Position of Detailhandel Nederland on Green Paper on the future of VAT– Towards a simpler, more robust and efficient VAT system

Detailhandel Nederland, further referred to as Dutch Retail Association, represents the Dutch council for SME-retailers (MKB-Nederland) and of large retailers (Raad Nederlandse Detailhandel).

Registered as interest representative: nr 22232504133-92

Please find hereunder the reaction of the Dutch Retail Association on the consultation of the European Commission on the 'Green Paper on the future of VAT– Towards a simpler, more robust and efficient VAT system'.

<u>Preliminary remarks</u>

Value Added Taxes (VAT) are of great importance for retailers. The level of VAT rates has a direct impact on the demand for products, given that in general an increase in rates has a negative impact on the number of products sold and vice versa. VAT is also of importance from an administrative point of view. Retailers prefer that collection and payment of VAT becomes less complex, burdensome and costly.

In general there is a tendency in the Western world to shift the tax burden from direct to indirect taxation such as VAT. This trend is based on the idea that taxation on income works out more negatively on competitiveness and growth and because of the greying of the population in many Western countries.

Politicians and policymakers are aiming to increase the revenues from VAT. Not many instruments are at their disposal. They could either increase the VAT rates, broaden the tax base so that more products and services are covered by VAT or step up the fight against VAT fraud.

It should be noted that increasing the VAT rates is not only harmful for consumption growth. High VAT rates also tend to stimulate the black economy. At a certain tax level the acceptance to pay diminishes significantly. This will work as an incentive to circumvent paying VAT at all.

Member States should maintain leeway in determining VAT rates

The Dutch Retail Association acknowledges that in an ideal world the European Union would have a uniform VAT system, with harmonized rates. This would be the most simple and convenient. However, such a uniform system would also imply that national governments would lose their freedom to pursue their own tax policy. Given the differences between Member States of the European Union in inter alia competitiveness and budgetary positions of governments, businesses and households, it is at this stage better that countries maintain their freedom to determine their own taylor made VAT policy.

We therefore prefer that for the time being the current European VAT framework remains in place. This means that the standard VAT rate must be at least 15% and the reduced rate at least 5%. This reduced rate only applies to goods and services referred to in an exhaustive list. In addition, certain Member States have retained separate rules in specific areas.

Simplification should ideally start by eliminating the separate rules in specific areas. It would also be recommendable to review the list for reduced rates. We are in favor of putting so called green products and services on the list for reduced rates, given the societal need to stimulate more eco-friendly consumption and production.

<u>Fighting VAT fraud should not needlessly hurt bonafide businesses</u>

An important purpose of the Green Paper is to fight VAT fraud. We support this goal. At the same time we fear that the collection methods as proposed by the European Commission will generate huge administrative burdens and high IT-cost for bona fide businesses, while these methods will not help to avoid fraud.

Take for example the split payment method. This method assumes that the recipient will pay the net amount to the supplier and the VAT amount to a blocked bank account. In practice fraudsters can easily shift from supplier's fraud – not paying output VAT to the tax authorities – to recipient's fraud by not paying input VAT to the blocked bank account. Data warehousing will be no solution. The tax authorities won't have sufficient resources to search through the amount of information received and, even if they would have the resources, will probably be too late to catch fraudsters. Moreover, fraudsters are well aware of all VAT requirements. They will be keen to ensure that the data will show no trace of fraud.

The Dutch Retail Association is therefore opposed to these kinds of IT-solutions to combat VAT fraud. In the end bona fide businesses will have to swallow huge IT-costs for nothing and tax authorities will not be able to find the fraudsters.

The most effective way to combat fraud is to be attentive. This means that tax authorities must know their clients and exchange information with other Member States as well as non-EU countries.

Against this background the Dutch Retail Association believes that a system of certified tax payers will be helpful, but only if the approach by the tax authorities is not too rigid. Businesses have to show that they are in control, but one should avoid that bona fide businesses must spend disproportional amounts of time and money to be in control. The latter is especially important for small and medium sized businesses. This system of so called horizontal monitoring of tax payers has been used in the Netherlands for five years now, and appears to be quite successful.

Scrap superfluous statistical burdens

From the viewpoint of reducing administrative burdens the Dutch Retail Association pleas for removing the obligations for Intrastat/sales listing. Any movements of goods and services between the Member States are already reported through the VAT return. The requirements for providing data for Intrastat are severe and detailed and create high costs for businesses, while collecting the data delivers no added value.

Avoid vague and unworkable VAT rules

Lastly, we would like to point out that it is important that European VAT rules are workable for companies and do not give rise to all kinds of conflicts on how the rules should be interpreted, especially in case of cross-border transactions where different national tax authorities are involved.

Quite often in European regulatory areas where much money is at stake, the Member States press for directives instead of regulations. The latter are binding in their entirety and directly applicable in all Member States. A directive on the other hand requires Member States to achieve a particular result without dictating the means of achieving that result. Directives thus leave Member States some leeway as to the exact rules to be adopted. Not seldom this leads to differences in the way Member States implement directives, which could pose problems in case of cross-border transactions or for businesses operating on a transnational basis. For this reason the Dutch Retail Association urges the European Commission to be keen on those problems and, where necessary, provide guidelines for the Member States to avoid lengthy and costly interpretation struggles for tax authorities, courts and businesses.

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For any questions and/or comments please contact the Brussels office of Detailhandel Nederland at 0032-2-7365830 or send a mail to: hendrikjan.vanoostrum@dedetailhandel.nl