and financial insolvencies, and (4) administrative errors. Furthermore, it should be noted that the VAT gap estimates are calculated based on national statistics[9]. Finally, Member States administrative capacity to

[6] The VAT type taxes account for approx. 7% GDP on average (about one-fifth of total government revenue), thus being one of the most important sources of revenue: https://ec.europa.eu/eurostat/statistics-explained/index.php/Tax_revenue_statistics In 2018, the EU VAT revenue amounted to EUR 1,132 billion.

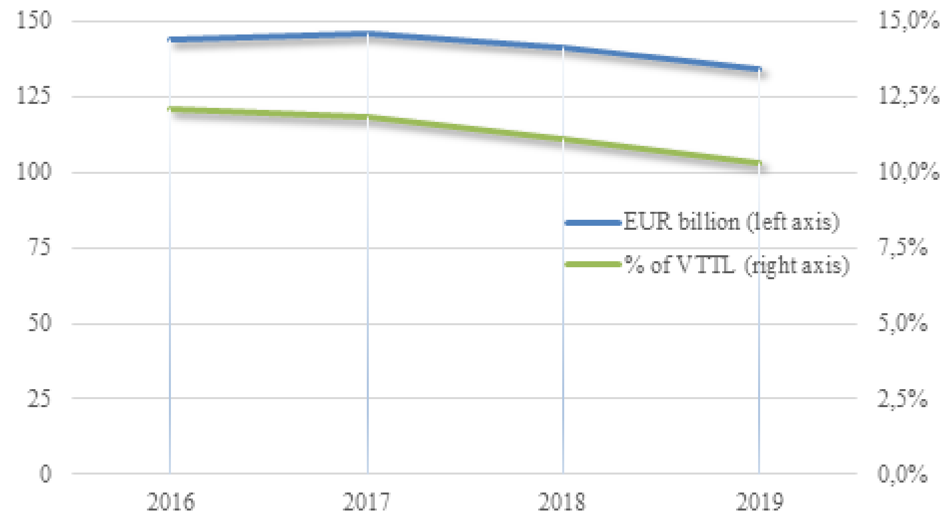
[7] VAT gap in the EU – Report 2021

[8] The VAT gap estimation made by the Commission is based on a top-down methodology and on national accounts data and own resource submissions (i.e. VAT statements) provided by the Member States. These figures are used to estimate the theoretical VAT liability generated by different subaggregates of the economy compared with actual VAT collection.

[9] The methodology used for the calculation of the VAT Gap relies on the national accounts figures compiled by the national statistical authorities. Additional data that could be used for a more precise estimate on the VAT Gap, such as the benefits in kind or more detailed statistical classification of products by activity (CPA) are not always available. Moreover, the national statistics institutes use

ease compliance and fight against VAT fraud is a factor of the utmost importance in this regard. While each of these reasons for the VAT gap calls for a different policy response, even under the best circumstances the VAT gap could not be completely eliminated, for instance as regards foregone VAT due to bankruptcies and financial insolvencies. Quantifying and monitoring the VAT gap can help to develop well-targeted measures and monitor their effectiveness. As such, the VAT gap can be considered as an indicator to measure the effectiveness of VAT enforcement and compliance measures in each Member State.

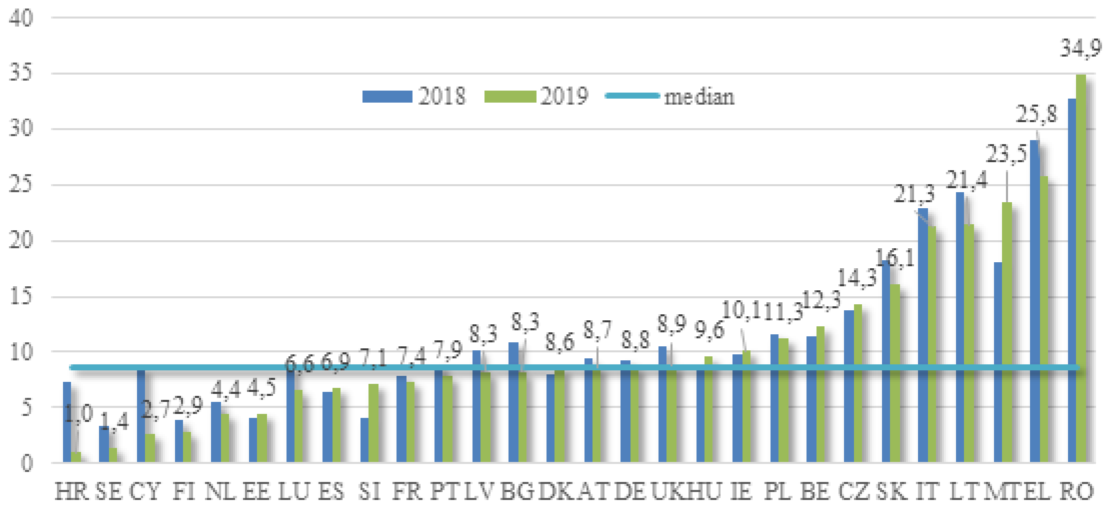
Figure 1: Evolution of the VAT gap in the EU



Source: European Commission (2021) – VAT gap in the EU report 2021

While the EU-wide picture shows improvement over time, statistics vary significantly when comparing Member States, ranging from as low as 1% to up to 35% of the national VAT total theoretical liability (VTTL) (Figure 2). There are good examples that progress can be made and the VAT gap can be reduced: Overall, compared to 2018 the VAT Gap share decreased in 18 Member States. In addition to Croatia and Cyprus, the most significant decreases in the VAT Gap occurred in Greece, Lithuania, Bulgaria and Slovakia (the four of which reduced the VAT gap by between 3.2 and 2.2 (-3 percentage points). Another group of countries consists of Sweden, Finland and Estonia. In these Member States, the loss in VAT revenues is estimated already for years at less than 5% of the VAT due. The biggest increases in the VAT Gap, apart from Malta, were observed for Slovenia (+3 percentage points) and Romania (+2.3 percentage points).

Figure 2: VAT gap as share of the VTTL, 2018 and 2019 – in %



Annotation: Data labels refer to the VAT gap as share of VTTL in 2019
Source: European Commission (2021) – VAT gap in the EU report 2021

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different methodologies to estimate the informal economy and to reflect it in their national accounts, thus indirectly affecting the VAT gap figures.

The variations of VAT gap estimations between the Member States reflect differences in terms of tax compliance, fraud, avoidance, bankruptcies, insolvencies and administrative capacity. Even if other factors such as the economic evolution and the organisation of national statistics have an impact on the estimates, the size and especially the trend of the VAT gap provides an indication of the performance of national tax administrations.

Table 1: VAT gap for 2016–2019 (in million EUR and as percentage of VAT total tax liability)

Member State / Year	2016		2017		2018		2019	
	Mill EUR	%	Mill EUR	%	Mill EUR	%	Mill EUR	%
Belgium	3 513	10.9%	4 126	12.2%	4 007	11.4%	4 444	12.3%
Bulgaria	621	12.3%	648	12.2%	617	10.8%	508	8.3%
Czechia	2 499	16.0%	2 223	13.1%	2 567	13.8%	2 835	14.3%
Denmark	2 539	8.7%	2 528	8.3%	2 516	7.9%	2 778	8.6%
Germany	22 091	9.2%	23 212	9.3%	24 291	9.4%	23 443	8.8%
Estonia	115	5.5%	117	5.2%	98	4.0%	116	4.5%
Ireland	1 426	10.2%	1 910	12.8%	1 541	9.8%	1 721	10.1%
Greece	5 374	27.3%	6 730	31.5%	6 237	29.0%	5 350	25.8%
Spain	4 577	6.1%	5 411	6.8%	5 252	6.3%	5 840	6.9%
France	14 852	8.8%	15 329	8.6%	14 428	7.9%	13 858	7.4%
Croatia	553	8.4%	482	6.9%	553	7.4%	77	1.0%
Italy	36 852	26.5%	32 611	23.3%	32 415	22.9%	30 106	21.3%
Cyprus	47	2.7%	169	9.4%	171	8.6%	54	2.7%
Latvia	309	13.2%	402	15.7%	277	10.2%	237	8.3%
Lithuania	1 070	26.1%	1 116	25.2%	1 137	24.4%	1 048	21.4%
Luxembourg	589	15.8%	226	6.3%	333	8.5%	267	6.6%
Hungary	1 748	14.2%	1 891	13.9%	1 261	8.9%	1 483	9.6%
Malta	244	25.6%	225	21.7%	203	18.1%	287	23.5%
Netherlands	2 651	5.3%	3 190	6.0%	3 039	5.5%	2 660	4.4%
Austria	2 466	8.3%	2 605	8.4%	3 033	9.4%	2 895	8.7%
Poland	7 880	20.3%	6 810	15.8%	5 288	11.6%	5 379	11.3%
Portugal	2 123	11.9%	1 847	9.9%	1 759	9.0%	1 609	7.9%
Romania	6 453	37.0%	6 797	36.8%	6 258	32.7%	7 411	34.9%
Slovenia	186	5.3%	142	3.9%	163	4.1%	298	7.1%
Slovakia	1 360	20.0%	1 206	16.9%	1 414	18.3%	1 313	16.1%
Finland	985	4.8%	1 320	6.1%	884	4.0%	646	2.9%
Sweden	1 228	2.8%	1 713	3.7%	1 483	3.3%	597	1.4%

Member State \ Year	2016		2017		2018		2019	
	Mill EUR	%	Mill EUR	%	Mill EUR	%	Mill EUR	%
United Kingdom	20 102	10.7%	20 714	11.3%	19 835	10.5%	17 176	8.9%
EU	144 452	12.1%	145 698	11.5%	141 059	11.1%	134 436	10.3%

Source: European Commission (2021) – VAT gap in the EU

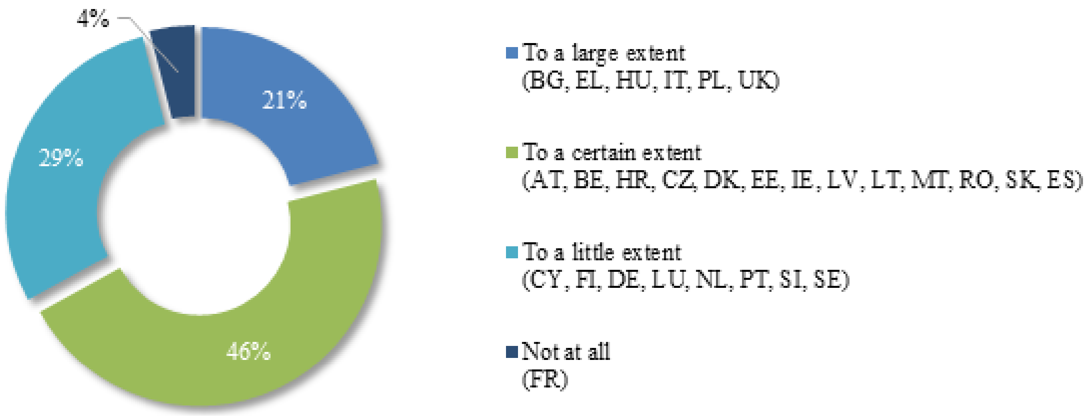
25 out of 28 Member States include VAT gap estimates in their various methods of monitoring the level of inaccurate reporting (with the exception being Germany, Malta and Sweden). Fourteen Member States use both internal and Commission estimates, whereas eight Member States, namely Czechia, Ireland, Spain, Luxembourg, Hungary, the Netherlands, Austria and Portugal, rely on the EU figures alone. Bulgaria, Estonia and the United Kingdom use their internal estimates only. The Commission maintains the recommendation of the previous report that Member States should invest or continue investing in estimating their own VAT gaps and analyse them in more detail. Insights into the VAT gap allow national policymakers to gauge the impact of their policy measures and adjust them to increase VAT compliance.

Some Member States (11/28) shared their internal VAT gap estimates. Generally, there were no significant differences (1–2 percentage points on average) between the internal estimates and those produced by the Commission. This demonstrates once again the accuracy of the annual figures published by the Commission.

Almost all Member States consider the VAT gap studies and estimates to be beneficial for a better grasp of the level of inaccurate reporting of VAT obligations, but the degree of appreciation varies. It is worth noting that Member States that do not invest much in estimating the VAT gap consider this endeavour to be helpful, but to a lesser extent.

Figure 3: Perceived usefulness of the VAT gap estimates in relation to the compliance work of tax administrations in the Member States

Question 4.8: 'To what extent the VAT gap studies/estimations helped your tax administration to better focus your future compliance work?'



Source: *European Commission (2019) – Survey on VAT administration, collection and control*

2.2. The impact of VAT gap on own resources

VAT own resources for the Union budget are levied on each Member State's VAT base. The VAT bases are first harmonised in accordance with EU rules before the VAT own resource to be paid is calculated[10]. The same percentage is then levied on the harmonised base of each Member State, which, however, is capped at 50% of the Member State's gross national income (GNI)[11].

[10] To minimise distortions due to diverging VAT rates and structures in the Member States, the VAT base is notionally harmonised for the purpose of own resource calculations. This harmonised VAT base is calculated by dividing the total annual net VAT revenue collected by each Member State by the weighted average rate of VAT to obtain the intermediate VAT base. The intermediate base is subsequently adjusted with negative or positive compensations.

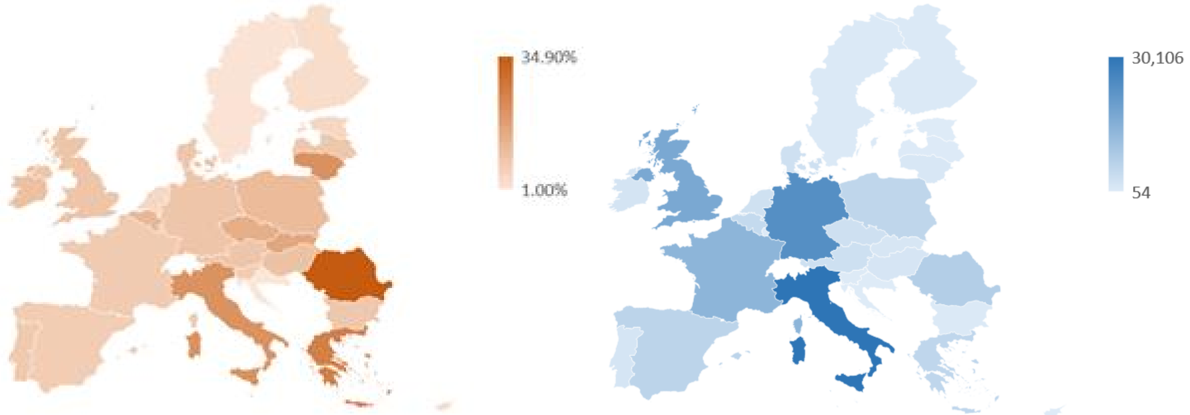
[11] This rule is intended to avoid less prosperous Member States with higher shares of consumption paying amounts out of proportion to their own capacity to contribute (thus remedying the regressive aspects of the VAT-based resource), since consumption and, hence,

The performance of VAT administration in Member States directly affects the EU's revenues. Since net VAT revenue collected by each Member State is used to determine the harmonised base, the VAT gap influences both Member States' revenue and the EU's VAT own resource amounts. From a legal point of view, the European Court of Justice made a clear link between national VAT collection and the availability of the corresponding resources to the EU budget[12].

The share of VAT-based contributions has been declining over time and any drop in the VAT own resources must be compensated by a corresponding increase in GNI-based contributions[13] that are paid by each of the Member States.

The VAT gap figures in Member States can be regarded from different angles, such as the percentage of the gap or its size in absolute value, all of which render the same general picture of missing revenues.

Figure 4: The VAT gap in the EU in average value over the reporting period
a. *VAT gap as percentage of VAT total tax liability (VTTL)* ***b.*** *VAT gap in Million EUR*



Source: European Commission (2021) – VAT gap in the EU

2.3. VAT administration and compliance burden for businesses

Although the principles of the VAT are harmonised, the rules can be enacted and implemented differently in different Member States so that the compliance burden on business varies considerably.

The efficiency and effectiveness of tax administrations influence both the costs of tax administration to governments and the compliance costs for businesses. Since VAT constitutes a large part of the administrative burden for businesses, it is equally important to improve the quality of VAT administration. Assessing the administrative burden for VAT payers, however, is outside the scope of this report.

Recommendation 1: Calculate and analyse the national VAT gap and its different components (missing trader intra-community fraud, e-commerce, etc.).

3. VAT registration and risk analysis

The registration and numbering of taxpayers (businesses, individuals and other entities registered for VAT) represent a fundamental initial step in administering VAT, which strengthens key administrative processes if the information in the registration database is complete, accurate and up to date. On registration, VAT payers are included in national VAT databases.

In the previous report, the Commission recommended that Member States:

VAT tend to account for a higher percentage of a country's national income at relatively lower levels of prosperity. Five Member States benefited from the 50% cap (Croatia, Cyprus, Luxembourg, Malta and Slovenia).

12 Judgment of 26 February 2013, *Åkerberg* v *Fransson*, C-617/10, EU:C:2013:105, paragraph 26: 'revenue from application of a uniform rate to the harmonised VAT assessment bases determined according to EU rules, there is thus a direct link between the collection of VAT revenue in compliance with the EU law applicable and the availability to the EU budget of the corresponding VAT resources, since any lacuna in the collection of the first potentially causes a reduction in the second'.

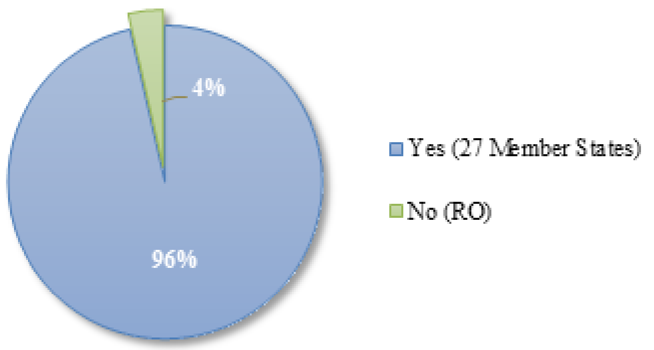
13 The GNI-based resource is an additional resource that provides the revenue required to cover expenditure in excess of the amount financed by traditional own resources, VAT-based contributions and other revenue in any year.

- invest more in assisting taxpayers, especially foreign, in fulfilling their VAT registration obligations (Recommendation 4);
- reflect on the allocation of VAT identification numbers and VAT Information Exchange System (VIES) registration numbers (Recommendation 5);
- verify the validity of VAT and VIES registration data in a more systematic way (Recommendation 6).

3.1. Assisting taxpayers through better communication

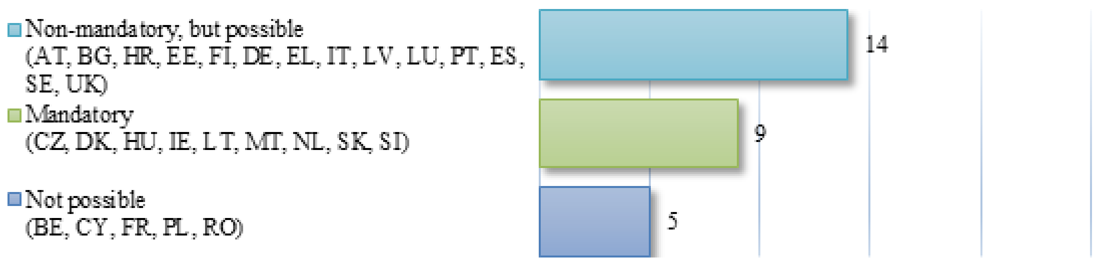
Since Member States were advised in the previous report to invest more in assisting taxpayers with their VAT registration obligations, a follow-up question was included to assess progress in this matter. Member States indicated in their answers that online registration is largely available, and that taxpayers are informed of the online registration and related obligations.

Figure 5: *Online information on VAT registration obligations*
Question 3.3: 'Does the Tax Administration inform taxpayers about their VAT registration obligations and the registration procedure online? For instance via a web page, applications etc.'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Figure 6: The availability of online registration in the EU Member States
Question 3.8: 'Is online registration …'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 2: Inform taxpayers online about their VAT-related obligations and provide for online registration.

3.2. Completeness of the VAT-registered taxpayers database

A balance needs to be found between, on the one hand, facilitating newly emerging economic activity through easy VAT registration and, on the other hand, fighting VAT fraud. Carrying out an economic activity in an EU Member State is possible with just an active VAT number, even without a permanent establishment there. Careful evaluation of applicants at the registration stage is therefore a critical step in the identification of potential fraud cases.

Fighting VAT fraud can require the rejection of an application for a VAT number under certain conditions. The registration procedure should incorporate a risk analysis[14] element based on information submitted by the

[14] Ideally, the risk analysis should not have a large impact on the overall length of the registration process. It should take into account different realities in the Member State, such as the incidence of fraud, the availability and accuracy of third-party information, and the maturity of tax administration. Moreover, businesses should be able to clarify the rejection of their applications swiftly and to submit another application immediately, even if from an anti-fraud point of view it may be preferable that the tax administration 'remembers' the rejected applications.

applicant at the registration stage, which is cross-checked with information obtained from third parties and, if necessary, filtered after a clarification process with the taxpayer.

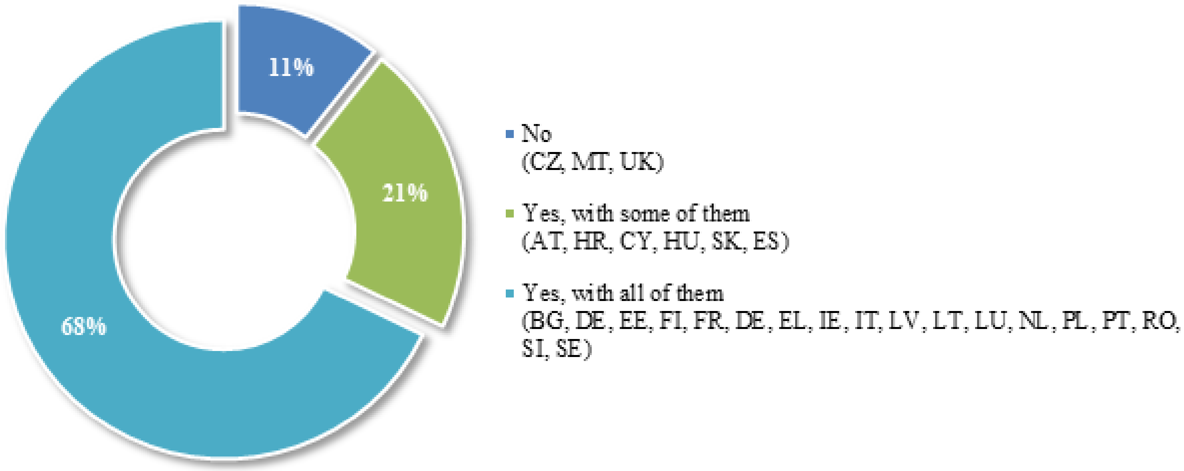
Member States should ensure that the information held in their VAT databases is complete, accurate and regularly updated. To achieve this, they should have a versatile IT registration subsystem that interfaces with other IT subsystems in the tax administration and allows them to suspend the receipt of VAT returns, issue reminders, estimate assessments and take other actions in respect of taxpayers who are temporarily inactive. They should be able to generate VAT registration-related management information and to examine regularly the extent to which the VIES database provides certainty of its validity.

To determine the integrity of VAT registration databases, the Commission also inquired about the number of taxpayers, VAT and Mini One Stop Shop (MOSS) registration, the registration checks performed and the expected VAT declarations and revenue[15].

The previous report acknowledged that registration procedures are in place in the Member States and online registration is becoming increasingly popular. In addition, 'one-stop-shop' registration facilities are available in some Member States, and several offices such as chambers of commerce are involved in the VAT registration process. Member States were surveyed about the automatic exchange of information between tax administrations and different bodies in charge of business registration.

Figure 7: Automatic exchange of information between tax administrations and other national bodies in charge of registration

Question 3.2: '3.2. Is there an automatic exchange of information between the tax administration and these bodies [in charge of business registration, for example: chamber of commerce]?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

To ensure the completeness and the accuracy of VAT databases, greater integration of relevant databases and a real exchange of information between national actors involved are essential.

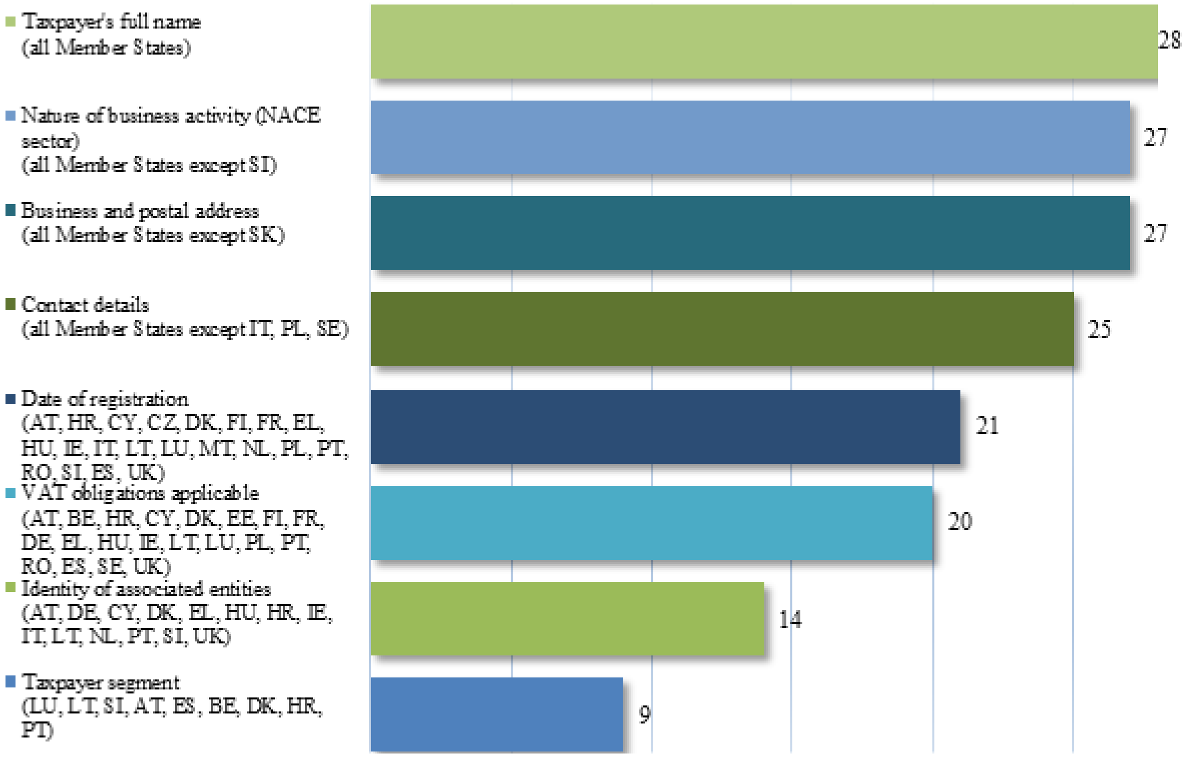
Recommendation 3: Improve automatic exchange of information between tax administrations and other national bodies.

Member States' registration databases should contain minimum information about the taxpayer to meet the standard of being complete and accurate. Most of the relevant details on taxpayers should be in the VAT database from the moment of registration.

[15] Although the accuracy and reliability of the information received in the survey cannot be determined, the comparison of the answers and the yearly variation in the data offer valuable insights in several areas; for example, if taxpayers' data is cleaned of inactive or duplicate records, if dormant records are identified, and if the IT system provides a complete view of taxpayers' data to frontline staff and valuable arguments for management action. If there is no variation in taxpayers' data over the years, if the information is missing or not available, or if the values are implausible, it may be an indication that the VAT registration database is corrupted or at least unreliable.

Figure 8: Information required for new VAT registration in the EU Member States

Question 3.4: 'Which information is required when registering a new taxable person (MOSS excluded)? (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Generally, the databases of VAT-registered taxpayers are well maintained in the Member States. They include most of the relevant details on taxpayers, and the information contained is adequate for effective interaction with them. Most Member States (24/28) require the majority of the information fields when registering a new VAT payer. Ten Member States, namely Denmark, Ireland, Greece, Croatia, Cyprus, Lithuania, Hungary, Austria, Portugal and the United Kingdom, included all the fields. Most Member States that do not include the minimally required fields in their database require other fields or substitute information such as bank account details, expected turnover, identification data of the legal representative(s), financing sources and data on employees. Efficiency gains could be achieved by integrating those fields at the moment of registration, ensuring that they appear immediately in the database. This would save national tax administrations from having to obtain additional information through individual queries.

Recommendation 4: Maintain an accurate and complete VAT database.

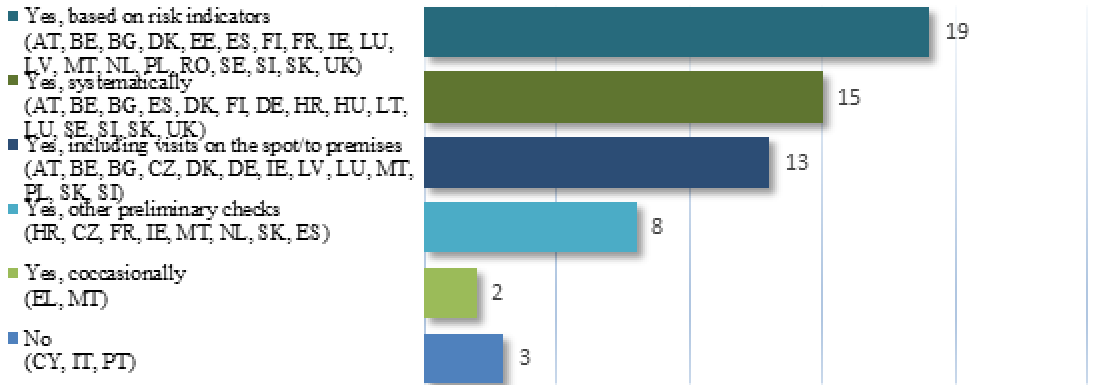
Analysis revealed no systematic correlation between the VAT gap and indicators such as the number of registered taxpayers, the number of VAT-registered businesses and the information requested at the registration. There may be a slight correlation between the size of the VAT gap and the average value of VAT collection per taxpayer. Member States with the highest value of revenue per VAT-registered taxpayer (Luxembourg, Ireland, Denmark and the United Kingdom) appear to have a relatively lower VAT gap.

Figure 9 shows the extent to which Member States perform VAT registration checks and verify if registration applications are authentic and if applicants meet the legal requirements for registration.

Figure 9: Verifications and preliminary checks regarding VAT registration

a. *Question 3.5: 'Which information is required when registering a new taxable person (MOSS excluded)? (Multiple answers possible)'*

b. *Question 3.6: 'Does your Tax Administration carry out preliminary checks before VAT registration? (Multiple answers possible)'*



Source: European Commission (2019) – Survey on VAT administration, collection and control

In general, Member States use risk indicators; verifications are carried out systematically and can include visits to the premises of a taxpayer if needed. Procedures are in place to ensure that applications for registration are authentic and that applicants meet the legal requirements.

However, Greece, Italy, Cyprus, Malta and Portugal could benefit from more consistency in the preliminary checks. Czechia and Spain are advised to better verify the applicant's identity (ID), while Bulgaria, Czechia, Spain, Malta, the Netherlands, Romania and Sweden may want to revisit their provisions on legal verification of VAT registrations.

Some Member States reported other preliminary verifications. These are based on different sources such as desk research, public information, pre-registration site visits and criminal records. Information requests to other national agencies, interviews/meetings with directors or their authorised representatives, or using dedicated questionnaires for risk assessment are also common practice. A good practice could also be to ensure the interoperability between taxation and customs risk criteria relevant to VAT (e.g. signals related to customs procedure 42 could also relate to VAT fraud risk).

Several answers referred to administrative and international cooperation as an additional source of verification.

Recommendation 5: Perform legal and ID verifications and systematic preliminary checks based on risk indicators.

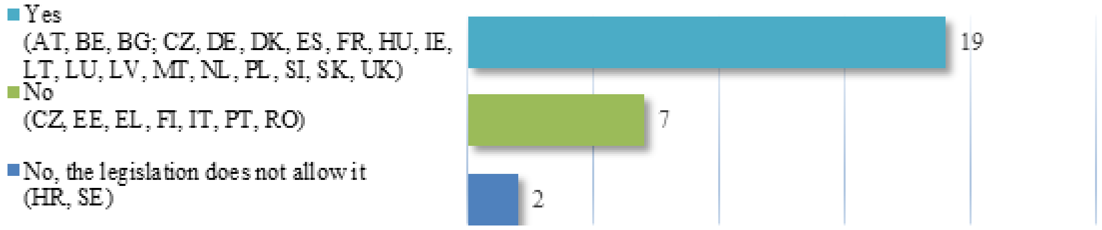
The percentage of VAT registration requests refused offers some indication of the quality of the risk assessment process and varies from 0% in Italy to > 20% in Latvia and Lithuania. Member States with a low rate of refused VAT registrations tend to have a higher VAT gap, and those with a higher rate of refusals tend to perform better in this respect. Italy and Greece, for example, replied 'zero' and 'data not available', respectively; in Romania the total share of refused VAT registrations went down from 14.5% in 2016 to 2.2% in 2019[16].

[16] Two other Member States displayed the same trend as Romania in refused registrations between 2016 and 2019: Bulgaria (from 22.8% to 11.1%) and the United Kingdom (from 11.8% to 4.4%). While Romania has an estimated VAT gap of > 33%, Bulgaria and the United Kingdom have estimated gaps of 10% and 12%, respectively.

Member States may benefit from building an institutional memory of registration requests, especially of rejected ones, to improve knowledge of an applicant's legitimate interest in performing an economic activity, and capacity to perform it.

Figure 10: Record of applicants to whom registration has not been granted

Question 3.7: Does your administration keep a record of applicants for whom registration has not been granted?



Source: European Commission (2019) – Survey on VAT administration, collection and control

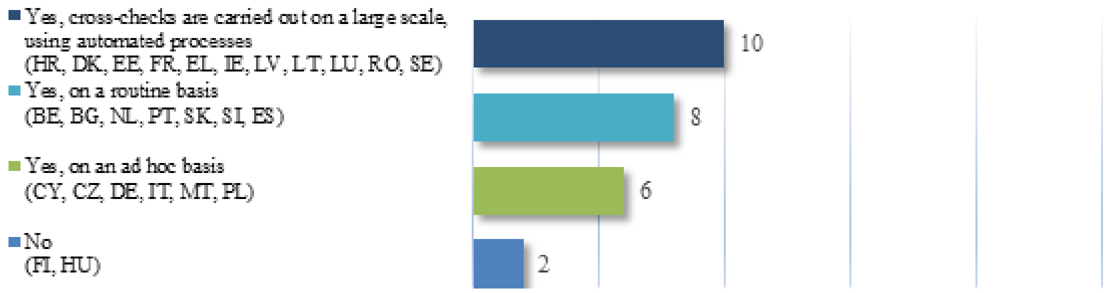
Most Member States (19/28) keep a record of applicants to whom registration has not been granted. All Member States should adopt this good practice, considering a change of the national legislation if needed.

Recommendation 6: Keep a record of applicants to whom registration has not been granted.

Most Member States cross-check the information held in the VAT registration database against third-party information sources, such as other government registries, to improve the integrity and accuracy of their databases. This is a good practice, and Member States should follow the example of Denmark, Estonia, Ireland, Greece, France, Croatia, Latvia, Lithuania, Luxembourg, Romania and Sweden.

Figure 11: Third-party cross-check of VAT registration information

Question 3.9: 'Is the information held in the VAT registration database crosschecked against third party information sources (e.g. other government registries such as the registrar of companies) to ensure that the information held is up-to-date?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 7: Cross-check the information held in the VAT registration database against third-party information sources.

In addition, the Commission sought to find out more about the existence and the type of processes used to detect businesses and individuals who are required to register but fail to do so, and, equally importantly, the results generated by these processes. The tax administrations that replied 'Yes' to the first question have different processes in place to detect unregistered businesses.

Figure 12: Processes to detect taxpayers who fail to register and the economic sectors with a significant number of unregistered businesses

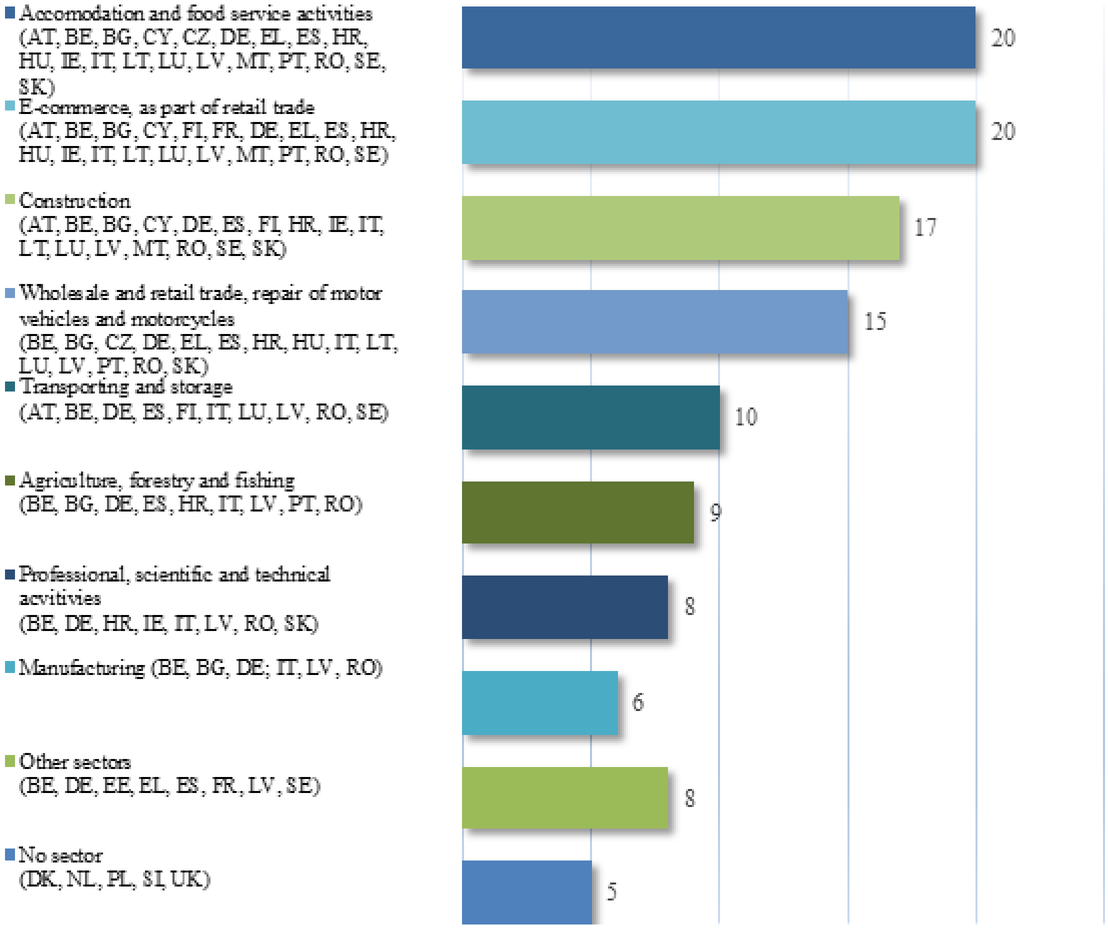
Question 3.11.a: 'Please specify which type of initiatives your tax administration used. (Multiple answers possible)'

Source: European Commission (2019) – Survey on VAT administration, collection and control

Figure 13 provides more information on the economic sectors concerned.

Figure 13: Processes to detect taxpayers who fail to register and the economic sectors with a significant number of unregistered businesses

Question 3.11.b: 'For which economic sectors did your tax administration identify a significant number of unregistered businesses based on those initiatives? (Multiple answers possible)'

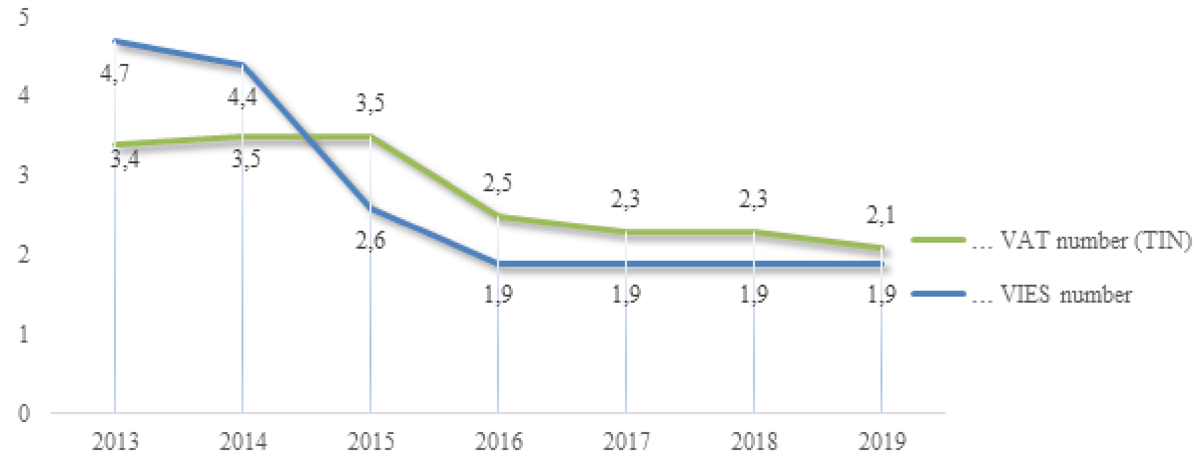


Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 8: Have in place processes to detect taxpayers who fail to register and focus on the specific economic sectors with a significant number of unregistered businesses.

As noticed in the previous report, Member States are gradually moving towards a registration procedure based on risk assessment. To assess if this causes significant delays for taxpayers applying for VAT and VIES registration numbers, the time needed for processing a request was compared with the data from the previous period.

Figure 14: Time (days) needed to obtain VAT and VIES registration numbers in EU Member States
Question 2.2.g: 'Minimum days needed for obtaining a …'



Source: European Commission (2019) – Survey on VAT administration, collection and control

The longer-period view validates previous findings: the risk assessment approach does not significantly delay the registration process, and tax administrations are moving towards consolidating the VAT identification number and VIES registration number in a unique identifier.

Recommendation 9: Integrate a risk assessment procedure in the registration process.

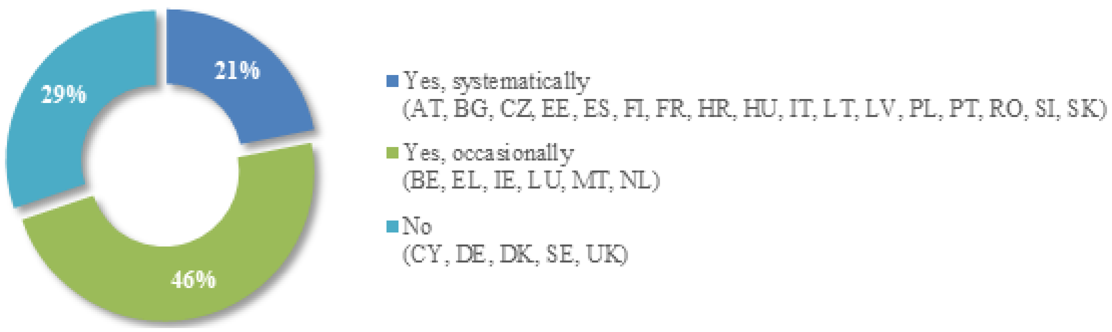
The VAT system exempts intra-EU supplies of goods from VAT in the Member State of supply when they are made to a taxpayer located in another Member State. The Member State where a taxpayer is located will account for the input VAT. Therefore, any taxpayer making such supplies must be able to check that their customers in another Member State are taxable persons and hold a valid VAT identification number.

For that purpose, each tax administration maintains an electronic database containing the VAT registration data of traders located in the Member State, including the VAT identification number, the trader’s name and the trader’s address. The computerised VIES was set up to allow national tax administrations to exchange data on intra-EU supplies. Taxpayers can consult VIES-on-the-Web to obtain confirmation of the VAT numbers of their trading partners.

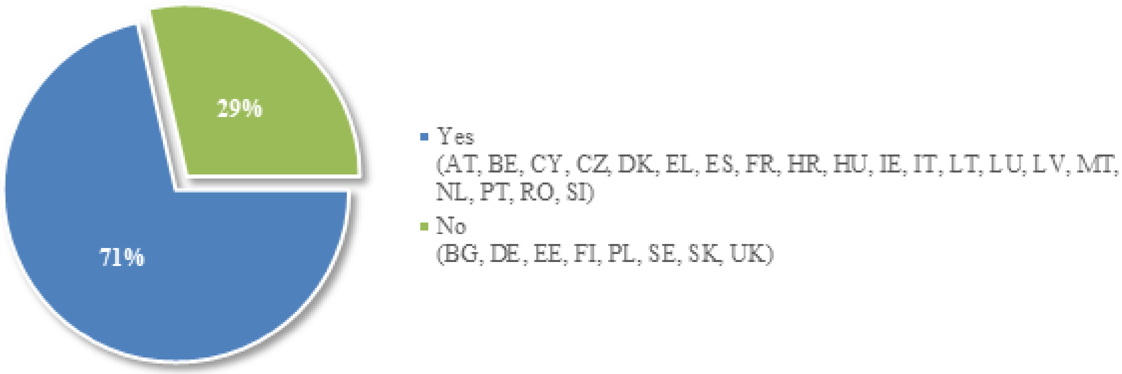
To assess their response to the recommendation of more systematic verification of the validity of the VAT and VIES registration data, Member States were asked about the existence of a follow-up check after VIES registration.

Figure 15: Follow-up check on VIES registration numbers in EU Member States

a. *Question 3.12: 'Is there a follow-up check on its validity after the VIES registration?'*



b. *Question 3.13: 'Does your tax administration remove the VIES identification number from the VIES system in case of fraud?'*



Source: European Commission (2019) – Survey on VAT administration, collection and control

According to Article 22 of Council Regulation (EU) 904/2010, Member States are obliged to conduct post-registration controls if they have only preliminary checks before registration. Only a minority of Member States (18%) responded that they do not verify these data, compared with > 30% of the tax administrations that did not implement post-registration control procedures in the previous report.

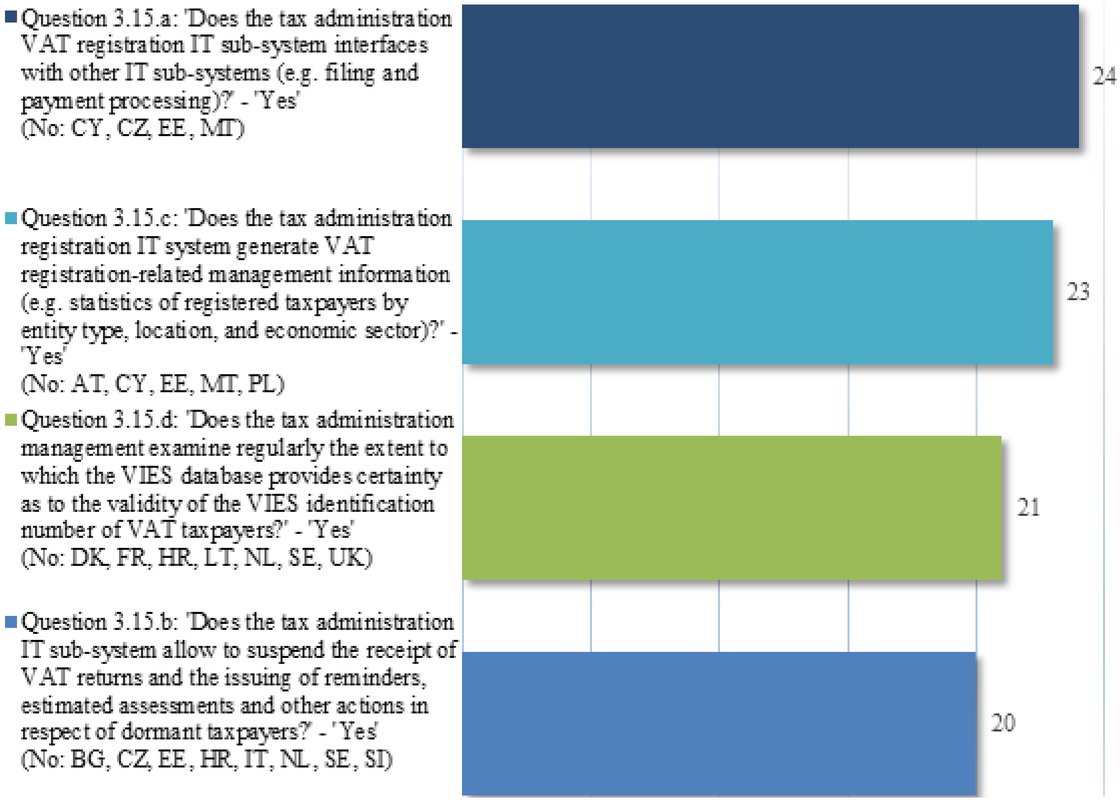
Twenty Member States have provisions in place allowing the removal of the VIES number in the event of fraud, which the Commission considers good practice. Denmark and Cyprus indicated that they do not verify the validity of the VIES number after registration, and Bulgaria, Estonia, Poland, Slovakia and Finland indicated that they do not remove the VIES numbers in cases of fraud. Germany, Sweden and the United Kingdom indicated that they do not verify the validity of the VIES number after registration and do not remove the VIES number in the event of fraud.

Member States are advised to follow the example of the majority. The VAT system supports the EU internal market, and the VAT fraud chain is usually long and involves two or more countries; sometimes it is necessary to act against the internal traders to prevent the VAT fraud from being 'exported' to another Member State.

Recommendation 10: Perform a follow-up check on VIES registration numbers and analyse the possibility of the suspension or removal of the VIES number in the event of fraud.

A successful tax administration should monitor the VAT registration process and evaluate the outcome of its VAT compliance measures. The IT plays an essential role here, assisting tax administrations in the cross-checking of data, risk detection and analysis. Therefore, the registration information should be linked to other IT subsystems, such as filing and payment, collection and audit, and generate management information that supports the decision-making process.

Figure 16: Analysis of the main components of the registration IT subsystem



Source: European Commission (2019) – Survey on VAT administration, collection and control

Since the Commission cannot directly assess the interconnection of internal subsystems, Member States were asked if the VAT registration IT subsystem of their tax administration interfaced with other IT subsystems. The majority (90%) confirmed that it did; only in Czechia, Estonia, Cyprus and Malta is such an interface not available.

Moreover, Denmark, Estonia, Ireland, Greece and Croatia answered 'Yes' to most of the questions aimed at identifying an effective IT subsystem of VAT filing and processing, while Bulgaria, Czechia, Italy, Malta, the Netherlands and Poland indicated that they have a system with fewer components in place.

Recommendation 11: Link the IT registration information system with other subsystems of the tax administration, such as filing and payment, collection and audit.

Regarding good practice in registration, the general observation is that Member States tend to advance towards an integrated system of risk assessment and to create an online interface for taxpayers to report any change in their data immediately.

Recommendation 12: Allow VAT payers to access, visualise and modify their VAT-relevant data via a secure online connection.

4. VAT, information technology and new technologies

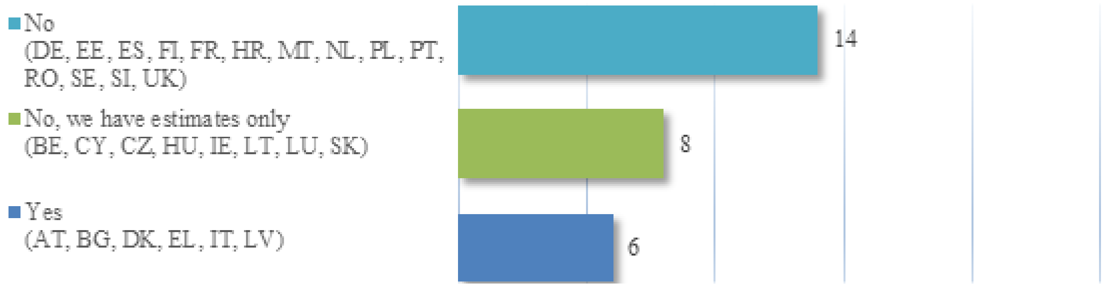
4.1. E-commerce

E-commerce makes trading more accessible but also offers some opportunities for fraud. The European Court of Auditors noted that 'many of the challenges of collecting VAT… remain to be resolved' and asked the Commission to 'monitor the functioning of the intra-EU distance sales of goods and of Mini One Stop Shop (MOSS)' [17].

[17] European Court of Auditors, Special Report No 12/2019 https://op.europa.eu/webpub/eca/special-reports/e-commerce-12-2019/en. In a continuous effort of modernising VAT for cross-border e-commerce, the Mini One Stop Shop was extended from 01.07.2021 to include all cross-border transactions. This builds on the successful launch of the single VAT return for B2C digital services in 2015, referred to as the MOSS return.

Tax administrations should know their taxpayers and keep records of the businesses supplying goods and services to customers (business to consumer) online. However, only half of the Member States (Belgium, Bulgaria, Czechia, Denmark, Ireland, Greece, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Austria and Slovakia) confirmed that they keep a record of the number of VAT-registered taxpayers selling goods or services online.

Figure 17: Member States that keep a record of the VAT-registered taxpayers selling online
Question 3.14: 'Does your tax administration keep record of the number of VAT registered taxpayers selling goods or services via the internet?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

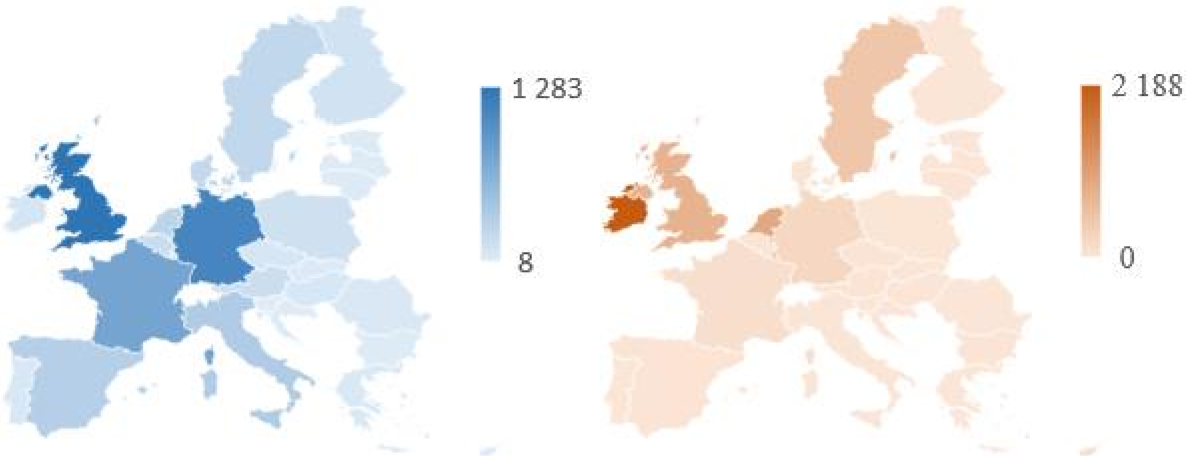
Moreover, the numbers (or the estimates) of e-commerce taxpayers vary significantly from > 10 000 in Bulgaria, Czechia, Greece and Latvia to < 100 in Italy (71), Belgium (25) and Austria (5).

Recommendation 13: Create or maintain a register of e-commerce taxpayers.

4.2. Mini One Stop Shop

The VAT MOSS is an optional scheme for taxpayers that allows them to account for VAT in only one EU Member State instead of multiple EU Member States. It applies to cross-border telecommunication, television and radio broadcasting, and digital services to non-taxable persons. The MOSS[18] allows operators of such services to submit their VAT returns and to pay the applicable VAT due to a number of EU Member States (Member States of consumption (MSCs)) through an online system in one of the EU Member States (Member State of identification (MSI)).

Figure 18: MOSS total amounts 2019 (Union and non-Union schemes) in the EU Member States
a. *Member State of consumption* ***b.*** *Member State of identification*



Annotation: Values are in EUR million
Source: European Commission (2021) – Monitoring of the Mini One Stop Shop

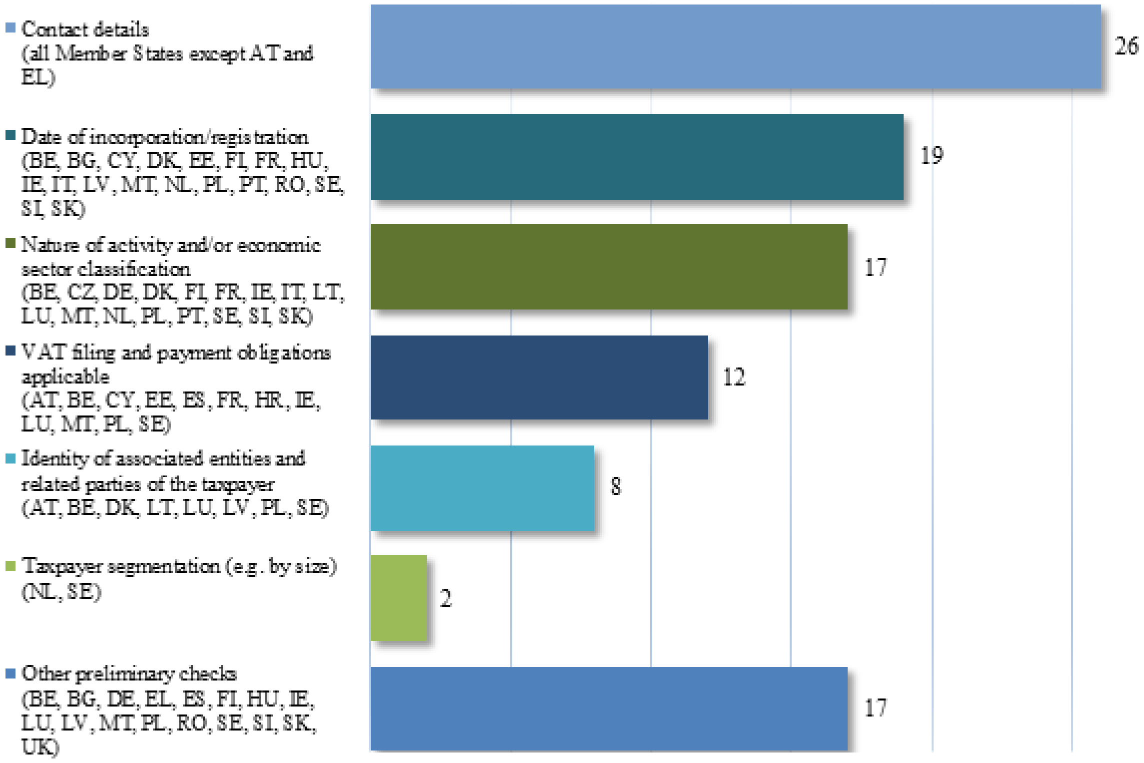
The launch of MOSS in 2015 was a success. Because of the differences between the Member State of Identification and Member States of Consumption, a high level of trust on all sides is essential for its

[18] EU-based businesses that would like to opt for the MOSS online platform have to register in the country in which they are established or have their head offices. Non-EU businesses can use the MOSS system of a Member State in which they have fixed establishments. Only a single MOSS registration per company is allowed across the entire EU.

functioning. This trust builds on the diligence of the Member States, especially in their communication (preferably by a dedicated channel) with businesses using the scheme, in the registration process (checks on traders before they register for MOSS)[19] and in controls (which can lead to deregistration, e.g. of inactive taxable persons).

Figure 19: MOSS – VAT registration verifications

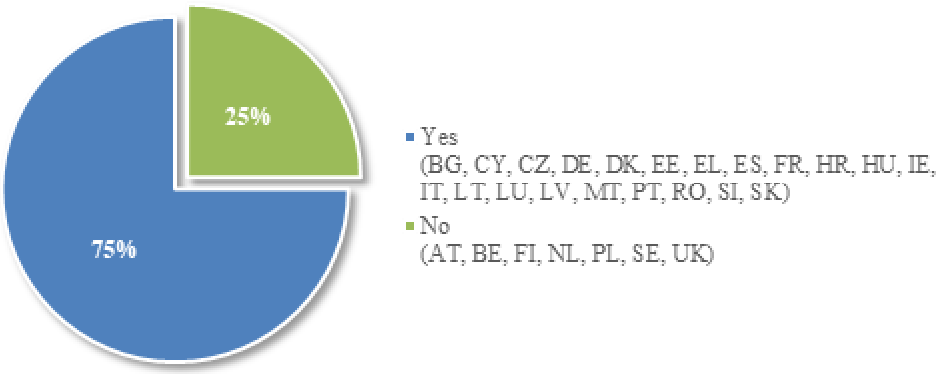
Question 2.4: 'What kind of registration checks for MOSS purposes are systematically performed in your country (as Member State of identification)? (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Figure 20: MOSS – dedicated information channels

Question 4.4: 'Taxpayer services: Your tax administration … has a dedicated information channel'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Most Member States require only basic data, such as contact details (taxpayer's full name, business and postal address, etc.), date of incorporation/registration, nature of the activity and economic-sector classification. Therefore, they sometimes have only limited knowledge of MOSS-registered businesses.

[19] In Special Report No 12/2019, the European Court of Auditors recommends that by the end of 2020 the Member States 'perform the necessary checks, when receiving a registration request for the non-EU scheme of MOSS' and 'increase their audit activity on MOSS traders'.

Seventeen Member States (Belgium, Bulgaria, Germany, Ireland, Greece, Spain, Latvia, Luxembourg, Hungary, Malta, Poland, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom) gather other information, such as:

- previous registrations and use of the MOSS scheme;
- queries about persons deregistered owing to change of MSI;
- search by identification number for multiple registrations (more than one Member State);
- verification of whether or not the business has a fixed establishment in the country;
- bank account data, etc.

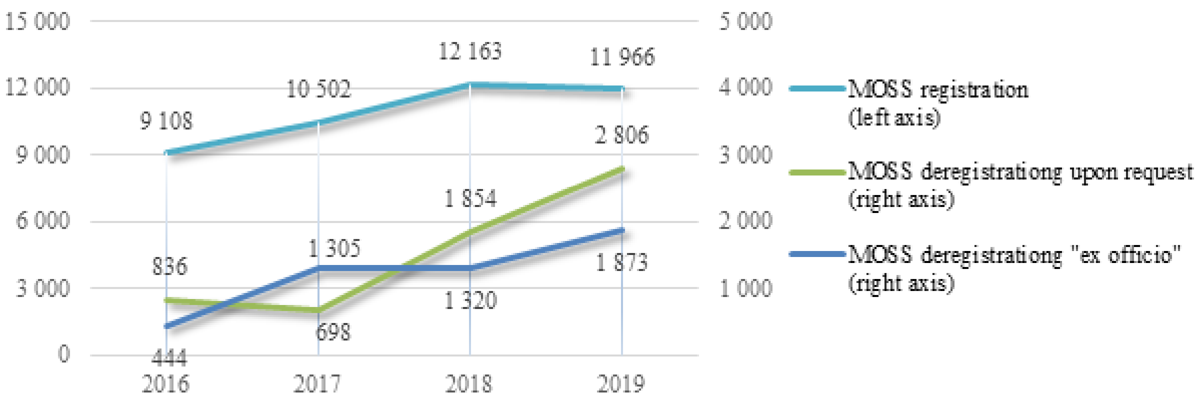
Some Member States (Slovenia, Sweden and the United Kingdom) also check the existence of a web page or other means of distributing electronic services, third-country public registries and the type of supply.

Recommendation 14: Set up a dedicated information channel for MOSS and systematically perform preliminary registration checks for MOSS purposes.

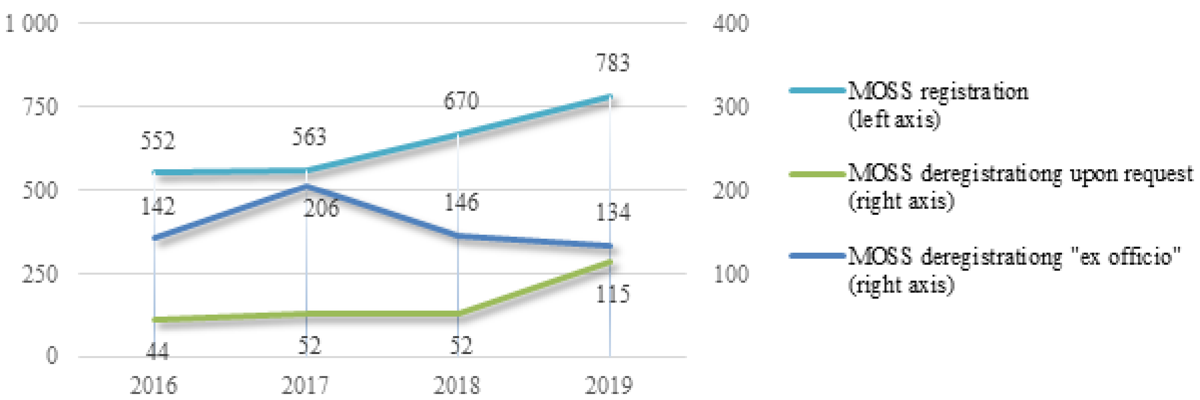
Member States' answers reveal that the number of MOSS-registered businesses increased over 2016–2019 as regards the Union scheme. The relative growth of the non-Union scheme was more substantial, as it also reflects the base effect representing the small registration numbers at the start of the analysed period. Lately, the ascending trend of MOSS-registered taxpayers appears to be reversed, which could indicate greater rigour in the deregistration of inactive taxpayers.

Figure 21: MOSS – development of registration/deregistration at EU level (2016–2019)

a. Union scheme



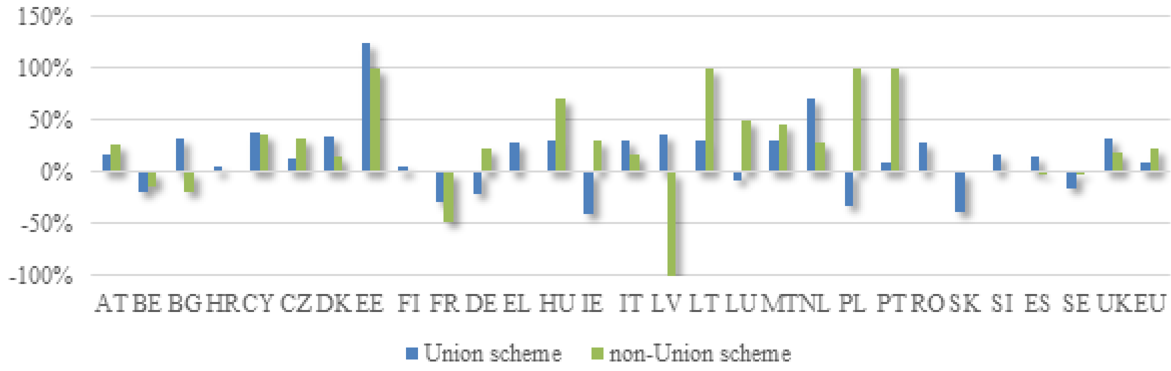
b. Non-Union scheme



Source: *European Commission (2020) – VAT MOSS statistics*

However, the development at Member State level looks different: some countries, such as Estonia and the Netherlands, saw a significant increase over the period, while others, such as Germany, Ireland, France, Poland and Slovakia, saw a decrease in their MOSS registrations.

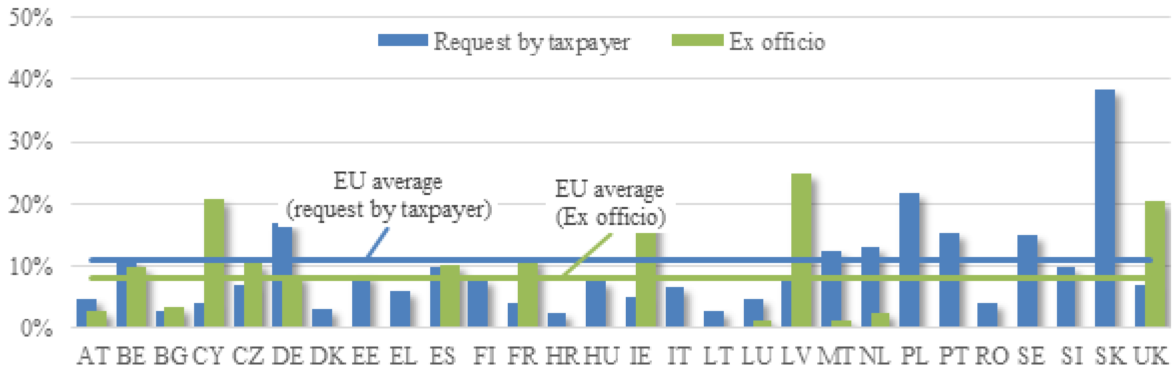
Figure 22: Individual evolution of MOSS registrations in the EU Member States



Annotation: Columns compare MOSS registrations in 2019 with the average of MOSS registrations during the period 2016–2019
Source: European Commission (2020) – VAT MOSS statistics

MOSS deregistration takes place at either the request of the taxpayer or the initiative of the tax administration. The latter offers a good indication of the efforts of tax administrations to maintain the accuracy of the MOSS database. The answers from the Member States show limited progress in this area, especially towards the end of the period analysed.

Figure 23: MOSS deregistration



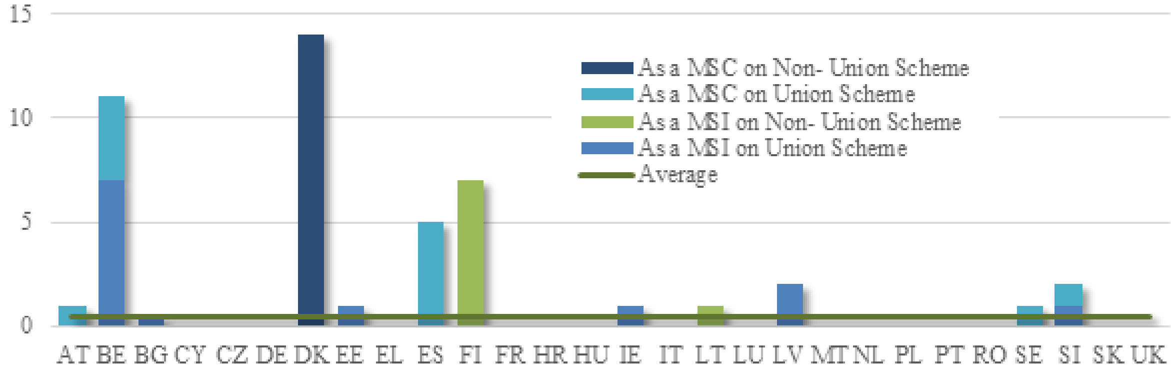
Annotation: Columns indicate the share of deregistrations in total number of registered businesses, average during the period 2016-2019.
Source: European Commission (2020) – VAT MOSS statistics

The figures, however, vary significantly. Almost half of the Member States (Denmark, Estonia, Greece, Croatia, Italy, Lithuania, Poland, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden) appear to be doing no MOSS ex officio deregistration at all; the others (especially Belgium, Spain, Czechia, France, the United Kingdom, Cyprus, Ireland and Latvia) are cleaning their MOSS databases through ex officio deregistration.

Recommendation 15: Increase efforts to keep the MOSS database accurate.

Not all registrations translate into audits. By corroborating the answers with other internal data sources available, it clearly appears that Member States are not auditing MOSS-taxable persons.

Figure 24: Number of VAT audits carried out on MOSS-taxable persons in 2019



Source: European Commission (2020) – VAT MOSS statistics

The number of audits of MOSS-registered taxable persons in EU Member States is very low, totalling only 47 in 2019 in both the Union and non-Union schemes as MSI and MSC, while the median for the EU is zero. This means that audit is currently the exception in a general 'non-auditing of MOSS' reality at EU level.

Only Belgium (7 audits as MSI and 4 audits as MSC on Union scheme), Denmark (14 audits as MSC on non-Union scheme), Finland (7 audits as MSI on non-Union scheme) and Spain (5 audits as MSC on Union scheme) reported some activity in the area. The vast majority of Member States (16/28) did not perform any MOSS audits in 2019. Some explained that they were not in a position to provide a figure because they operate a fully integrated risk analysis and compliance management regime for all taxes, so MOSS audits are not separately identified in the national statistics.

Recommendation 16: Improve the audit activity on MOSS-registered businesses.

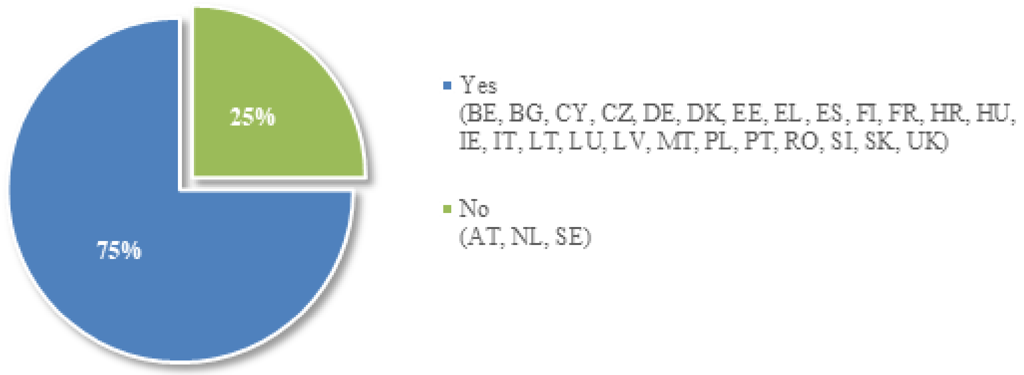
4.3. Digitalisation, information technology and data analytics

In the previous report, the Commission recommended that Member States increase the digitalisation and automation of tax administrations and exchange/sharing of data (Recommendations 2 and 11). As a follow-up, Member States were asked about a major IT improvement (e.g. digitalisation projects, new functionalities) in their tax administration during 2016–2019.

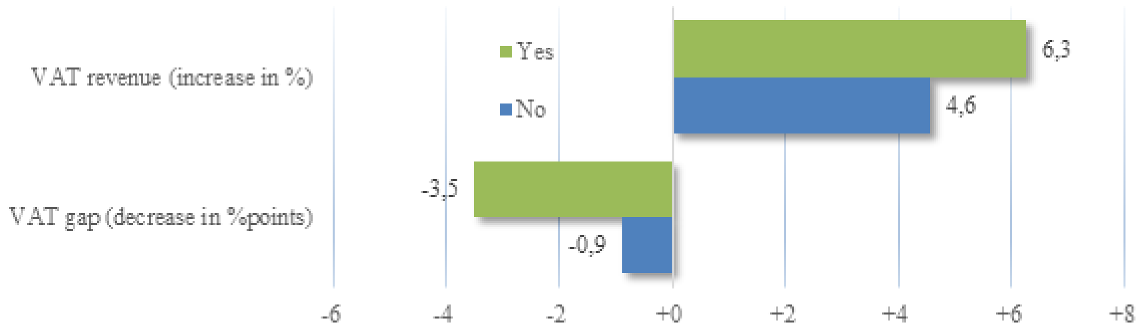
The majority of Member States answered positively, which appears to correlate with individual performance in (1) average VAT gap reduction and (2) average increase in VAT revenue over the same period.

Figure 25: Major IT initiatives and average VAT performance in EU Member States (2016–2019)

a. *Question 1.10: 'Has there been any major IT improvement (e.g. digitalisation projects, new functionalities) in your Member State's tax administration (2016–2019 period)?'*



b. *Major IT initiative ('Yes'/'No') vs. change in VAT revenues and in VAT gap*



Source: European Commission (2019) – Survey on VAT administration, collection and control

It appears that IT improvements achieve a more consistent reduction of the VAT gap and a greater increase in VAT revenue. **The Member States that indicated a major IT improvement were almost four times more successful in reducing the VAT gap over the same period.**

The average increase in VAT collection of Member States indicating major IT improvements was 37% more over the analysed period. However, the data include the influence of the base effect (Member States were not at the same level of IT development at the beginning of the analysis, so some had more room for major improvements) and other parameters such as changes in VAT rates over the period.

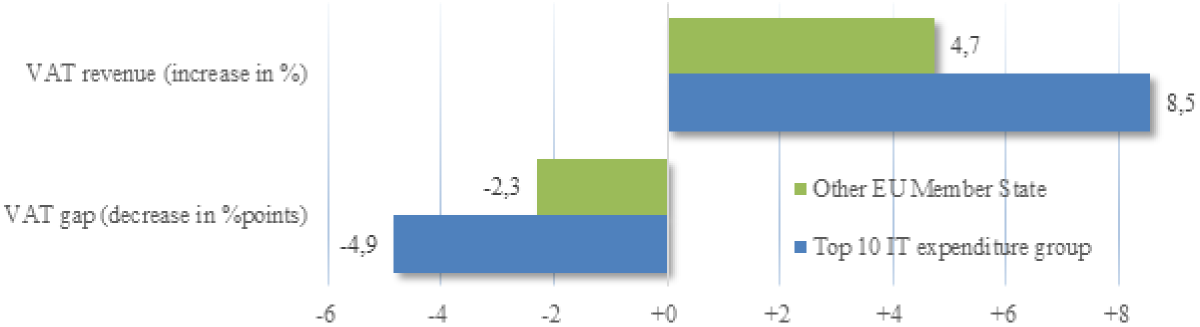
The econometric models constructed in previous VAT gap studies (2018, 2020) indicate statistical significance of the share of IT expenditure in explaining the size of the VAT gap. According to the estimation results of the baseline specification, a decrease in the VAT gap by 1 percentage point requires an increase in the share of IT expenditure in the overall expenditure of tax administrations of roughly 5.4 percentage points.

However, IT expenditure is not a silver bullet, and its influence has limitations: at a certain level, increased investments in IT have no more positive impact. A concave relationship between the share of IT expenditure and the VAT gap can be observed. Indeed, the gains start vanishing when the IT expenditure is approximately 9.8% of the total expenditure of the tax administration.

Based on the data received from tax administrations and other sources (OECD), the share of total IT expenditure (investment and maintenance) adjusted to VAT collection was greater for 10 Member States: Ireland, Finland, Latvia, Hungary, Lithuania, Bulgaria, Czechia, Malta, Italy and Poland (for the purpose of analysis clustered in an 'IT expenditure group').

Recommendation 17: Invest in substantial IT upgrades, while maintaining existing IT systems based on overall needs analysis.

Figure 26: Change in VAT gap (p.p.) and VAT revenue increase (%) (2016–2019)
Top 10 'IT expenditure group' compared with EU average



Source: European Commission (2019) – Survey on VAT administration, collection and control

If the analysis is repeated for the total IT expenditure over the period, **the top 10 Member States investing more in IT** did significantly better in both **VAT revenue** (81% greater increase) and **VAT gap** (double decrease in percentage points). Again, IT expenditure and especially IT investment are not linearly distributed and can vary considerably over the years.

The digitalisation of tax administrations includes two main components: expenditure on IT (investment and maintenance) and people (IT experts). The average increase in human resources dedicated to IT in the EU was 13% during 2016–2019, with Bulgaria, Hungary, Finland, Romania and Spain being above the average number of IT staff (in full-time employment). Cyprus, Croatia, Estonia, Spain, Sweden and especially Poland registered significant increases in the number of IT staff over this period. However, it is impossible to perform an assessment of IT skills, although tax administrations could benefit from such an exercise to calibrate their strategies.

EU Member States use different IT development models, in-house or outsourced, depending on several internal factors and decisions. Neither model is ideal, both having advantages and disadvantages in terms of time, risks and costs (e.g. when tax administrations use in-house IT developers, they incur the entire risk in terms of their abilities, whereas with an external developer they do not).

In general, tax administrations are increasing the IT expenditure and the hiring of IT experts, an investment that usually pays off. The Commission therefore maintains its previous recommendation to increase the level of digitalisation and to invest in data automation and data exchange.

As stated in the previous report, Member States could also benefit from closer cooperation and co-investing in compatible IT solutions that prevent the duplication of efforts and systems and allow reductions in IT costs[20].

Recommendation 18: Invest in IT staff with a view to improving both their number and their skills.

To achieve a consistently high level of compliance, Member States balance and combine two elements in a sort of 'carrot and stick' approach: improvement of services offered to compliant taxpayers ('the carrot') and identification and correction of non-compliant taxpayers ('the stick'). These two strategic courses of action have one thing in common: data. Effective use of data supports faster, fairer and more informed decisions, the delivery of better services to taxpayers and the detection of non-compliant taxpayers.

The analysis in the section below starts with (1) the tax administration's compliance management plans, then moves on to (2) taxpayers' services and ends with (3) data used by the tax administration for VAT compliance.

[20] Under the Fiscalis 2020 programme, the Commission established an 'IT Catalyst Group' (FPG/037) to translate the clear interest in IT collaboration among Member States into a new way of working together towards delivering IT systems more efficiently and effectively. The group enabled Member States to become informed about current and future IT activities, to promote IT collaboration by Member States, and to launch new collaborative IT projects and initiatives.

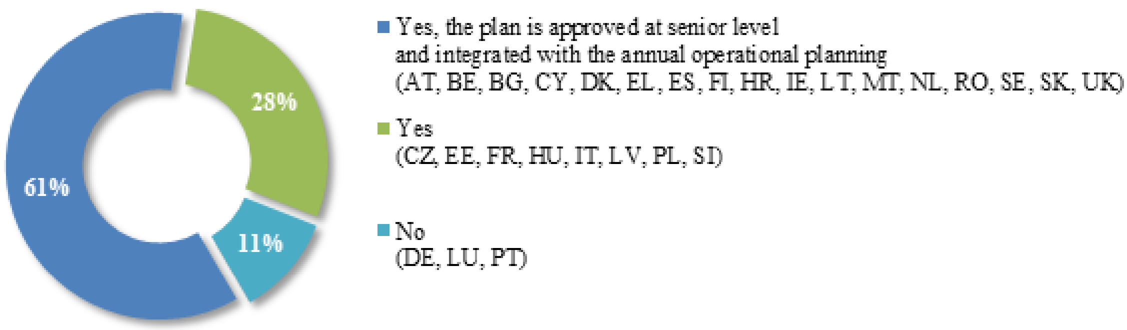
4.4. *Compliance management plans*

VAT administration should start with a good compliance plan. A taxpayer compliance program is 'a high-level plan, which brings together in a single document a description of the most significant compliance risks identified in the tax system and sets out the broad detail of how the revenue agency intends to respond to those risks' (IMF, 2010)[21].

In the previous report, the Commission recommended that the Member States 'should ensure that their audit strategy is part of an overall (VAT) compliance strategy and not a stand-alone approach'. Assessing if Member Sates meet this requirement depends on the existence of such a document, its approval at the appropriate senior level and its integration with the annual operational planning of the tax administration.

Figure 27: VAT compliance plans in the EU Member States

Question 4.1: 'Does your tax administration have a compliance improvement plan?'

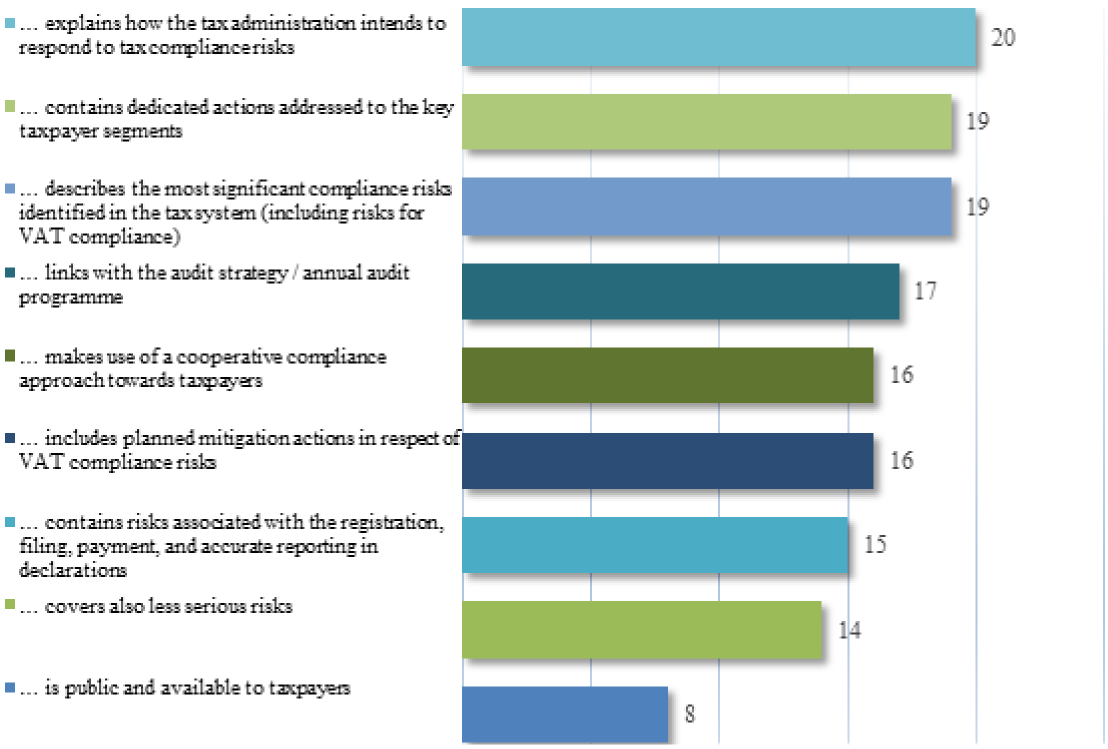


Source: European Commission (2019) – Survey on VAT administration, collection and control

Having a compliance plan in place is one of the steps in the right direction. However, what is in the plan is even more important for the VAT management process. The Commission asked for more information about the inclusion of the most significant VAT compliance risks and responses, audit plans, mitigation actions and other elements in the Member States' compliance plans. The findings are summarised in Figure 28.

Figure 28: Tax compliance plans in the EU Member States (content)

Question 4.1.a. 'The tax compliance plan of your tax administration … (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

[21] https://www.imf.org/external/pubs/ft/tnm/2010/tnm1017.pdf

Based on the responses to the questions regarding their compliance plans, eight Member States indicated that their compliance plans are fully transparent/public and available to taxpayers. Six of these Member States (Ireland, Spain, Croatia, Italy, the Netherlands and Slovakia) went further with this transparency exercise by making the documents publicly available. Moreover, some EU Member States, such as Bulgaria and Spain, include all the above elements in their plans. At the same time, Germany, Luxembourg and Portugal answered 'No' to the question 'Does your tax administration have a compliance improvement plan?'

Recommendation 19: Mitigate risks through a compliance management plan that includes the main compliance threats and monitor its implementation on a regular basis.

4.5. Taxpayer services

Taxpayers must have easy access to information and support needed to comply voluntarily at a reasonable cost. 'Developing taxpayer services and reducing taxpayers' administrative burdens is one of the best strategies against VAT fraud' (IMF, EU Commission, OECD, World Bank). Since VAT administration can be very complex, taxpayers need adequate assistance. They have a right to suitable services helping them comply with their VAT-related obligations.

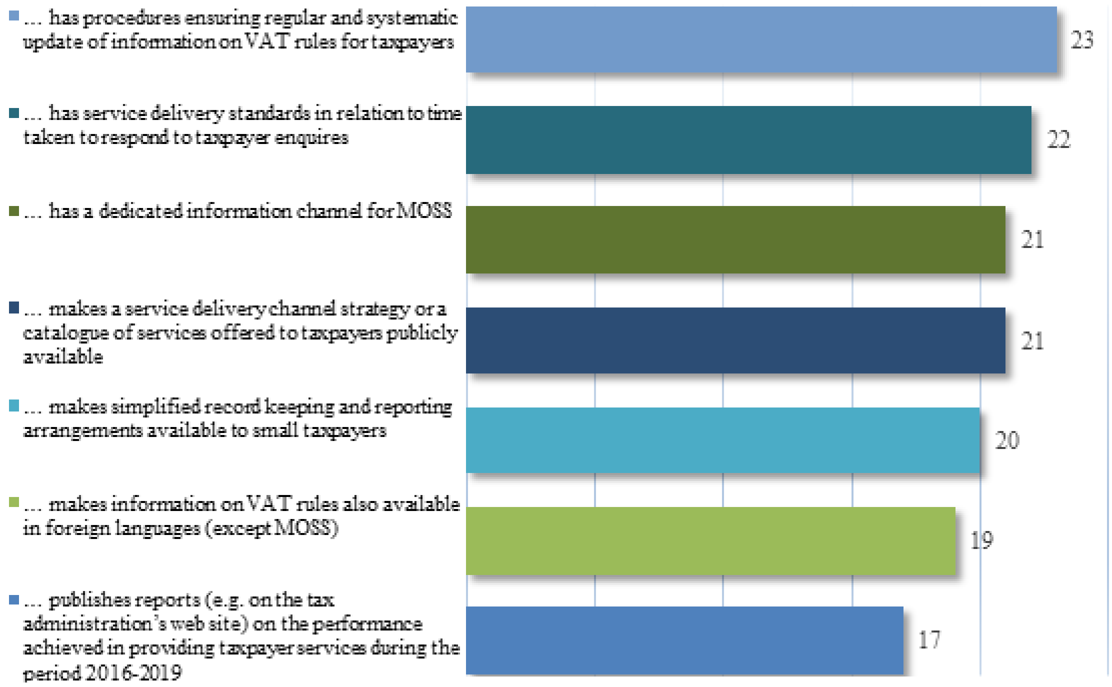
The Commission surveyed Member States' tax administrations on the existence of taxpayer services, such as:

- a publicly available service delivery channel strategy or a catalogue of services offered to taxpayers;
- procedures ensuring regular and systematic updates of information on VAT rules for taxpayers;
- information on VAT rules available in foreign languages;
- a dedicated information channel for MOSS;
- service delivery standards in relation to the time taken to respond to taxpayers' enquiries;
- simplified record-keeping and reporting arrangements available to small taxpayers.

Figure 29 aggregates the answers received from the Member States.

Figure 29: Taxpayer services in the EU Member States

Question 4.4: 'Taxpayer services: Your tax administration … (Multiple answers possible)'

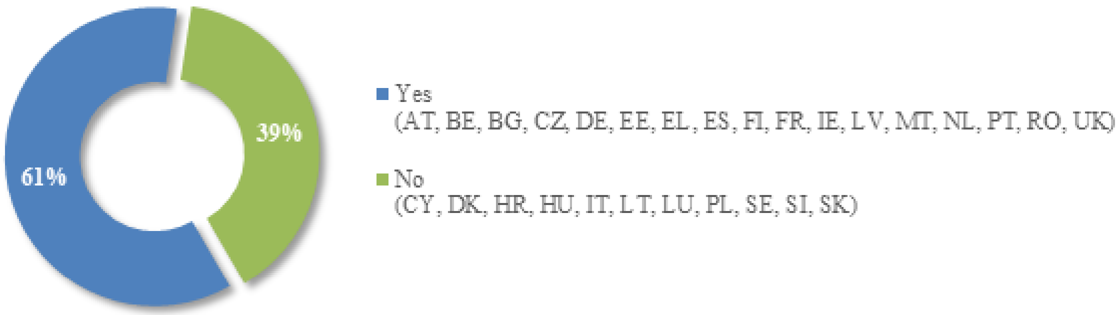


Source: European Commission (2019) – Survey on VAT administration, collection and control

Only Greece, Spain, Latvia and Portugal provide all the taxpayer services listed above. A large majority of Member States offer most of the services, whereas Czechia, Cyprus, Poland, Romania and Finland provide fewer types of taxpayer services.

A tax administration should be transparent in the conduct of its activities and publish reports (e.g. on its website) on its performance in providing taxpayer services. VAT payers will develop trust and consolidate their relationship with the tax administration. The Commission asked Member States about the publication of performance reports in the area of taxpayer services during 2016–2019.

Figure 30: Publication of reports on performance in providing taxpayer services (2016–2019)
Question 4.4: 'Taxpayer services. Your tax administration … publishes reports (e.g. on the tax administration's web site) on the performance achieved in providing taxpayer services during the period 2016-2019.'

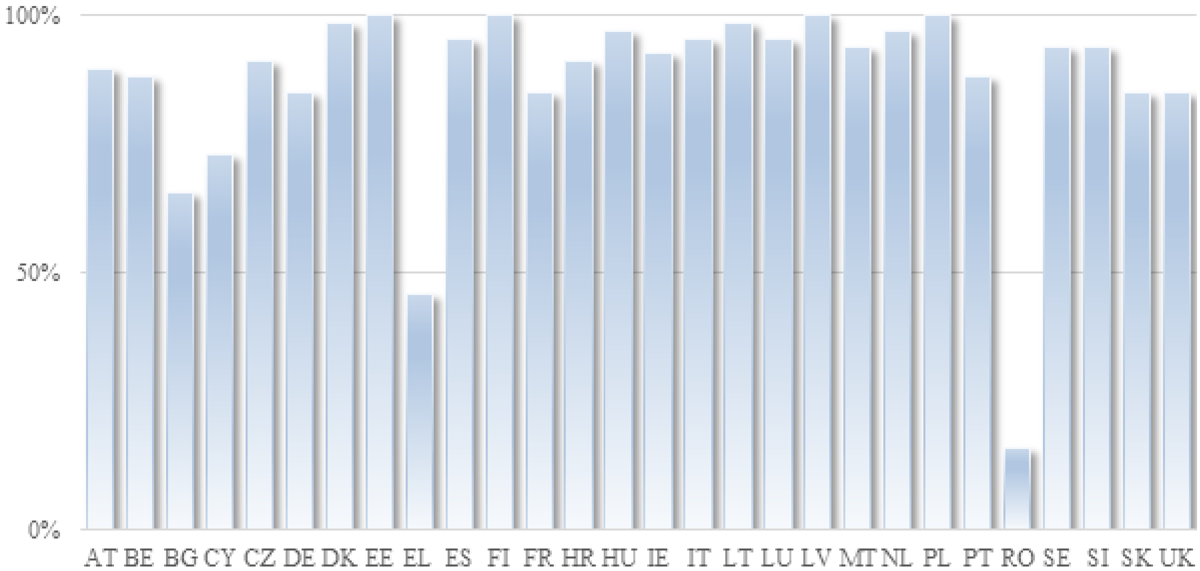


Source: European Commission (2019) – Survey on VAT administration, collection and control

The Commission surveyed only the existence of taxpayer services and did not attempt to fully assess the quality of the assistance provided. However, the websites of all Member States were visited (see the Annex 3: List of web pages on VAT obligation). The Commission 'walked in the shoes' of a foreign taxpayer and tried to locate the relevant VAT registration information available online.

The weighted scoring in Figure 31 takes into account different dimensions of informing taxpayers about VAT registration obligations, such as the existence of online information, its availability in a foreign language and perception of the completeness of the information.

Figure 31: Taxpayer services: VAT registration information available online



Source: European Commission (2019) – Survey on VAT administration, collection and control

Generally, Member States actively inform taxpayers about their VAT obligations. Only Romania answered 'No' in this survey. A minority of Member States (Greece, Romania, the United Kingdom and, partly, Bulgaria, Ireland and Cyprus) had little or no information available in a foreign language. Usually, the foreign language used to inform taxpayers is English, which explains the United Kingdom's relatively low score.

Member States have made real progress on the inclusiveness of VAT information and the general navigation experience, with Denmark, Estonia, Ireland, Latvia, Lithuania, the Netherlands, Poland, Finland and the United Kingdom being at the top of the list.

Some Member States (Bulgaria, Greece, Cyprus, Romania and, partly, Germany, France and Slovakia) are lagging behind. It should be noted that better and more accessible information about VAT obligations and applicable legislation requires minimal investment and improves tax compliance in the relatively short term.

Recommendation 20: Adopt a service-oriented attitude towards VAT payers and use the opportunity offered by the interaction with taxpayers to provide high-quality VAT administration services.

4.6. Use of data for VAT compliance purposes

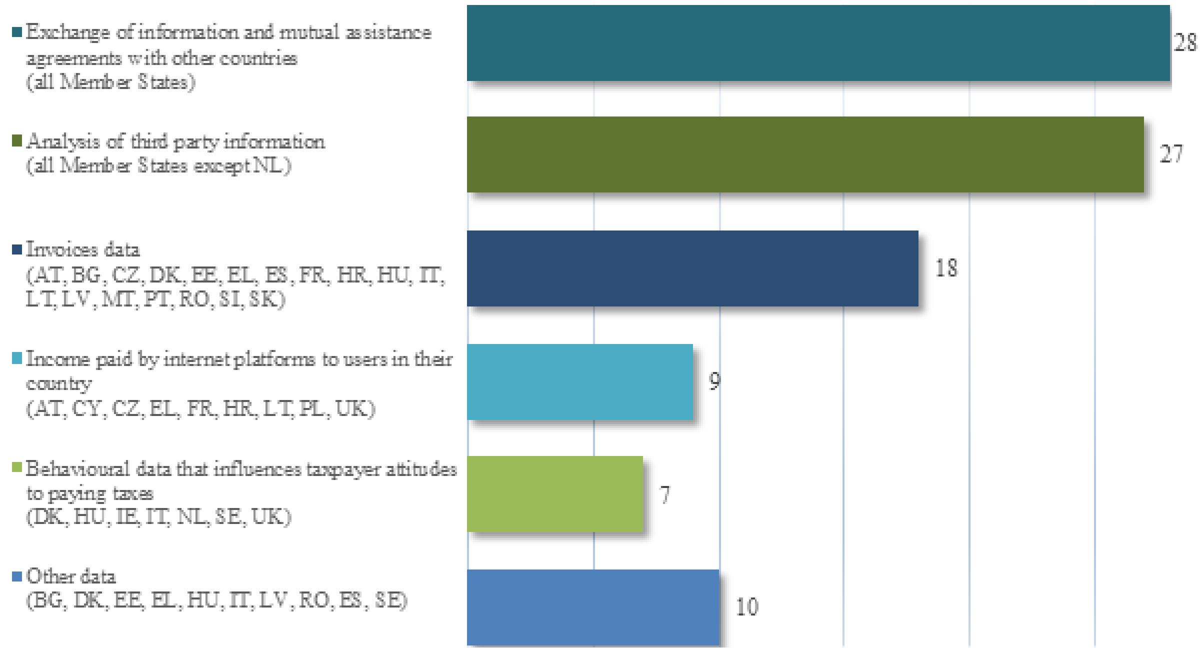
4.6.1. Gathering data

A modern tax administration must live up to the growing demand for digitalised services in the VAT administration area and use the opportunities presented by the new IT developments in this domain. On the one hand, VAT payers have greater expectations of tax administration services. On the other hand, the growing demand increases the pressure on tax administrations to put more services at VAT payers' disposal.

Better services ask for more and qualitative data. Nowadays, massive amounts of data are generated, which offers opportunities for tax administrations to use these data for compliance purposes. The Commission wanted to find out which data are accessible for VAT compliance purposes.

Tax administrations use data from various sources, such as invoices, internet platforms, behavioural and environmental studies, third-party information, information exchanged with other countries and mutual assistance agreements with other countries.

Figure 32: Data used by EU tax administrations for VAT compliance purposes
Question 4.3: 'What categories of data are accessible and used by the tax administration for VAT compliance purposes? (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

The use of different data sources for VAT compliance purposes varies between Member States. Particularities in areas such as the legislative framework, political organisation and social structures also influence the variation.

Although all Member States exchange information and use mutual assistance agreements and third-party information, only a minority use internet platform payment data or behavioural studies. These studies identify the socioeconomic factors (e.g. age, gender, employment status and educational attainment) and institutional factors (e.g. trust in government and community satisfaction with the quality of public services) that have an impact on a taxpayer's motivation to comply with their VAT obligations.

Denmark, Greece, Italy and Hungary reported that they use a wide range of data for VAT compliance purposes. Belgium, Germany, Luxembourg the Netherlands, and Finland indicated that they use data from only two of the categories listed above.

Recommendation 21: Explore the possibility of using several data sets for VAT compliance purposes and permanently increase the quality of the exchange of information and administrative cooperation.

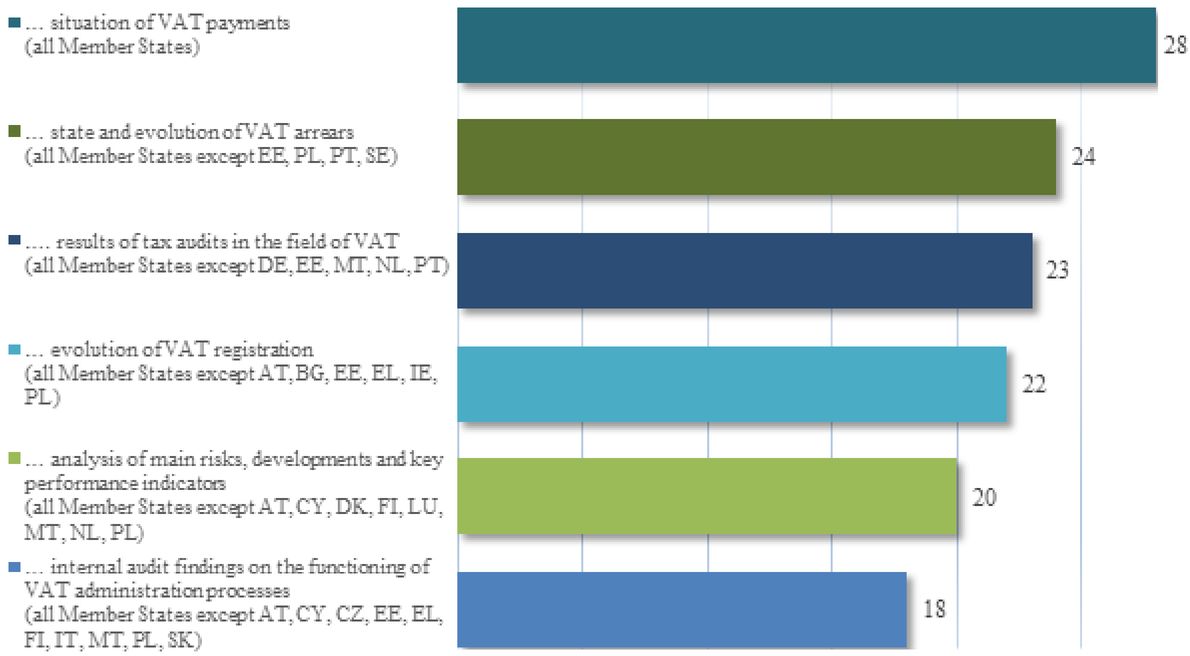
4.6.2. Informed decision: putting data to work

High-performing tax administrations rely heavily on their data analytics and research capabilities to provide better services, more effective supervision and sound policy advice to government. On the one hand, the senior management of tax administration should have all the analytical data needed to provide input for government budgeting processes and to forecast tax revenue. On the other hand, the management should have a complete picture of the VAT administration process at any moment (dashboard).

The majority of EU Member States (20/28) have annual targets for VAT collection. Some (Germany, Cyprus, Luxembourg, the Netherlands, Sweden, Finland and the United Kingdom) do not use collection targets but rely on estimates of VAT revenue. Ministries of finance or higher political bodies set the targets in cooperation with, or based on the input provided by, the tax administrations, taking into account various factors such as changes in the macroeconomic environment and forecasts of VAT revenue.

Generally, the collection targets and estimates are accurate (approximately 1.2% median deviation), with some Member States (Denmark, Germany, Estonia, Ireland, Greece, France, Latvia, Lithuania, Luxembourg, the Netherlands, Austria, Slovenia, Slovakia and Sweden) being very close to the actual VAT revenue collection values in their predictions or target setting.

Figure 33: Reports available to senior management in different areas of VAT administration
Question 4.5: 'The senior management of the tax administration regularly receives reports on… (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Without a good set of core data, VAT administration is less effective. Even the best data sets are of little use without the ability to utilise these data to build knowledge and actionable insights to support informed decisions. In some Member States, such as Belgium, Spain, France, Croatia, Latvia, Lithuania, Hungary, Romania, Slovenia and the United Kingdom, the senior management regularly receives reports.

The Commission considers that regular reports in all areas listed above are beneficial for the senior management in Member States' tax administration, as they allow for informed decisions.

Several tax administrations provided additional information on the recent development in VAT compliance and taxpayer services. By comparing the initiatives in the most successful Member States in terms of reduction of the VAT gap (Bulgaria, Spain, France, Croatia, Latvia, Hungary, Poland, Portugal, Slovenia and Slovakia) and those with historically low VAT gaps (Denmark, Estonia, Finland and Sweden), the most successful measures appear to be:

- the implementation of online cash registers;
- electronic reporting;
- trade control;
- e-audit and standardisation;
- transaction-based reporting;
- risk management, including segmentation and behavioural profiling;
- data-driven techniques leading to risk scoring and automated ranking.

Recommendation 22: Collect meaningful data, balance risk evaluation analysis and profiling solutions, and continue investing in analytical capability.

5. Filing and payment

5.1. Timeliness of filing

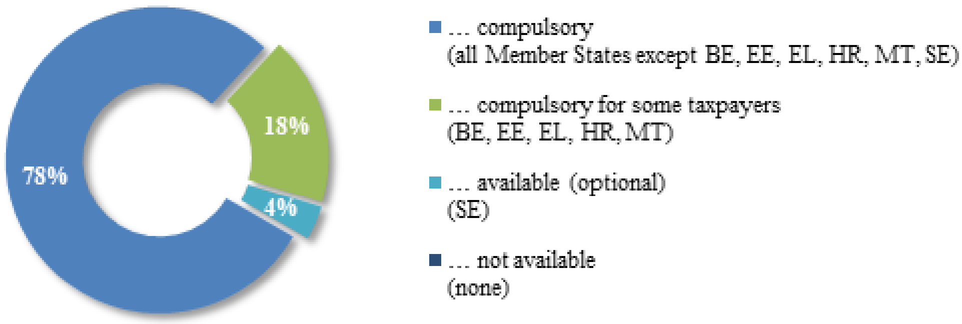
Filing of VAT declarations remains a principal means for establishing a taxpayer's VAT liability. In a VAT return, taxable persons inform the tax administration in the Member State of registration of their transactions, the VAT that has been charged to their customers (output VAT) or that has been charged by their suppliers (input VAT) and the amount of VAT payable or refundable.

Member States have different formats for VAT declarations. They are usually submitted in electronic form (some Member States also allow paper-based declarations) and filed by taxpayers themselves or through an intermediary.

5.1.1. E-filing

The latest IT developments in both e-filing and the payment of taxes offer a sizable advantage to tax administrations in various areas such as efficiency improvement, administration costs and enforcement. E-filing also contributes to the overall quality of taxpayer services by reducing VAT compliance burden. To achieve higher e-filling rates, Member States advertise the benefits of e-filing permanently and some have made it mandatory.

Figure 34: VAT e-filing in EU Member States
Question 5.1: 'In my country VAT electronic filing is…'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Generally, Member States have a high e-filing rate. The EU median is close to 99% for 2019. Compared with the previous report, there is clear progress in e-filing: the rate increased from > 83% for 2013 to nearly 100% in almost all Member States for 2019.

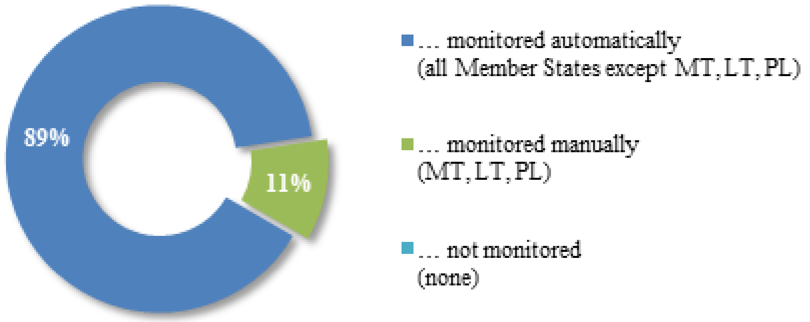
For five Member States (Germany, Greece, Cyprus, Malta and Sweden), the calculated e-filing rates were < 90%. If the data reported are correct, this lower e-filing rate needs to be addressed, especially in Member States where e-filing is compulsory.

5.1.2. Monitoring VAT-filing compliance

E-filing of VAT returns offers Member States an opportunity to better monitor taxpayers' compliance with deadlines for VAT returns. Almost all Member States (25/28) answered that compliance with taxpayers' deadlines for VAT filing is monitored automatically, and more than half use risk criteria or profiling techniques based on known circumstances and behaviour to achieve higher on-time VAT-filing rates.

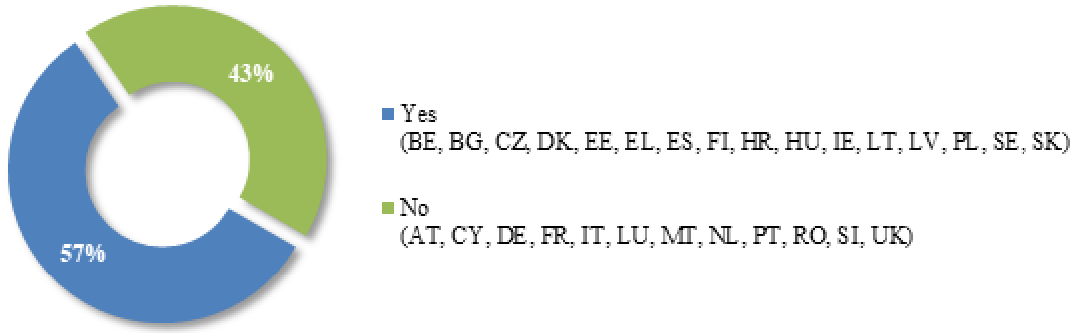
Figure 35: Monitoring the compliance of VAT filing in the EU Member States

a. *Question 5.2: 'Compliance with taxpayers' deadlines for VAT filing is …'*



Source: European Commission (2019) – Survey on VAT administration, collection and control

b. Question 5.3: 'Are risk criteria or profiling techniques (based on known circumstances and behaviour) used for achieving on-time VAT filing?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

For many taxpayers, the submission of VAT returns is their most significant contact with the tax administration. Member States may set their own reporting deadlines for VAT returns. Most of them expect VAT returns in the last 10 days of the month following the end of the return period, but there are exceptions (e.g. Germany requires VAT returns within 10 days of the end of the reporting period).

Member States are free to set their VAT declaration reporting calendars, and usually require monthly reporting. Quarterly reporting is not uncommon, while annual reporting is an additional requirement in certain countries (e.g. Italy). Some countries, such as Germany, may require a single annual return if there is very limited activity.

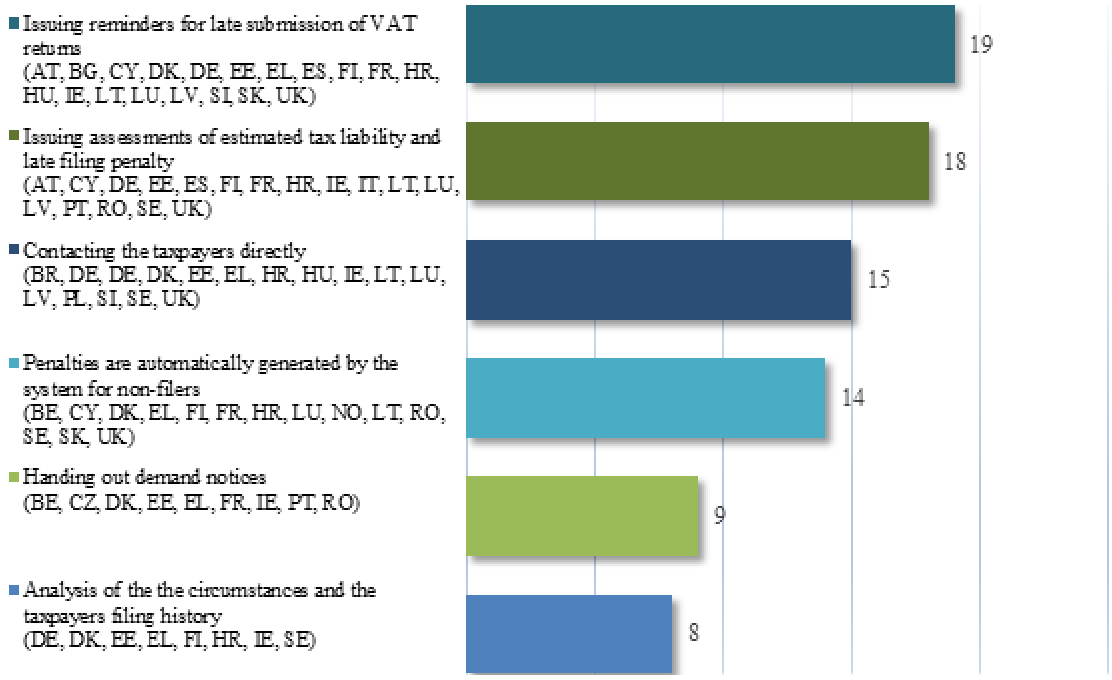
Other VAT declaration periods are rare, but exist (e.g. in France for companies with irregular trading, in Greece for small taxpayers in certain categories such as coastal fishing vessels < 12 m and in Belgium for special returns in cases of bankruptcy or for participation in special events). Such special arrangements sometimes affect the calculation of on-time filing rates (the number of declarations filed on time in relation to the number of expected tax declarations), which is the main indicator of compliance in the area of VAT returns.

Member States generally have high on-time filing rates, some close to 100% (Belgium, Bulgaria, Estonia, Spain, Latvia, Lithuania, Austria, Slovakia, Finland and Sweden). The EU average is 93.1%. Greece (66%), Malta (74%) and Cyprus (86%) have the lowest on-time filing rates, and five Member States (Czechia, Germany, France, Croatia and Poland) were unable to provide the necessary data to calculate this indicator.

Recommendation 23: Continue efforts for a higher on-time filing rate as a good indicator of the robustness of the VAT system.

Initially, many of the VAT administration services concentrated on simpler areas such as e-filing of VAT returns and electronic payment of VAT. However, even with e-filing, tax administrations need to follow up when there is a lack of compliance. Subsequently, tax administrations adopted more two-way services, with different alerts and notifications. Tax administrations' actions to enforce timely submission of VAT declaration vary, as shown in Figure 36.

Figure 36: Actions initiated by tax administrations in case of late filing or no filing of VAT declarations
Question 5.4. 'Which actions does your tax administration initiate in case of late filing or no filing for VAT returns? (Multiple answers possible)'



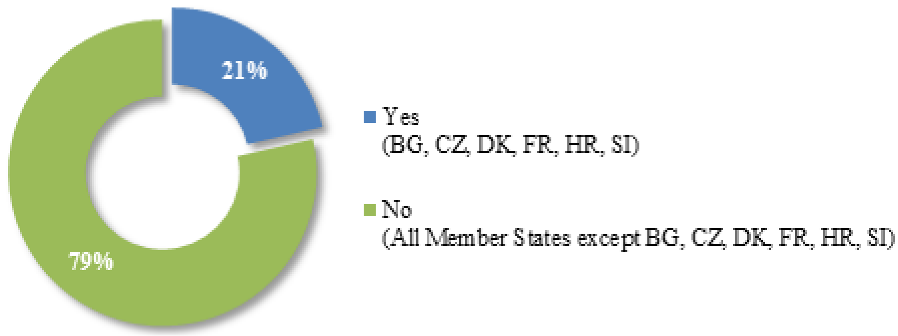
Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 24: Be proactive in reminding taxpayers of filing deadlines and use specific supporting tools.

The identification of taxpayers who have failed to file VAT declarations when due should be automatised and the follow-up and enforcement measures by tax administrations should be tailored to the circumstances, such as the previous behaviour of the taxpayer (filing history).

If no VAT returns are filed, the majority of Member States estimate the VAT due and add a penalty. However, the effectiveness of the penalty system for late filing of VAT should be evaluated.

Figure 37: Member States evaluating the effectiveness of the penalty system for late filing/payment
Question 5.5: 'Did your administration analyse the effectiveness of the penalty system for late filing and/or late-payment?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Only a minority of tax administrations (6/28) indicated that they perform such evaluation.

Recommendation 25: Design a penalty system for failure to submit VAT returns and failure to make payments on time, bearing in mind two key principles: simplicity and proportionality.

5.2. Payment of VAT

The payment of VAT is another important interaction between taxpayers and tax administrations. Being an indirect tax, VAT is remitted to the tax administrations by the seller (the 'taxable person') but is actually paid by the buyer as part of the price.

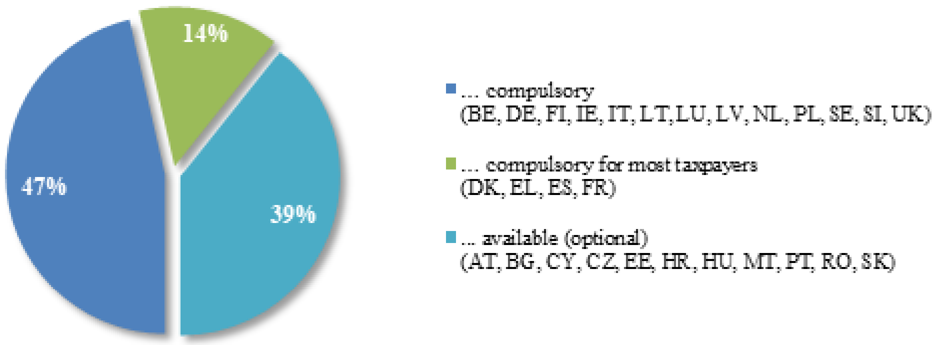
Taxpayers are expected to pay VAT on time. Failure to pay VAT on time usually results in the imposition of interest and penalties and follow-up action by the tax administration, whose aim should be to reach the highest rate of voluntary on-time payment and the lowest incidence of tax arrears.

To achieve this result, a flawless payment process and quick follow-up when payment is overdue are necessary. The use of IT and electronic payment solutions can deliver significant benefits to all parties involved: taxpayers, the tax administration and the financial sector. Traditionally, all EU tax administrations offered the possibility of in-person payment services or cash payments, owing in part to the absence of alternatives. With increased digitalisation over time, it became more cost-effective for revenue bodies to use third parties such as banks to collect tax payments.

More recently, the fully electronic payment method, with taxpayers making their own payments online or arranging for this to be done automatically (via their bank through a direct-debit type of arrangement) became the norm.

In several previous reports, the Commission advocated the introduction of e-payment solutions. In 2019, as expected, all EU Member States offered the possibility of electronic payment of VAT obligations, which is the preferred method of payment in virtually all situations.

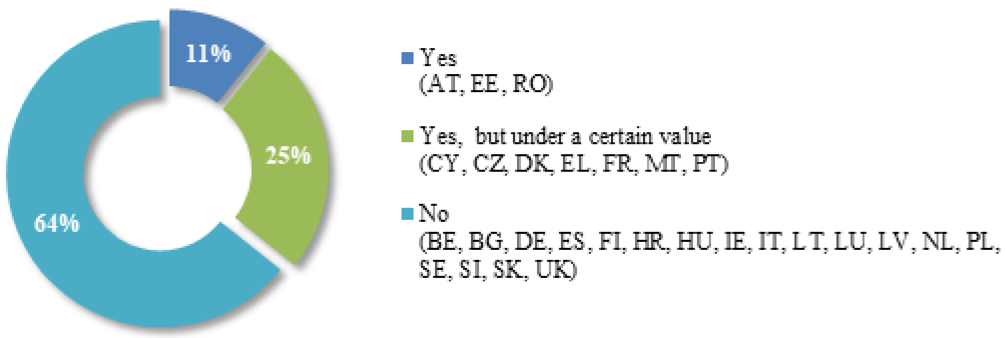
Figure 38: Availability of e-payment of VAT obligations in EU Member States
Question 5.6: 'The electronic payment of VAT obligations is …'



Source: European Commission (2019) – Survey on VAT administration, collection and control

More and more Member States are opting to make electronic VAT payment compulsory. The previous report noted that, in most Member States, tax administrations offer the option to pay the VAT due electronically and in only 50% of Member States is electronic payment of VAT compulsory.

Figure 39: VAT cash payments
Question 5.7: 'Are cash payments for settling VAT obligations allowed?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

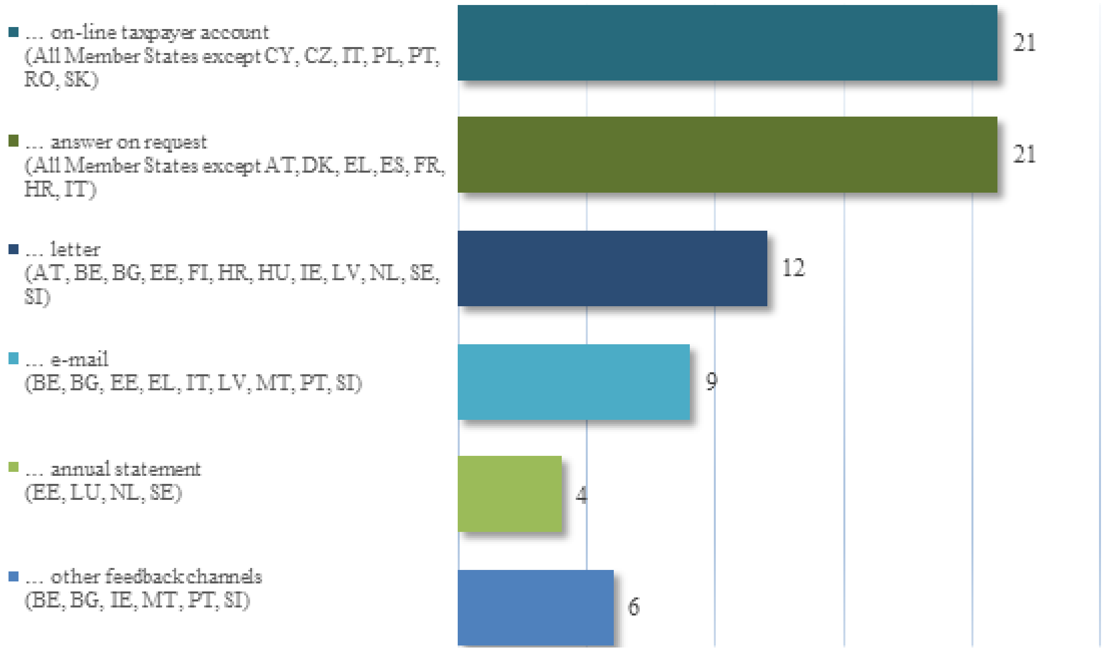
Currently, almost all Member States (98%) are making e-payment of VAT compulsory[22].

Recommendation 26: Limit VAT payments in cash as much as possible.

Tax administrations aim to attain high rates of voluntary on-time payment of VAT. This requires a high level of on-time VAT filing to establish the amounts due (see previous section) and quick follow-up when VAT payment is overdue. Therefore, tax administrations need to provide the best feedback to taxpayers on the settlement of VAT obligations. Member States use various channels to provide such feedback.

Figure 40: Feedback channels available about the settlement of VAT obligations

Question 5.8: 'The tax administration provides feedback to taxpayers about the settlement of their VAT obligations through… (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

EU tax administrations declared their preference for an online channel to provide feedback on the settlement of VAT obligations. Such online channels are commonly used to communicate with VAT payers, including with feedback on VAT payments.

Some Member States use 'other' methods (e.g. call centres) to inform taxpayers about their payment obligations. Portugal developed a dedicated mobile app, Situação Fiscal – Pagamentos[23], providing complete information on VAT payments and integrating a digital wallet to simplify mobile payments. Some Member States started to use an individual tax account (called a 'micro-account' in Poland) for settlement of VAT liabilities, which also served for other taxes such as personal income tax and corporate income tax.

Studies undertaken thus far clearly indicate that fully electronic payment methods are by far the most cost-effective means of collecting tax payments (OECD, 2010). The Commission encourages all Member States to favour as much as possible the e-payment of VAT and to establish a permanent and automatic communication with VAT payers regarding their payment obligations.

[22] Some Member States reported that they allow VAT cash payments for certain small values.

[23] https://play.google.com/store/apps/details?id=pt.gov.portaldasfinancas.servicos.pagimp.app&hl=en&gl=US

Recommendation 27: Use an online channel solution and maintain and upgrade other back-up communication channels for interaction with VAT payers.

6. *Collection of VAT debts, refunds and audits*

6.1. *VAT debt collection*

EU tax administrations strive to achieve the highest possible VAT compliance level. Essentially, they should immediately know, and sometimes even anticipate, all instances when taxpayers are struggling to pay VAT and should track these situations.

Figure 41: VAT debt collection: initial reaction (in days) to late payment
Question 6.1: 'How much time do you allow between the statutory due date and the moment of the first measure to recover the arrears (e.g. first notification of the taxpayer)? (in days)'

Source: European Commission (2019) – Survey on VAT administration, collection and control

Since a fast initial response is one of the most important aspects of VAT debt management, the Commission asked Member States how much time is allowed between the statutory due date and the first measure to recover the VAT arrears (e.g. first notification to the taxpayer).

The answers vary between 0 (most frequent situation) and 90 days. EU tax administrations generally react promptly when a business misses a VAT payment deadline. Only four Member States – Bulgaria (61 days), Cyprus (75 days), Luxembourg (90 days) and Poland (40 days) – allow > 1 month to pass between the due date and the initial recovery measure. Greece, Italy, Latvia, Lithuania, Romania and the United Kingdom proceed with the first recovery measure immediately.

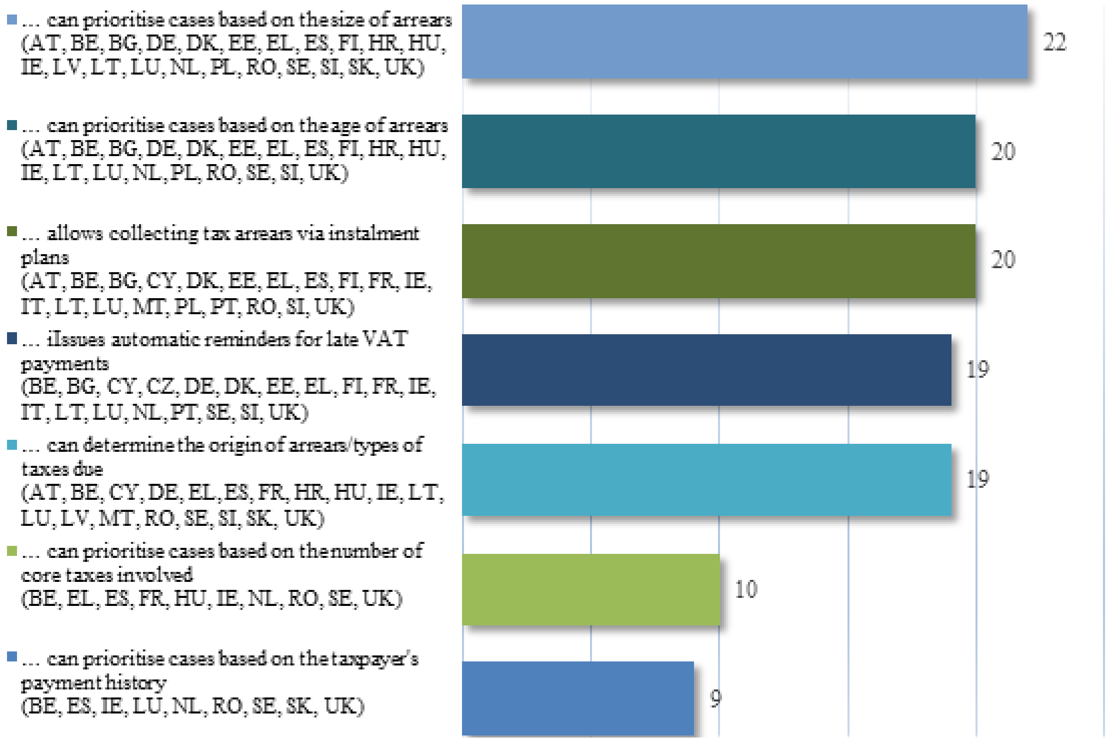
The Commission acknowledges differences in legislation and individual procedures in Member States. However, tax administrations should be aware of and monitor VAT payments missed at the statutory due date and be ready to escalate as soon as possible, even if a certain number of days is required for formal action.

Sometimes, and especially during unfavourable economic periods such as the pandemic recession, the VAT debt continues to represent an issue despite adequate debt collection strategies in place. Facing this challenge, tax administrations need to seek even more innovative, coordinated and cost-effective ways to deal with VAT arrears collection. The best response is a robust, well-functioning and user-friendly debt management IT subsystem.

All EU tax administrations have put IT subsystems in place to manage VAT arrears. However, not all IT systems perform equally. The Commission asked the tax administrations for more information on different key aspects of their IT arrears management systems to try to assess their effectiveness.

Figure 42: Effectiveness of the VAT arrears IT management systems in EU Member States

Question 6.2: 'The IT system used by your tax administration to manage VAT arrears… (Multiple answers possible)'



Source: *European Commission (2019) – Survey on VAT administration, collection and control*

Recommendation 28: Maintain a flexible IT subsystem to manage and prioritise VAT arrears.

In this respect, Belgium, Ireland and United Kingdom set the example. Germany, Greece, Spain, France, Lithuania, Luxembourg, Romania, Slovenia and Sweden also indicate strong performance.

Regarding the outstanding VAT arrears, that is, total year-end VAT debt in total revenue, a slightly positive trend was observed for the majority of the Member States. With the exception of Greece, Cyprus, the Netherlands and the United Kingdom, Member States that provided full or partial data to perform the calculation[24] registered a positive trend. VAT arrears above the EU average existed in Greece, Cyprus, Malta, Poland and Slovakia.

Poland reported that one of the most probable reasons for the high level of VAT arrears was that VAT assessment applied to serious tax irregularities and taxpayers who had no assets or other financial means in their bank accounts. This situation could also be the case in other Member States with relatively high VAT levels, which backs up the recommendation to monitor VAT arrears and be ready to act immediately at the statutory due date for the VAT payment.

6.2. VAT refunds

One of the key features of the VAT invoice–credit system is that only taxpayers making purchases pay substantial amounts of VAT. On average, around one third of the VAT paid is refunded at EU level. The generally accepted rule is that VAT refunds should be paid promptly following the receipt of VAT declarations giving rise to excess credit. In reality, 'refunding of credits has been the "Achilles heel" of the VAT system … and has led to complex administrative measures that have significantly undermined the functioning of the VAT system' (IMF).

Paying legitimate tax refunds promptly, while having safeguards in place to prevent payment where fraudulent refund claims are involved, is thus essential to a sound VAT administration process and strengthens tax compliance.

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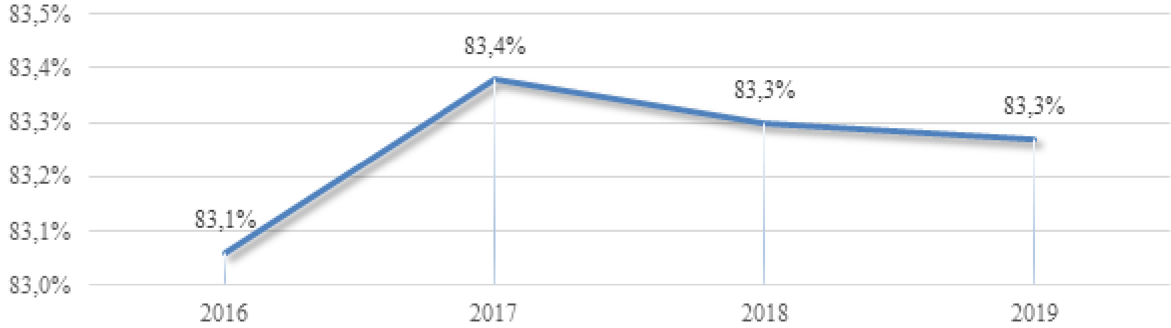
24 Belgium, Denmark, Germany, France, Luxembourg and Sweden did not make available the minimum data needed to calculate the share of VAT arrears.

Generally, refunds are paid on time. Several Member States (Bulgaria, Germany, Spain, France, Croatia, Latvia, Luxembourg, Hungary, the Netherlands, Poland, Finland and Sweden) were unable to provide the necessary data to calculate the rate of on-time payment of the refunds, even though the majority of them answered ‘Yes’ to the question if they ‘routinely monitor (e.g. each month) the time taken to pay or offset VAT refunds’ (see Figure 44 below).

Figure 43: Percentage of VAT refunds (value) paid by the statutory date (EU average)



Source: European Commission (2019) – Survey on VAT administration, collection and control

Among the tax administrations that made available the data on VAT refunds paid by the statutory date, Cyprus, Greece, Malta and Romania were under the EU average. However, only Malta and Romania displayed a negative trend in the value of VAT refunds paid on time.

Delays in processing refunds usually occur when state budgets are under pressure and tax collection targets are not met. Tax administrations and ministries of finance must have suitable forecasting and monitoring systems in place to anticipate the refund levels and set aside sufficient funds to meet legitimate refund claims when they occur.

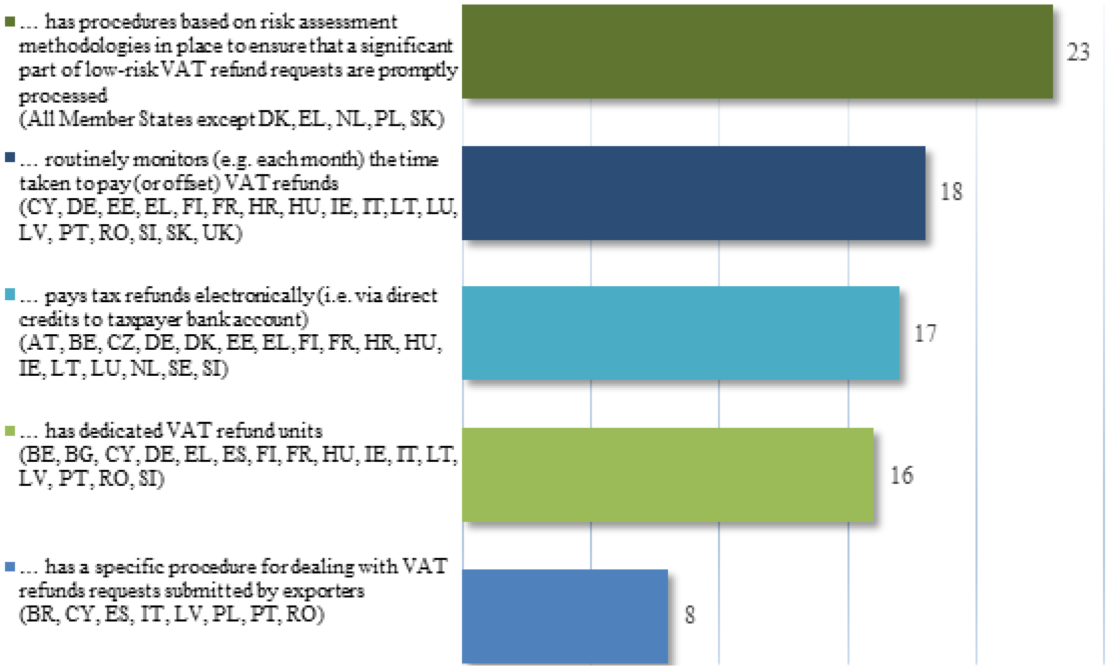
Recommendation 29: Pay legitimate tax refunds promptly, while having procedures in place to prevent payment of fraudulent claims for VAT refunds.

‘When tax administrations deny on-time payment of legitimate refund claims, the nature of VAT is effectively altered, in part, from a tax on final consumption to a tax on production’ (IMF). Apart from verifications at the stage of VAT registration, such as the proof-of-identity checks (see Section 3, Figure 9), good practices to ensure swift payment of VAT refunds include:

- the existence of dedicated VAT refund units;
- a specific procedure for low-risk VAT refund requests (e.g. specific automated software reviewing the VAT refund claims against risk criteria to distinguish good compliance histories from poor or unknown compliance histories);
- specific measures for dealing with VAT refund requests submitted by exporters;
- electronic payment of the refunds, through direct credits to the taxpayer’s bank account;
- regular monitoring of the time taken to pay or offset VAT refunds.

Figure 44: VAT refund systems in EU Member States

Question 6.3: 'To ensure swift payment of legitimately VAT refunds, your tax administration … (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 30: Implement the observed good practices if high values of VAT refunds are paid after the statutory date.

Recommendation 31: Link the refund process with the registration component (check taxpayers' identities to prevent fictitious traders from entering the VAT system) and integrate it with their compliance risk management system.

6.3. Completeness of reporting obligations: VAT audits

VAT payers should report complete and accurate information in their tax declarations, and tax administrations should regularly monitor tax revenue losses from inaccurate reporting. The consequences of inaccurate VAT reporting involving larger amounts specific to business taxpayers could be very severe. VAT audits and other verification activities promote accurate reporting and mitigate tax fraud. Audits complement other, more proactive compliance initiatives of taxpayer assistance (see Section 5).

Verification activities, such as tax audits, investigations and income matching against third-party information sources have a triple objective: (1) remedial (additional tax penalties can be assessed to correct the discrepancies), (2) preventative (the perceived likelihood of detection has a deterrent effect against non-filing or inaccurate filing) and (3) informative (collection of tax-related information)[25]. This strategic approach must observe multiple elements:

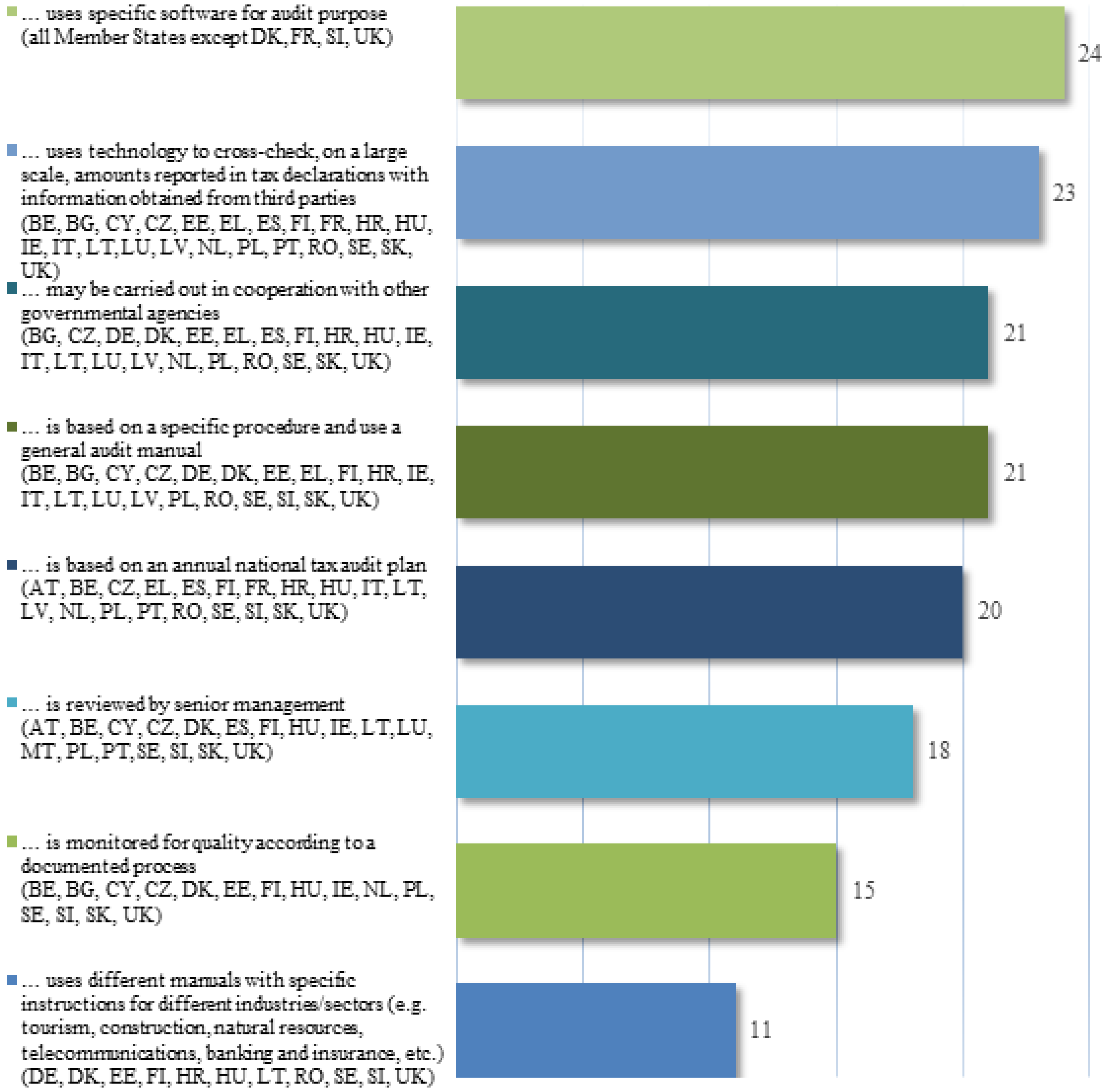
- the VAT audit activity must be based on an integrated annual plan that is reviewed by senior management;
- specific procedures and, preferably, an audit manual should exist and be used;
- specific instructions adapted to the specificities of different industries/sectors (e.g. tourism, construction, telecommunications) must be in place;
- the VAT audit process should be documented and monitored for quality;
- the audit activity should make use of specific software adapted for VAT audit purposes;

[25] Intelligence-gathering ('know your customer' (KYC)-like activity) is used not only to identify the incipient compliance risks and confirm these risks, but also to assess the incidence and outcome (revenue losses) attributable to particular risks, and to recognise and correct common taxpayer errors and misinterpretations of VAT law.

- the audit process should use technology that allows cross-checking of the amounts reported in tax declarations against information obtained from third parties on a large scale;
- the audit must sometimes be carried out in cooperation with other administrative agencies and governmental bodies.

Figure 45: Characteristics of the VAT audit performed by EU VAT administrations

Question 6.4. 'The VAT audit performed by your tax administration ... (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Generally, Member States pay close attention to the VAT audit process. Analysis of the survey replies reveals that Finland's and Sweden's audit systems incorporate all the good practices listed above. Answers from other Member States such as Czechia, Lithuania, Hungary, Poland, Slovakia and the United Kingdom indicate strong performance. Conversely, Malta (reporting only one out of the eight good practices listed above), Austria and France (reporting two out of the eight good practices) could make additional efforts to improve their audit practices.

Tax administrations usually capture VAT audit-relevant information in special compliance databases for future audits of the same or related taxpayers (since discovering pertinent information about one taxpayer, when auditing another, is often possible). In addition, auditing taxpayers together or in cooperation with other institutions and/or exchanging VAT-relevant data with other institutions improves the audit function.

A large majority of Member States (21/28) reported cooperation with other governmental bodies, such as customs (sometimes integrated into the tax administration), criminal investigation (police, public prosecutors, etc.), labour inspection and control, social inspection and protection, and even food and chemical safety agencies.

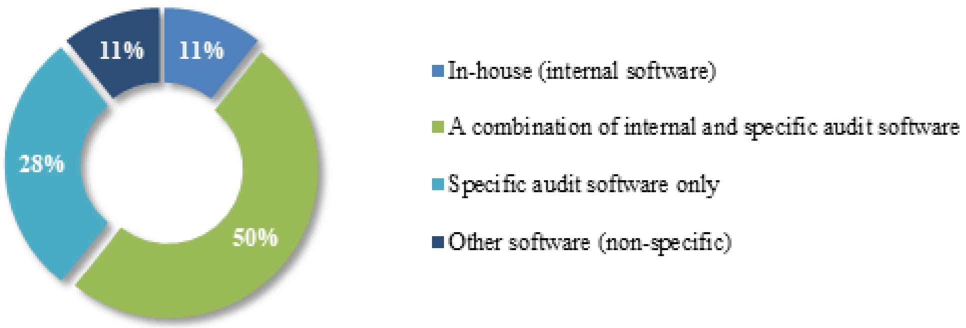
Several Member States (e.g. Czechia, France and Slovakia) have established special 'VAT task forces' through interministerial and operational coordination structures specifically dedicated to the fight against VAT fraud. In France, a tax force regularly gathers all the partners of the French tax administration (justice, police, customs and financial intelligence units) together with the tax audit teams to cooperate in the field of VAT audit.

Recommendation 32: Use sector-specific audit manuals, cooperate with other agencies, update and review audit plans and monitor the quality of audit function in accordance with a documented process.

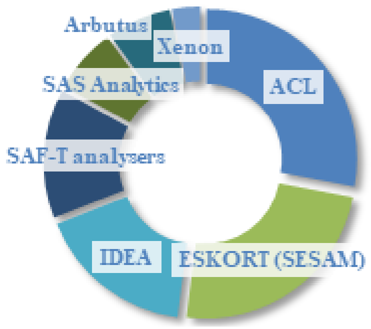
Most aspects of a modern VAT audit demand the use of IT equipment and specific software, starting with audit selection requiring taxpayers to be classified according to the specific risk they pose to the collection of revenue. This task alone cannot be done manually for a large population.

Generally, tax administrations use dedicated audit software. Only three Member States (Denmark, Slovenia and the United Kingdom) indicated that they do not use specialised software. A total of 17 Member States use VAT audit solutions developed in-house, alone or in combination with specialised or generic software. Three Member States (Italy, Malta and the Netherlands) indicated that they use in-house software only.

Figure 46: VAT audit software used by EU tax administrations
Question 6.4.b: 'Please specify which software (programmes) are used by your tax administration for audit purpose (e.g. ACL, IDEA, own internal software, etc.)'
a. *Commercial off-the-shelf vs. custom-built solutions*



b. *Main audit-specific solutions used*



Source: European Commission (2019) – Survey on VAT administration, collection and control

Even if the Member State tax administrations have the same core functions, including audit, not all face the same level of complexity of IT implementation. This complexity level is a factor that can push tax administrations to opt for in-house software products. The level of customisation of such custom-built software also varies significantly between the Member States.

Commercial off-the-shelf (COTS) solutions are also available for VAT audit. COTS solutions are also developed according to existing leading practice, and tax administrations with reduced need for customisation may incur lower implementation costs and usually have a better chance of success. However, implementation complexity, specific needs, different legislation and/or particular organisational aspects of a tax administration make a comparison of the merits of different audit software impossible.

Overall, half of the EU tax administrations tend to use a mix of commercial and custom-built solutions. As mentioned in previous reports, any cooperation and pooling of resources (especially for smaller Member States' tax administrations working closely together on common issues) could bring economies of scale. VAT audit, especially the IT software used in this process, is one of the domains in which Member States could easily benefit from each other's experience.

There are EU tools available that can be used by Member States to finance and support the modernisation and reform of tax administrations.

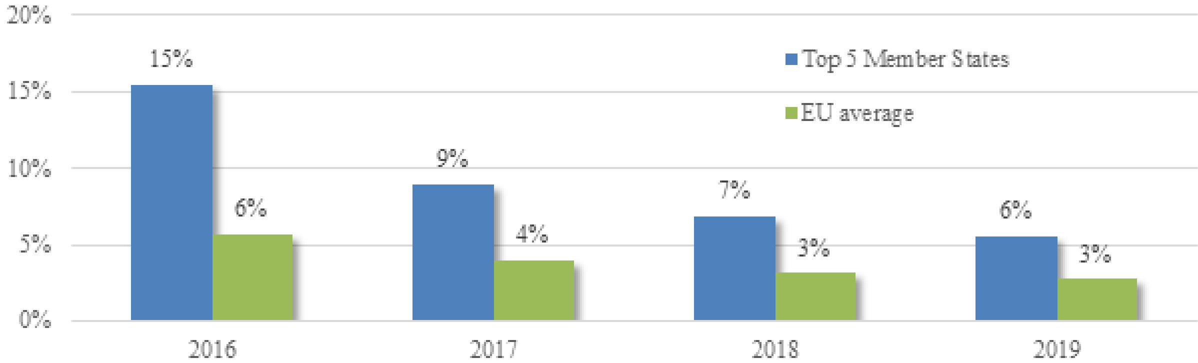
Recommendation 33: Make use of EU tools available, exchange experiences and good practice in the use of different tools and procedures and collaborate (e.g. joint audits) to increase the efficiency of the audit functions.

As mentioned in the last report, 'audit is an expensive tool as it is time-consuming and requires a large number of human resources. Moreover, the percentage of audit contribution to the total VAT collection is limited'. Therefore, an audit strategy focusing on the main risk areas increases the return on the use of limited audit means and other resources and facilitates voluntary compliance by reducing the perceived intrusion of the tax administration into the life of compliant taxpayers.

The previous report underlined that more and more tax administrations recognised that 'audit is no longer expected to be the most efficient and effective means to deter non-compliant behaviour' and considered audit 'an ultimate enforcement measure' to be applied when other, proactive initiatives that focus on enhancing voluntary compliance were not, or no longer, effective.

The previous report also mentioned the challenge of striking the right balance between compliance-increasing initiatives and VAT audit. Looking at the top five Member States in terms of VAT amounts assessed after audits (Poland, Romania, Bulgaria, Slovakia and Hungary), Figure 47 clearly shows that Member States have made visible progress regarding the use of the VAT audit function.

Figure 47: VAT collection and VAT assessed after audits in 23 EU Member States[26]



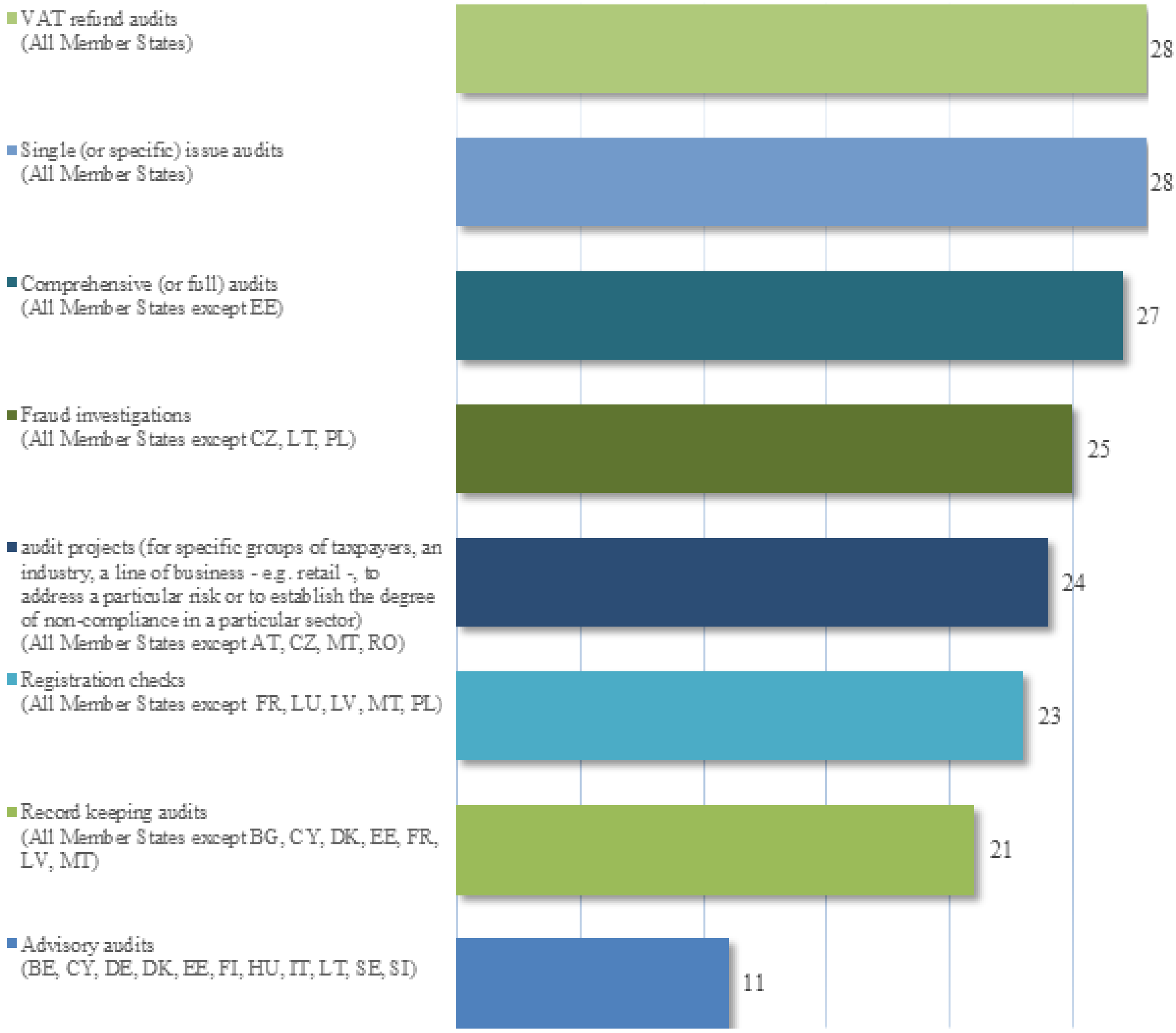
Source: European Commission (2019) – Survey on VAT administration, collection and control

However, tax administrations should be capable of conducting multiple types of audits and 'have a clear policy on the types of audits to be conducted and the circumstances in which specific types of audits are to be carried out, so that audit officials and managers understand what is expected of them' (OECD). Member States should be able to effectively carry out punctual registration checks, advisory and record-keeping audits, specific audits on single issues and VAT refund audits, and should do so. They should also put in place more complex audit projects (for specific groups of taxpayers, an industry or a line of business such as retail, to address a particular risk or to establish the degree of non-compliance in a particular sector) and perform comprehensive audits and fraud investigations.

26 Data are available for 23 out of 28 Member States (excluding Germany, France, Luxembourg, the Netherlands and the United Kingdom). However, since four of those Member States (Germany, France, the Netherlands and the United Kingdom) did not make these data available for the previous report, the results are comparable with the previous period.

Figure 48: Types of VAT verifications/audits performed by the EU tax administrations

Question 6.5: 'Which types of verification/audits are performed by your tax administration in the VAT field? (Multiple answers possible)'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Generally, EU tax administrations are well equipped to perform all types of audits. The Commission recommends that Member States follow the example of Belgium, Germany, Italy, Hungary, Slovenia, Finland and Sweden and diversify their audit portfolios as much as possible.

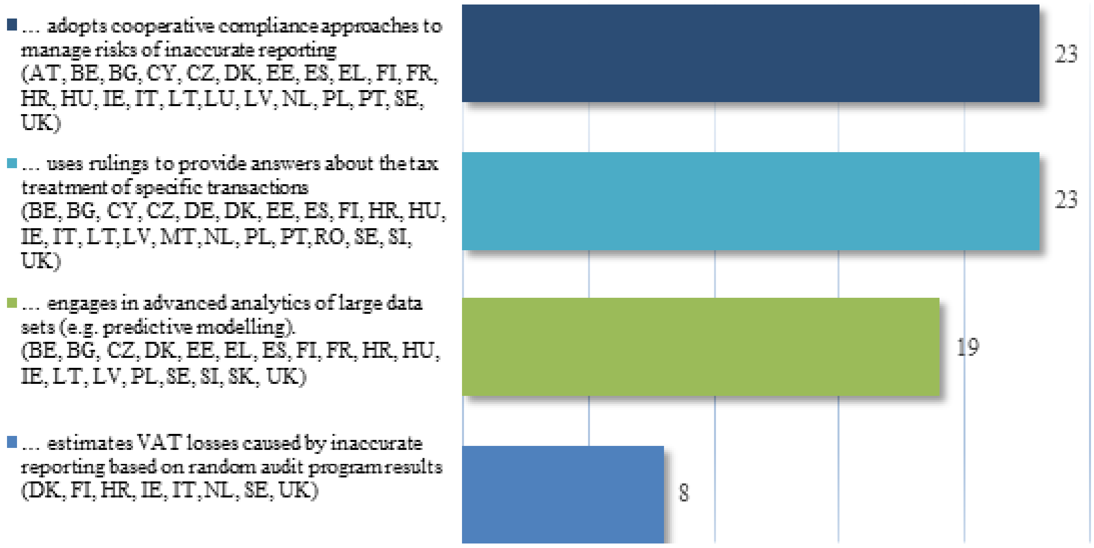
Recommendation 34: Adjust the scope and intensity of VAT audits to meet needs.

Finally, as mentioned before, audits complement other compliance and analytics initiatives. Such initiatives closely related to the audit activity may include, but are not limited to:

- using advance rulings to provide taxpayers with certainty about the tax treatment of specific transactions;
- building collaborative and trust-based relationships with VAT payers (especially large taxpayers);
- complementing the audit plan with an estimate of inaccurate reporting based on a specific random audit programme;
- deploying other modern tools such as advanced predictive analytics and data modelling.

Figure 49: Complementary non-audit compliance measures

Question 6.6: 'For VAT, the tax administration … (Multiple answers possible)



Source: European Commission (2019) – Survey on VAT administration, collection and control

Typically, cooperative compliance arrangements are based on proven good management of VAT affairs from the taxpayers' side and the willingness to become and stay transparent. The analytics programmes of tax administrations are useful in learning more about the distribution of VAT-inherent risks.

Member States understood this approach and demonstrated that they largely complement their audit programmes with other measures. Denmark, Ireland, Croatia, Finland, Sweden and the United Kingdom use all compliance and analytics initiatives listed above. Belgium, Bulgaria, Czechia, Estonia, Spain, Italy, Latvia, Lithuania, Hungary, the Netherlands and Poland indicate strong performance in this area. Only one Member State (Luxembourg) reported that 'none of the above initiatives applies'.

Recommendation 35: Complement audit measures with other, non-audit compliance measures.

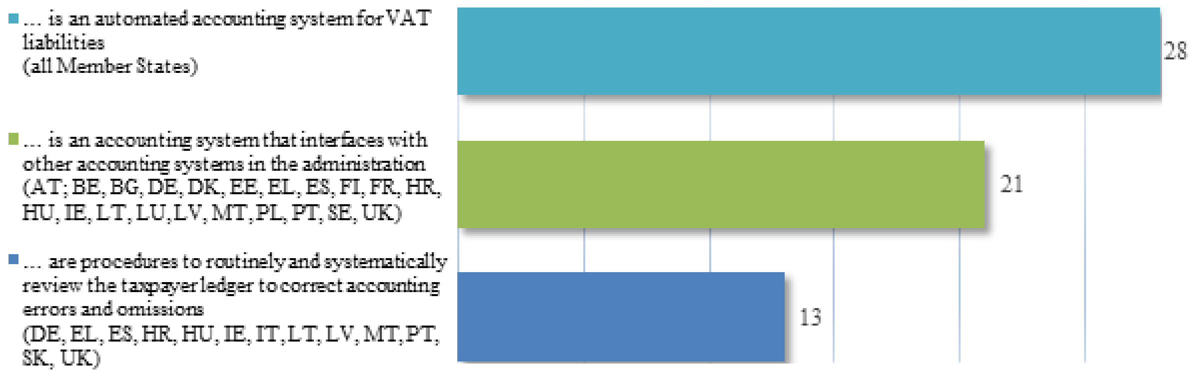
7. VAT accounting, accountability and disputes

7.1. VAT accounting, internal controls and external reviews

Ideally, the tax revenue accounting system allows tax administrations to check on the revenue management progress at any point during the accounting period. An effective system, based on an IT subsystem, minimises accounting errors, prevents internal fraud, and registers payments and other transactions to the correct taxpayer account in a timely manner. The system should at least automate the book-keeping of VAT obligations, interface with other accounting systems of the tax administration and include procedures to routinely and systematically review the taxpayer ledger to correct accounting errors and omissions.

Figure 50: Characteristics of tax revenue accounting systems in the EU

Question 7.1: 'Within your tax administration …'



Source: European Commission (2019) – Survey on VAT administration, collection and control

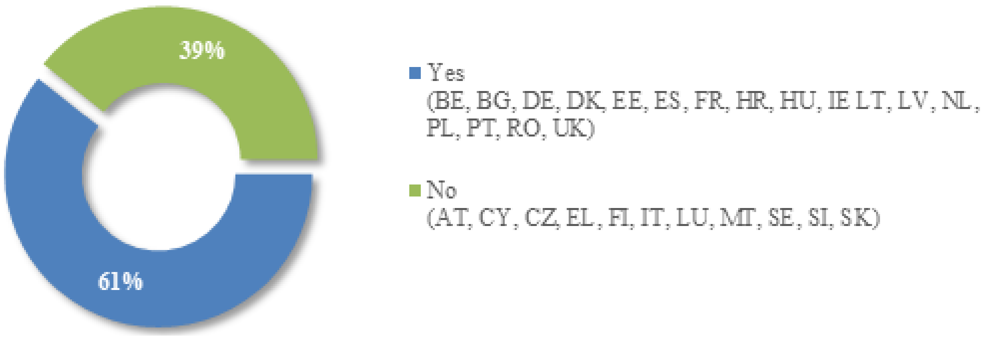
All Member States operate automated accounting systems for VAT liabilities. Germany, Ireland, Greece, Spain, Croatia, Latvia, Lithuania, Hungary, Malta, Portugal and the United Kingdom reported that their accounting systems interface with other accounting systems and include procedures to systematically review the taxpayer record to correct any eventual accounting errors. The Commission considers this good practice and recommends that all Member States adopt a similar approach.

The 21 Member States whose accounting systems interface with other accounting systems in the tax administration mentioned tax filing, arrears management, tax registers and customer service systems. In some Member States, special government information interfaces (e.g. x-roads) allow greater interoperability of their accounting systems, including with other national institutions such as health and social services, and with banking systems to exchange payment data with financial institutions.

Recommendation 36: Ensure that accounting systems interface with other systems and include procedures to systematically review and correct the taxpayer record.

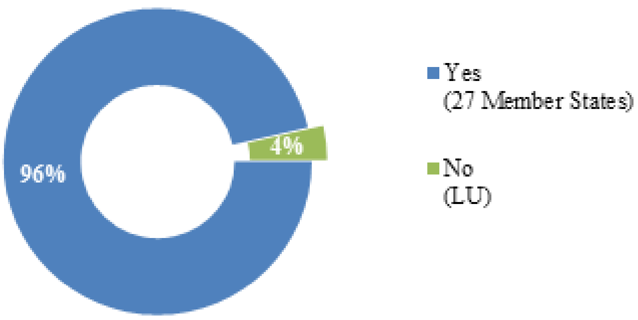
An internal audit process should be in place to periodically review the accounting system to ensure its alignment with tax laws and accounting standards (e.g. correct calculation of tax liabilities, penalties and interest). The majority of Member States (17/28) reported that they have such an internal audit process in place, sometimes complemented by an independent external review body (e.g. government auditor or independent entity appointed in line with the country's laws and regulations) that periodically audits the VAT administration in terms of operational performance.

Figure 51: Internal audit processes and external audit review (overview)
a. *Question 7.1: 'Within your tax administration .... the internal audit periodically reviews its accounting system to ensure the alignment with the tax laws and accounting standards (e.g. the system correctly calculates tax liabilities, penalties and interest).'*



Source: European Commission (2019) – Survey on VAT administration, collection and control

b. Question 7.3: 'Does an independent external review body (e.g. government auditor or independent entity appointed in line with the country's laws and regulations) periodically audits the tax administration's financial statements and operational performance, including the VAT administration?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 37: Put in place an adequate internal audit process for the accounting system, to ensure alignment with tax laws and accounting standards.

7.2. VAT dispute resolution process

In some situations, and especially after a VAT audit, taxpayers may disagree with the assessments made by the administration. Disputes normally arise from issues such as administrative errors or an identified discrepancy based on interpretation of legal provisions, facts and the relation between the two. Taxpayers should benefit from an independent, accessible and efficient review mechanism that safeguards their rights to challenge a VAT assessment and obtain a fair hearing.

Usually, the dispute resolution mechanism falls into stages. Initially, taxpayers may ask the tax administration for an administrative review, usually carried out by specially designated officials from outside the audit department. Taxpayers who are not satisfied with an administrative review may call for a review by an independent body (special committee, specialised tax tribunal or court). Finally, they may refer to the judicial system (or an alternative, such as a dispute prevention and resolution mechanism) to resolve any remaining disputes. Such disputes usually concern the legal interpretation of VAT legislation and/or the facts, or the general treatment received from the tax administration (procedure).

VAT dispute resolution mechanisms in the EU Member States vary according to their VAT legal provisions, country-specific experience and established procedures. However, all Member States have in place a VAT dispute resolution process that safeguards the taxpayer's right to challenge an assessment resulting from a VAT audit.

Table 2: VAT dispute resolution overview in EU Member States

Dispute resolution / Member State	Taxpayers have the right to challenge the VAT assessments by means of an internal review by the tax administration	The internal review is performed by a specialised unit that is separate from the VAT audit department	Taxpayers can challenge the VAT assessments by means of an independent review by an external body	Taxpayers can also challenge the independent review in front of a higher appellate court
Austria	Yes	No	Yes	Yes
Belgium	Yes	Yes	Yes	Yes
Bulgaria	Yes	Yes	Yes	Yes
Croatia	No	—	Yes	Yes
Cyprus	Yes	Yes	Yes	Yes
Czechia	Yes	Yes	Yes	Yes
Denmark	Yes	Na	Yes	Yes
Estonia	Yes	Yes	Yes	Yes
Finland	Yes	Yes	Yes	Yes
France	Yes	Na	Yes	Yes
Germany	Yes	No	Yes	Yes
Greece	Yes	Yes	Yes	Yes
Hungary	Yes	Yes	Yes	Yes
Ireland	Yes	Yes	Yes	Yes
Italy	Yes	Yes	Yes	Yes
Latvia	Yes	Yes	Yes	Yes
Lithuania	Yes	Yes	Yes	Yes
Luxembourg	Yes	Yes	Yes	Yes
Malta	Yes	Yes	Yes	Yes
Netherlands	Yes	No	Yes	Yes
Poland	Yes	Na	Yes	Yes
Portugal	Yes	Yes	Yes	Yes
Romania	Yes	Yes	Yes	Yes
Slovakia	Yes	Yes	Yes	Yes
Slovenia	Yes	Yes	Yes	Yes
Spain	Yes	Yes	Yes	Yes

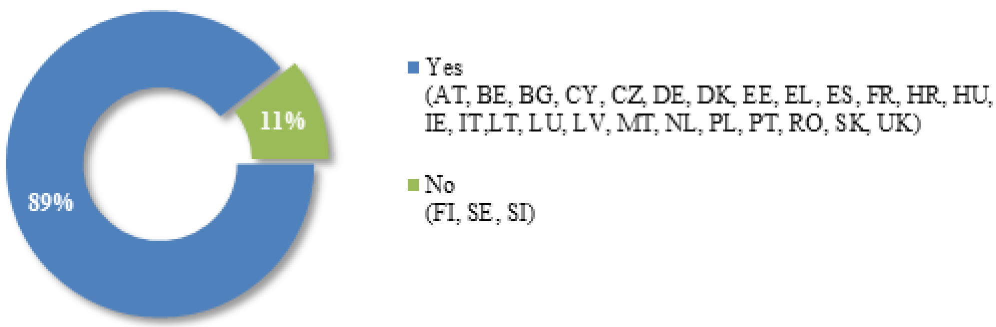
Member State \ Dispute resolution	Taxpayers have the right to challenge the VAT assessments by means of an internal review by the tax administration	The internal review is performed by a specialised unit that is separate from the VAT audit department	Taxpayers can challenge the VAT assessments by means of an independent review by an external body	Taxpayers can also challenge the independent review in front of a higher appellate court
Sweden	Yes	No	Yes	Yes
United Kingdom	Yes	Yes	Yes	Yes
TOTAL	27	20	28	28

Source: European Commission (2019) – Survey on VAT administration, collection and control

The Commission wanted to capture an overview of the dispute resolution systems in the Member States. However, the limits of this exercise are clear: under the Article 12 provisions, the Commission and the tax administrations are not competent to assess the performance of the judicial review processes. Nevertheless, as good practice, tax administrations could monitor the stock and flow of dispute cases under internal review, by number and value of taxes under dispute.

Figure 52: Dispute resolution – monitoring process

Question 7.4: 'Dispute resolution: Does your tax administration monitor the stock and flow of dispute cases under internal review, by number and value of taxes under dispute?'



Source: European Commission (2019) – Survey on VAT administration, collection and control

Recommendation 38: Monitor the dispute resolution process, draw conclusions to support improvement of the general investigation methods and refine the tax assessment procedures.

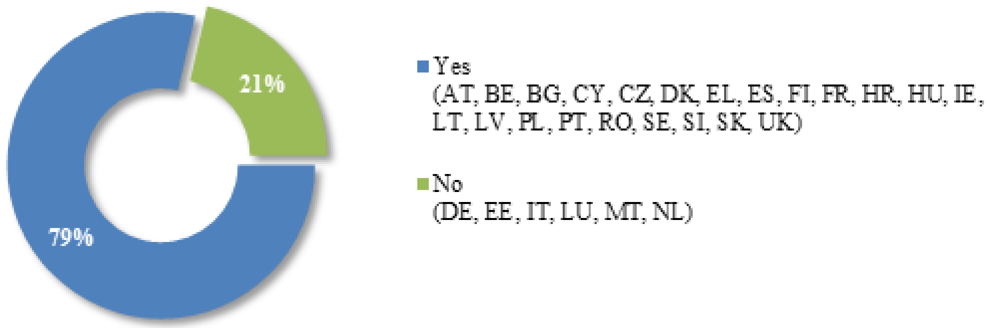
8. COVID-19 and VAT: recommendations for VAT collection and recovery

Most tax administrations have business continuity plans to deal with different business- affecting events, including equipment failures, disruptions and other incidents. Some plans cover the range of issues relevant to a pandemic, particularly risks to health, impact on staff and working locations, prolonged disruptions and lockdowns, and pressures on IT infrastructure from general economy-wide shocks.

Plans to ensure business continuity are usually included in risk registers. A large majority of tax administrations (22/28) indicated that they use a risk register, i.e. a central repository of identified risks that potentially pose a threat to the continuity of operations.

Figure 53: Business continuity – the existence of a central risk repository

Question 4.2: 'Does your tax administration use a risk register (i.e. a central repository of identified risks that potentially pose a threat to the continuity of tax administration operations)?



Source: European Commission (2019) – Survey on VAT administration, collection and control

The risk registers usually include a short description of the risk, a time reference, the likelihood of occurrence, the severity of effect and some mitigation measures. For a start, it is necessary to have a plan for continuity of operations in the event of disruptive actions that affect part or all of the tax administration's assets and resources, including the unavailability of human resources, closure of buildings, remote access to IT and other equipment for permanent availability of data and other records.

However, contingency plans need to be continually reviewed and adjusted to account for the different considerations that will arise in the event of a pandemic, bearing in mind the rapidity with which circumstances can change and planning assumptions can become outdated.

Recommendation 39: Review and update business continuity plans and test them periodically in real-time scenarios.

The COVID-19 outbreak has prompted unprecedented action at national and Union level to support Member States' economies and facilitate their recovery. While tax administration and policy measures[27] alone would not be sufficient, they played a key role in alleviating the immediate effects of the crisis.

Member States have decisively implemented tax administration and policy measures, which appear broadly adequate, mainly providing businesses and households with additional time for handling their tax affairs. Thus, continuous liquidity is ensured.

As Member States progress towards the recovery phase and beyond, they should avoid front-loaded fiscal consolidation and instead design more targeted taxation measures. These measures should ensure that the tax burden is shared fairly across economic actors.

While the crisis presents a huge challenge, it also provides a window of opportunity to use tax policy for strengthening the resilience and competitiveness of the EU economy, in line with the transition towards a greener and more just and digital economy, as set out in the Commission's policy agenda.

Most of the recommendations presented in this report – especially those related to digitalisation, online registration and services, IT investments and business continuity –would help tax administrations to navigate safely through difficult times such as the COVID-19 pandemic. They would contribute to better VAT administration and collection.

9. Conclusion

Inconsistent and non-optimal VAT processes and procedures diminish the tax revenue of EU Member States. Lower VAT revenue not only reduces the own resources for the Union budget but also shrinks national budgets, as VAT is an important source of national income. Imperfect VAT administration hampers the rights of honest VAT payers and creates incentives for fraud. To serve VAT payers well, EU tax administrations should aim at offering quality service and provide a fair and just VAT system.

[27] https://ec.europa.eu/info/sites/default/files/coronovirus_policy_measures_16_november.pdf

In the previous Report (2017)[28], the Commission put forward common references for national VAT collection and control systems. Generally, EU tax administrations observed the previous recommendations and achieved some improvements, notably in revenue collection, audit and digitalisation. Nevertheless, such VAT administration measures must be supported by additional tax policy reforms (outside the scope of the report) to see much larger gains.

This report contains a comprehensive overview of practices and recommendations that can help tax administrations to improve their internal processes covering all the main functions of VAT administration. Upgrading the interaction with taxpayers and other stakeholders, such as the national statistical authorities or tax administrations in other Member States, is crucial to improve the overall performance of tax administration in the Union.

Tax administrations need to step up efforts in areas such as risk analysis, process automation and exchange of information. They need to upgrade their IT systems, increase the number of IT staff and their training, explore the use of several data sets and third-party data, and invest in in-depth data analysis.

To facilitate the task of EU tax administrations, the Commission reviewed and updated the description good practices, increased the number of recommendations and made them more specific to better address the outliers.

The Commission calls on EU Member States to take up current recommendations, not only to help generate the tax revenue needed to respond to the major challenges of the current crisis, but also to level the playing field in the internal market and pave the way towards a faster and more durable post-pandemic recovery.

28 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014SC0038&from=EN

Annex 1: Index of recommendations

__Annex 2: Index of figures and tables__

__Index of figures__

Index of tables

Annex 3: References

List of web pages on VAT obligations

Member State	Web pages – links verified in September 2020[29]	Available in a foreign language
Austria	https://www.bmf.gv.at/services/publikationen/broschueren-ratgeber.html https://www.bmf.gv.at/en/topics/taxation/vat-assessment-refund.html	Yes
Belgium	https://finances.belgium.be/fr/entreprises/tva/declaration/debut_fin_modification_activite#q1 https://financien.belgium.be/nl/ondernemingen/btw/aangifte/aanvang_wijziging_einde_activiteit#q3 https://business.belgium.be/en/setting_up_your_business/registration_with_the_vat_administrations	Yes
Bulgaria	https://old.nra.bg/en/page?id=517	Yes
Croatia	https://www.porezna-uprava.hr/PdviEu/Stranice/PDViEU.aspx https://www.porezna-uprava.hr/en/EN_porezni_sustav/Pages/value_added_tax.aspx	Yes
Cyprus	https://www.mof.gov.cy/mof/tax/taxdep.nsf/All/A80CE65EF4296B63C225854A00316AD0?OpenDocument	Yes
Czechia	https://www.financnisprava.cz/en/taxes/vat-registration-for-non-established-per	Yes
Denmark	https://skat.dk/skat.aspx?oid=2234572 https://skat.dk/skat.aspx?oid=2244390 https://indberet.virk.dk/myndigheder/stat/ERST/Start_virksomhed https://indberet.virk.dk/myndigheder/stat/ERST/Webreg_aendre_virksomhed__lukke_virksomhed	Yes
Estonia	https://www.emta.ee/eng/business-client/registration-business/registration-and-deletion-person-liable-value-added-tax https://www.emta.ee/eng/business-client/registration-business/registration-foreign-traders-vat-liability	Yes
Finland	https://www.vero.fi/en/businesses-and-corporations/about-corporate-taxes/vat/	Yes
France	https://www.impots.gouv.fr/portail/ https://www.impots.gouv.fr/portail/international_en/business	Yes
Germany[30]	https://www.finanzamt.bayern.de/Informationen/Steuerinfos/Zielgruppen/Existenzgruender/default.php?f=Muenchen&c=n&d=x&t=x https://service.berlin.de/dienstleistung/325409/	Yes
Greece	https://www.aade.gr/menoy/hristikoi-odigoi/forologikes-ypohreoseis-agroton	No
Hungary	https://en.nav.gov.hu/taxation/taxpayer_registration/general_rules.html https://en.nav.gov.hu/taxation/taxpayer_registration/specific_rules.html	Yes
Ireland	https://www.revenue.ie/en/vat/vat-registration/how-do-you-register-for-vat/index.aspx	No[31]
Italy	https://www.agenziaentrate.gov.it/portale/web/guest/imprese/istanze/partita-iva https://www.agenziaentrate.gov.it/portale/web/english/nse/business/vat-in-italy/vat-registration	Yes
Latvia	https://www.vid.gov.lv/en/value-added-tax	Yes
Lithuania	https://www.vmi.lt/cms/en/mokesciu-moketoju-iregistravimas-pvm-moketoju-registre	Yes
Luxembourg	https://guichet.public.lu/fr/citoyens/impots-taxes/exercice-activite-independant/inscription-adm-fiscales/inscrire-tva.html	Yes
Malta	https://cfr.gov.mt/en/faqs/Pages/VAT/VAT-FAQs.aspx	No

29 The addresses of web pages were provided by the tax administrations and verified in September 2020.

30 Some VAT aspects are related to the specific organisation and competencies of federal Germany. Certain designated tax offices (e.g. Berlin-Neukölln tax office) have central jurisdiction for sellers who are not established in Germany. For the current report we went to the websites of authorities in Munich and Berlin.

31 Irish/Gaeilge only.

Netherlands	https://www.belastingdienst.nl/wps/wcm/connect/bldcontenten/belastingdienst/business/vat/vat_in_the_netherlands/your_tax_office_and_registration/your_tax_office_and_registration	Yes
Poland	https://www.biznes.gov.pl/en/firma/taxes-and-insurance-in-poland/vat	Yes
Portugal	https://info.portaldasfinancas.gov.pt/pt/docs/Conteudos_1pagina/Pages/portuguese-tax-system.aspx https://info.portaldasfinancas.gov.pt/pt/apoio_contribuinte/Manuais/Documents/Manual_Inicio_PF.pdf	Yes
Romania	NA	NA
Slovakia	https://www.financnasprava.sk/sk/podnikatelia/dane/dan-z-pridanej-hodnoty/registracia-dph https://www.financnasprava.sk/en/businesses/taxes-businesses#ZahranicnaOsobaDPH	Yes
Slovenia	https://www.fu.gov.si/en/taxes_and_other_duties/areas_of_work/value_added_tax_vat/	Yes
Spain	https://www.agenciatributaria.es/AEAT.internet/en_gb/Inicio/La_Agencia_Tributaria/Campanas/_Campanas_/Fiscalidad_de_no_residentes/_IVA___VAT_/_IVA___VAT_.shtml	Yes
Sweden	https://www.skatteverket.se/servicelankar/otherlanguages/inenglish/businessesandemployers/startingandrunningaswedishbusiness/registeringabusiness.4.12815e4f14a62bc048f5179.html https://www.skatteverket.se/servicelankar/otherlanguages/inenglish/businessesandemployers/startingandrunningaswedishbusiness/declaringtaxesbusinesses/vat.4.12815e4f14a62bc048f52be.html?q=vat	Yes
United Kingdom	https://www.gov.uk/vat-registration	No

Reports from the Commission to the European Parliament and the Council on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89

- Report 2017: Report from the Commission to the Council and the European Parliament – Eighth report under Article 12 of Regulation (EEC, Euratom) n° 1553/89 on VAT collection and control procedures, COM(2017) 780 final;
- Report 2014: Report from the Commission to the Council and the European Parliament – Seventh report under Article 12 of Regulation (EEC, Euratom) n° 1553/89 on VAT collection and control procedures Seventh report, COM(2014) 69 final + Annex SWD(2014) 38 final;
- Report 2008: Report from the Commission to the Council and the European Parliament - Sixth Report under Article 12 of Regulation (EEC, Euratom) n° 1553/89 on VAT collection and control procedures, COM(2008) 719 final + Annex SEC(2008) 2759;
- Report 2004: Report from the Commission to the Council and the European Parliament - Fifth report under article 12 of Regulation (EEC, Euratom) No 1553/89 on VAT collection and control procedures, COM(2004) 0855 final + Annex SEC(2004) 1721;
- Report 2000: Report from the Commission to the Council and the European Parliament - Third article 14 report on the application of Council Regulation (EEC) No 218/92 of 27 January 1992 on administrative cooperation in the field of indirect taxation (VAT) and Fourth report under article 12 of Regulation (EEC, Euratom) No 1553/89 on VAT collection and control procedures, COM/00/0028 final;
- Report 1998: Report from the Commission to the Council and the European Parliament - VAT collection and control procedures applied in the Member States - Third Commission report [Article 12 of Regulation (EEC, Euratom) No 1553/89], COM/98/0490 final;
- Report 1995: VAT Collection and Control Procedures Applied in Member States - 2nd Article 12 Report, COM/95/354 final;
- Report 1992: VAT Collection and Control Procedures Applied in Member States - First report, SEC(92) 280 final

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