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ACTION PLAN ON VAT: CREATING A SINGLE VAT AREA IN THE EU

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Abstract

The current Value Added Tax system was developed in a transitory and fragmented manner, and it is not able to follow the continuous changes in the global economy, neither in the digital era. Everybody agreed that the tax system needed an urgent reform. On April 2016, the European Commission adopted its Action Plan on Value Added Tax (VAT). The Action Plan on VAT includes proposals to modify the current common system of this tax, and to create a single tax area in the European Union. Besides to modernize and simplify the tax system, other main objectives are to decrease fraud, to reduce tax gap between Member States, to remove the obstacles for e-Commerce, and to simplify workloads for taxpayers, especially for small and medium enterprises. Small and medium enterprises have bigger workloads and costs than large enterprises when they comply with the fragmented and complex current tax system, decreasing their results in competitiveness and innovation. The Action Plan proposes to standardize declarations and a more efficient tax regulation for these enterprises, to encourage their growth and the cross-border trade. The time has come to create a real single VAT area in the European Union and, for that reason, the tax needs to evolve and being renewed, and the Action Plan will be the path.

Keywords: Value Added Tax, European Union, Action Plan, Taxpayer, Small And Medium Enterprises, Tax Fraud

JEL Classifications: H20, H25, G18

1. Introduction

The Value Added Tax (VAT) is a major and growing source of tax revenue in the European Union (EU), it raised slightly more than EUR one trillion in 2015, which corresponds to 7% of Gross Domestic Product of EU or 17.6% of total national tax revenue (Eurostat, 2017). However, the current VAT system was developed in a transitory and fragmented manner, and it is not able to follow the changes in the global economy, neither in the digital era. The current system is too complex for increasing the number of European companies which operate beyond national borders. Besides, VAT fraud has grown, as a consequence of the difference treatment and regulation of internal and cross-borders operations, and because goods and services can be purchased without VAT inside the EU single market. In 2015, the total amount of VAT lost in EU was estimated at EUR 151 billion, which represents a loss of 12% of the total expected VAT revenue and a significant increase over a 10-year period (Center for Social and Economic Research & Institute for Advanced Studies for the European Commission, 2017).

For all these reasons, a VAT reform was mandatory for a tax harmonization in the EU. Finally, the European Commission has decided to create a single VAT area with an ambition Action Plan, to reform the current Council Directive 2006/112/EC, on the common system of VAT, to simplify the VAT system, to fight VAT fraud, to tackle VAT gap, and to reduce the workloads for VAT taxpayers (Council of the European Union, 2006). The reform includes modifying the Mini One-Stop Shop (MOSS) regime; to reformulate the system of taxation of cross-border exchanges inside the EU; to reinforce administrative cooperation between the Tax Administrations of Member States; to modernize and harmonize tax rates, and to modify the VAT system of taxation of small and medium enterprises (SMEs).

The Action Plan will also help to fight the main types of tax fraud, like the missing trader fraud, the carousel fraud and fraud in imports. The measures basically focus on the cooperation of the Member States and the exchange of information between Tax Authorities. The main goal is to create a real single VAT area in the EU, to promote economic growth, investments, competitiveness and a greater employment in all Member States.

2. Background

The Action Plan on VAT was announced in April 2016 by the European Commission with the aim of creating a single VAT area in the EU¹. The plan includes proposals which will modify the current Directive on the common system of VAT (Terra and Kajus, 2018). The preparation of this reform was initiated in December 2010, with the publishing of the *Green Paper on the future of VAT*². This document opened a debate and a critical review between economic operators and European institutions over the current VAT system. Their opinions were unanimous: the reform of VAT system was necessary and priority.

The reform should cover distinct aspects and implementations:

- a. A modification and enlargement of the declaration and payment system called Mini One-Stop Shop (MOSS). Member States are satisfied with the MOSS as they collect higher amounts of VAT than previously. However, a primary point is that the change of place of supply rule that occurred in 2015 (taxation at destination rather than origin) had a major impact on the revenue collected by the respective Member States. Before 2015, only the Member States where the providers were established used to collect VAT from these services. Because most of the businesses in the sector were established in the Member States where the VAT rate was the lowest, it meant that most of the VAT on electronically supplied services used to accrue to a limited number of Member States, those with a low rate of VAT. The Commission proposed new rules³ allowing companies that sell goods online to take care of all their VAT obligations in the EU through a digital online portal called One-Stop Shop, hosted by their own tax administration and in their own language. Broad implementation of MOSS regime depends on the following assumptions:
 - To simplify cross-EU collection of VAT on services sold to consumers in Member States, even if the location of the provider is in a different Member State. Since this modification does not alter the rule of location of services, consumers will continue to have an obligation to identify, declare and pay VAT anywhere in the single VAT implementation area.
 - To streamline of VAT collections on intra-community sales of goods between distant individuals. This new concept would substitute the system of distant sales which was described by Article 34 of the current VAT Directive. It was subjected to thresholds described by each Member State. This new VAT modality also operates within the threshold of 10,000 Euros, after which Member States give the option to taxpayers to

¹ See European Commission (2016).

² See European Commission (2010).

³ See Council of the European Union (2017).

alter the rule of location. This allows for the taxation of distant sales in the Member States where the provider is established.

- To encourage the development of efficient taxation methods for EU companies and their external trading partners. The plan should also implement systems that the external provider can voluntarily apply whenever the value of the transaction is under 150 Euros. For cases in which MOSS regime is not used, and where the value of the transaction is below 150 Euros, the Council Directive 2017/2455 allows for an optional and special VAT import declaration and settlement system. The VAT Action Plan also foresees that possibility of Member States applying nominal tax rates to imports which escape VAT charges, without distinction. The introduction of new regulations should suppress exemptions given to the import of products in small shipments of scarce value, provided by the Council Directive 2009/132/EC⁴.
- b. In October 2017, the Commission tackled the system of taxation of cross-border exchanges inside the EU. The Commission concluded that the current system (in which an Intra-Community delivery of goods is exempt in the origin state of the goods and an Intra-Community acquisition in the state of delivery) is unworkably complex for increasing number of companies that operate to cross-border scale. The Commission affirmed that cross-border exchanges were one of the greatest sources of fraud in VAT.
- c. For that reason, on January 2019, the Commission proposes to create the figure of the certified taxpayer, which is a requirement for some norms of simplification and, particularly, for some of the fast solutions to the concrete problems detected in the current system included in Council proposals. These measures taken together will become the main basis for the definitive VAT regime for cross-border trade within the EU. The overriding principle of taxation based on the *final destination of goods* will apply.
- d. In November 2017, another group of measures was adopted to reinforce administrative cooperation between the Tax Administrations of Member States, and to equip them with better tools to fight fraud. According to this proposal, the greater part of these measures will begin to apply from January 1, 2019, and the remainder from January 2020 or 2021. These measures have a narrow relation to others adopted by EU, not mentioned in the Plan Action on VAT, including those which are in the jurisdiction of the European Prosecutor in the fight against tax fraud.
- e. Between December 2017 and January 2018, the Commission adopted two other proposals to modernize tax rates in the EU. The first option makes permanent the temporary rate of 15% on January 1, 2019. In addition, the second option harmonizes the application of tax rates in the EU, while simultaneously allows Member States a greater leeway when adopting taxation schedules and rules. The first option outlined to keep the minimum of 15% for the standard rate. The minimum standard VAT rate of 15% would be maintained. The list of goods and services that can benefit from the application of a reduced rate would be reviewed in the context of the transition to the definitive system and then at regular intervals, in particular taking account of political priorities. Member States would be able to submit to the Commission their views on the needs for adjustment.

The Commission, with the support of the Member States, would analyze whether such changes would pose any risk to the functioning of the single market or distort competition, and would report its findings before any change. Under this option, all currently existing reduced rates, including derogations, legally applied in Member States would be maintained and could be included in the list of optional reduced rates available to all Member States, ensuring equal treatment. The second option outlined by the Plan consists of replacing the minimum of 15% for the standard rate by safeguards. The most ambitious approach in terms of granting Member

⁴ See Council of the European Union (2009).

States greater rate-setting power would be to abolish the list and allow them greater freedom on the number of reduced rates and their level. This option would require safeguards to be put in place to avoid unfair tax competition within the single market, while also guaranteeing legal certainty and reducing compliance costs. Also, under this option, all currently existing reduced rates, including derogations, legally applied in Member States would be maintained, the possibility to apply them could be made available to all Member States. The minimum standard VAT rate would be removed.

- a. In January 2018, the Commission proposed to modify the VAT system of taxation of small and medium enterprises. Those measures will simplify system and will apply more uniform rules to this crucial economic trading section. The application for this modification proposes their implementation in July 1, 2022.
- b. On May 25, 2018, the Commission approved its proposal of development of the definite principles of VAT system, collected in the Article 402 of the Proposal of October 2017. The principles are:
 - Taxing at destination.
 - Charge of VAT in the intra-community delivery of goods, except if the acquirer was a certificated VAT taxpayer.
 - The Mini One-Stop Shop system, including the possible deduction of input VAT.

This proposal of modification affects many articles, including:

- The change of the rule of location in the intra-community delivery of goods (although there are not changes for rules of location about services): they will not be an exempt delivery and a subject acquisition to be considered an alone operation, a delivery whose place of location will be the one of arrival of the transport.
- The Mini One-Stop-Shop, about the application of registration and turnover rules of the Member State of identification.
- The minor change of the word 'Community' for 'European Union'.

The Action Plan on VAT has the wide support of EU institutions. President Juncker has urged its early adoption in his State of the Union Speech on September 13, 2017 (Juncker, 2017). Specific proposals on EU-wide VAT implementation will require the drafting of complex interlocking legislation that gains legislative approval in Brussels and among the majority of EU Member States.

3. Action steps to VAT reform

The main Action Plan requirements are:

- VAT application by companies must be simplified. The overview of the EU VAT by Hellerstein and Gillis (2010) is simple but descriptive: "The first thing to say about the EU VAT is that there is no EU VAT. To be sure, EU law requires that every member state adopt a VAT; the VATs adopted by EU and member states must conform to EU norms; and a portion of member state VAT revenues inures to the benefit of the EU. Nevertheless, each EU member state has its own national VAT with many of its own rules and so-called "derogations" from the EU standard; each EU member state has its own tax administration and registration thresholds; and at least for now, each EU member state generally keeps the net VAT revenue it collects, without any obligation to share VAT revenues with other member states". The costs of fulfilment are higher in the European market than other internal markets, being too complex, and that supposes a big workload for companies, which has a negative impact to their profit margins, especially in the case of the Small and Medium Enterprises.

- VAT system needs to be more efficient (De la Feria, 2009 and Hodzic, 2017). It is imperative to use the new technologies to improve the processes of application of VAT, and to find how they can help to reduce the tax collection costs. In the era of new technologies, comply with tax obligations should be easier, faster and more secure.
- VAT reform requires cooperation between Member States. The Member states do not make sufficient use of the new possibilities thus provided and the level of the use of the administrative cooperation arrangements is not in keeping with the magnitude of intra-Community trade (European Commission, 2006). As regards VAT, given that rapid access to information is crucial in combating fraud, more efficient methods of exchanging information, taking account of recent technological developments and the equipment used by traders, should be envisaged. The success of the VAT reform requires cooperation between national Tax Administrations and the European institutions. Effective communication plans and realistic deployment timelines are essentials in any VAT reform.
- VAT reform also requires confidence relations between taxpayers and their national Tax Administrations. Only if the taxpayers trust in their Tax Authorities, they will cooperate and contribute more easily.
- VAT fraud must be combated. Every year, thousands of millions of Euros are not collected because of fraud (Barbone *et al.* 2017). The Action Plan proposes several actions to fight VAT evasion (Gradeva, 2014). This question is very important for the Member States most affected by fraud. Certainly, some of these states have implemented temporary regulations to reverse charge transactions. The Council Directive 2006/112/EC was amended with two new articles, 199a and 199b, allowing Member States to quickly react to cases of massive fraud, in particular carousel fraud (Council of the European Union, 2013):
 - The article 199a offers an option to apply the reverse charge mechanism on a temporary basis in specific sectors: mobile phones, integrated circuit devices, supplies of gas and electricity, telecoms services, game consoles, tablet PCs and laptops, cereals and industrial crops, and raw and semi- finished metals.
 - The article 199b offers a faster procedure for the introduction of the reverse charge mechanism as a Quick Reaction Mechanism ('QRM') in order to combat sudden and massive fraud liable to lead to considerable and irreparable financial losses.The Commission accepts these temporary regulations and allows the reverse-charge transactions in order to better prevent VAT fraud (Terra, 2015 and Michalik, 2017), assuming these short-term measures will not distort too much the correct operation of the internal market.

4. The creation of a single VAT area in the EU

The Action Plan on VAT is crucial for the implementation of a single European area for VAT. The plan sets distinct measures to simplify workloads for Small and Medium Enterprises, to tackle VAT gap, to establish the principle of taxation in the country of destination or "destination principle", to reduce obstacles for e-Commerce and to combat VAT fraud on importation of goods between Member States. The measures are:

- a. To simplify workloads and costs for Small and Medium Enterprises.

SMEs face higher proportional costs than large enterprises when complying with the current fragmented and complex European VAT System, this causes them a loss of competitiveness and affects their operating results. The Action Plan proposes standardizing declarations and a more efficient VAT regulation for SMEs, to promote cross-border trade for this essential economic sector. The objective is to reduce the complexities and to modernize the system in order to foster the e-Commerce SMEs.

In 2021, specific measures will be introduced to help SMEs in some current troubles:

- To establish a new threshold of 10,000 Euros for operations located inside the EU borders for intra-community distant sales (Wille, 2018). If this threshold is surpassed, the provider will charge the VAT to customers using their effective Member State tax rate.
 - To explore voluntary implementations of the Mini One-Stop Shop when SMEs sell direct to on retail customers. SMEs also may have the opportunity to digitize all their sales of goods and services, physically and digitally, streamlining VAT collection processes within the Tax Administrations. (This is important, in particular for businesses in the e-Commerce sector, because they will be able to use the extended One-Stop Shop. The cost reduction will be strongest, proportionally, for SMEs.)
 - When SMEs sell products and services outside the European Union, current procedures deny the exemption of import duties for small shipments whose value does not exceed of 22 Euros. This requirement is established in article 34 of the current VAT Directive. This is a complicated and expensive practice, and one that is not frequently practiced.
 - The growing retail sales from huge e-Commerce platforms (like Amazon, eBay or Walmart) are a worldwide phenomenon. European SMEs are exporting product directly to these platforms, and these platforms are selling directly into the European Union. Then, they have VAT obligations even when they are located outside of the EU. VAT must be collected by these platforms when shipments are ordered outside of the EU to customers inside the EU, and their price is below 150 Euros; or when the delivery of the good is made by a warehouse situated inside the Union, but the provider is not.
 - Further considered activities will consist of the streamlining of country checks, including a single audit of cross-border businesses (Lamensch, 2018), and the removal of the exemption for imports of small consignments from non-EU suppliers.
- b. To tackle VAT gap.

The Action Plan facilitates actions to reduce the VAT gap:

- Reducing bureaucratic workloads for cross-border companies. The plan proposes more effective tax administration models among Member States by reducing the bureaucratic workloads for taxpayers.
 - Introducing new and simple mechanisms for resolving conflicts. The plan prioritizes voluntary fulfilment between companies and Tax Authorities, including procedures for disputes and mechanisms of resolution under the auspices of European authorities.
 - Taxing business-to-business (B2B) suppliers of goods within the EU in the same way as domestic suppliers. The evaluation of the VAT system carried out in 2011 found that the application of the destination principle to the tax regime for B2B trade in goods achieved neutrality towards production decisions, and it identified some potential distortions in the areas where the destination principle is not implemented (Institute for Fiscal Studies, 2011). This will assure consistent treatment of domestic and cross-border supplies along the entire chain of a production and distribution, and re-establish the basic features of the VAT.
 - Improving cooperation between Tax Administrations. The plan suggests ways to improve levels of cooperation between Member States and their external trading partners, based on the implementation of advanced information sharing models.
- c. To establish the principle of taxation in the country of destination.

The VAT system has some problems in front of the new business models of the digital era, because the type of VAT can be different depending if the good or service is physical or digital. The change in the destination principle could resolve many of these problems. The development of this principle should effectively be applied to supplies to taxable as well as non-taxable persons, since such treatment better follows the principle of VAT neutrality (Westberg, 2014).

d. To reduce obstacles for e-Commerce.

- The Commission proposes to simplify and modernize VAT with applications of e-Commerce technology⁵:
- Extending the Mini One-Stop Shop to direct online sales of tangible goods, simplifying workloads and reducing costs.
- Simplifying VAT regulation for e-Commerce, facilitating electronic transactions.
- Deleting VAT exemptions, for small imports, to providers located outside of the European Union, to finish the temptation to avoid the tax.
- Introducing Tax checking VAT in the countries of residence, including unified inspections, for cross-border businesses, to improve the tasks of Tax Administrations.

e. To combat VAT fraud on importation of goods between Member States,

This is very important for those Member States most affected by VAT fraud. An important number of these states asked permission to implement temporary measures to reverse charge transactions, even though this measure contradicts one of the general principles of the current VAT Directive. The Commission recognized the need for effective and practical short-term solutions for VAT fraud by allowing temporary reverse-charge transactions, assuming that they do not disproportionately distort correct operations of the single market.

The Action Plan proposes measures to fight against structural fraud implementing some actions:

- Member State of destination will have to inform if the VAT customer number has been used by the importer without the customer's knowledge.
- Tax Authorities will have to verify customs information and detect irregularities at time of import.
- Customs Authorities will have to access to the VAT Information Exchange System (VIES) in some customs procedures, so the country of import can be quickly aware about exports reported in others Member States but not in its own system. As Keen and Smith (2006) explains, the European Union maintains a VAT Information Exchange System (VIES) that enables exporters to verify that their customer in another member state is registered for VAT (thus entitling them to zero-rating), and can be used to track transactions (checking that exports reported in one member state as going to another duly turn up as imports in the latter). But the lags involved in the latter function are currently such that the system is seen as more useful for ex-post assessment of the extent of fraud than its ex-ante prevention.

In 2027, after the implementation of the legislative changes of the new VAT system, an evaluation will be made to lead to the full implementation of the definitive VAT system. It is expected that the taxation of cross-border services will be harmonized with the taxation of the cross-border supply of goods, which means all supply of goods and services, either domestic or cross-border, will be treated in a harmonized way.

5. The Action Plan solutions to specific types of VAT fraud

There are some types of VAT fraud (Fedeli and Forte, 2011), and the Action Plan proposes specific solutions for the following types of cases:

a. Cases of missing trader fraud.

⁵ See European Union VAT Forum (2018).

Missing trader fraud occurs when a shell company does not pay VAT on imported goods to their national tax administration and finally disappears. Then, VAT on the imported goods is charged-back to the provider. Company's profit is generated as a result of the disappearance of the shell company, because it receives and keeps the total amount of VAT instead of the Tax Administration (Sokanovic, 2017). If business-to-business intra-Community acquisitions are considered as taxable transactions, such intra-Community supplies are VAT free. They are zero-rated, which means that the supplier is entitled to a VAT deduction or a refund of input VAT in the 'exporting' Member State. The intention of zero rates is to safeguard the principle of taxation in the country of destination. The intra-Community supplier can therefore deduct or claim a refund of the amount of his input VAT regarding the supplied goods in the country of origin. In the country of destination, the acquirer is obliged to self-account the amount of VAT on that transaction (Podlipnik, 2012).

The Action Plan proposes to set a definitive VAT system where supplies will be taxed in the country of destination, and also to improve the exchange of information between Tax Administrations to prevent fraud.

b. Cases of carousel fraud.

The Carousel fraud goes further than missing trader fraud. In this case, the same goods can be bought and resold by the same company several times through shell companies. The amount of charged VAT increases with every transaction and finally the company disappears, or declares its insolvency, before the obligation to pay the total charged VAT to the Tax Administration⁶. Carousel fraud is a more complex variation of missing trader fraud. It happens when a group of companies sell the same goods or services in a circle to achieve an illegal 'profit' by repeating the missing trader modus operandi over and over again. The main difference between missing trader and carousel fraud is therefore that goods or tradable services eventually make their way back to the original seller, completing the loop, thus the term 'carousel' (Durner and Sedon, 2010). Carousel fraud is committed by very well organized criminal groups, with international connections. Borselli *et al.* (2015) affirm that the criminal organizations provide a lawful appearance to the operations, and they conceive and execute commercial activities related to fictional goods and services, but they are only instrumental to the pursuit of the illicit object.

Besides applying destination principle as a definitive system, the Action Plan also proposes to consolidate the exchange of information and to promote cooperation between Tax Authorities to investigate fraud activities. In opinion of Borselli *et al.* (2015), with services and intangible rights often bought and sold over the Internet, the risk of detection or intervention is greatly reduced and it is more difficult to trace both the subjects involved and their place of activity. In these contexts, the adoption of new technologies to trace the way VAT is collected and monitored can represent an effective anti-carousel fraud measure to be implemented quickly and uniformly.

c. Cases of importation of goods from outside the EU.

Goods that arrive from outside the European Union with a final destination of one Member State can transit through one or more Member States without paying VAT, because VAT is only paid to the Member State of the last destination. This process is described in the customs procedures numbers 42 and 63⁷ but, in practice, these procedures are often abused with a

⁶ The European Court of Auditors estimates that carousel fraud generates between EUR 40 and 60 billion of losses in VAT revenues every year. They also estimated that 2% of criminal groups involved are responsible for 80% of carousel fraud. See the Special Report No. 24, Tackling intra-Community VAT fraud: More action needed (ECA, 2015).

⁷ Customs procedures No. 42 (CP42) is governed by Article 143(1) of the current VAT Directive. Under CP42, the importer obtains a VAT exemption when the imported goods are intended to be eventually transported to a business customer in another Member State than the Member State of importation. When this procedure applies, the VAT is only due in the Member State of destination by the purchaser, under

combination of tricks such as under-evaluation of the value of imported goods to evade customs duties. This system makes trade easier for honest companies, but it also can be used to put products into the black market and to avoid the payment of VAT altogether. Regarding this type of fraud, the main issues are:

- The absence of effective cross-checks between customs and tax data in most of the Member States.
- Issues with the accuracy, completeness and timeliness of data despite the existence of tools allowing sharing of VAT information between Member States.
- The lack of cooperation and an overlap of powers between administrative, judicial and law enforcement authorities (Sokolovska, 2016).

At present time, to identify this type of fraud is very difficult for Tax Authorities. The situation is further aggravated for the lack of real-time information controls into simultaneous document management for importing and exporting between Member States. In addition, imported goods may not have appropriate documentation attached, especially in cumbersome and prolonged clearance processes. In these cases, fraud can be realized fast and easy⁸.

The Action Plan proposes that Tax Authorities effectively share information on imported goods from outside the UE as outlined in customs procedures 42 and 63. The pertinent information on products will have to be submitted electronically in customs, and it will be shared by Member State of import with the Tax Authorities in the Member State of destination for verifying content consistency and detecting potential fraud. The Action Plan also proposes measures to utilize current document management and exchange technologies to combat VAT fraud on imported goods (Ainsworth, 2010), with the following tactics:

- The Member State of destination has to inform to Member State of import if the VAT customer number has been used by the importer without customer's knowledge.
- Tax Authorities have to cross-check the customs information with the VAT recapitulative statements and to detect undervaluation at the moment of import, designed to avoid customs duties.
- Using an automated access to the VAT Information Exchange System (VIES) by Customs Authorities, responsible for checking the conditions for VAT exemption as it is outlined in customs procedures 42 and 63.

d. Cases in the sale of second-hand cars.

Trading in cars can be particularly suspect to VAT fraud because there are important differences in how VAT is applied to new or used cars. New vehicles, for which the whole amount is taxable, can be sold as second-hand goods for which only the profit margin is subject to VAT. The cars can then be sold on without the VAT being paid on the whole price to the Tax Administrations in other Member States. This kind of fraud has been taking place for years and has profoundly altered the level playing field between honest businesses and fraudsters in this sector. Currently, Member States face difficulties when they have suspicions about specific vehicles and they do not know which Member State should be made aware. This may delay action, hampering the ability of the Member State receiving the car to react quickly. This type of fraud, which mostly concerns B2C transactions, could be classified in three forms:

- The fraudsters (mainly via shell companies) buy luxury registered cars abroad (VAT-free) and sell them into another Member State at a more competitive price (directly to final consumers or via "linked" companies). Fake invoices are used to convince the VAT administration that VAT has already been applied.

reverse charge. A separate procedure applies customs procedure 63 (CP63) in the case of a reimportation followed by an intra-Community supply.

⁸ The scale of the fraud related to CP42 has grown with the development of e-Commerce. ECA (2011) detected the extrapolated amount of the losses in 2009 was approximately EUR 2.200 million, of which 1.800 million were incurred in the seven selected Member States and 400 million in the 21 Member States of destination of the imported goods in the sample. That represented 29% of the VAT theoretically applicable on the taxable amount of all the imports made under CP42 in 2009 in those seven EU Member States.

- The fraudster sells new or nearly-new cars (for which the whole amount is taxable) as second-hand goods (for which only the margin is taxable).
- Expensive cars are sold to disabled persons (without VAT) and immediately flipped to third parties (this type of fraud seems particularly widespread in the UK) (Lamensch and Ceci, 2018). (The types of fraud in the car market are also studied by Ainsworth (2007), especially in the UK.).

The registration in Europe of vehicle is organized nationally. Due to the free flow of persons and goods within the EU, these tasks can be performed less and less in isolation. For instance, when a vehicle has to be registered, it has to be determined first whether this vehicle is not recorded as stolen elsewhere. Without this information, a national registration authority may unwillingly legalize vehicles that have been stolen in other countries. The Action Plan proposes all the Tax Authorities can access to the existing information contained in the national registers of cars using EUCARIS⁹, the European Car and Driving License Information System, to identify fraud in the used car market as quickly as possible. This measure will allow Tax Administrations to increase their capacities to react faster to suspicious used car purchases.

All these measures will have a significant effect on how the Member States exchange information about the cross-border VAT. They allow to consolidate the exchange of information between Tax Administrations on fraudulent international operations, in order to facilitate the investigations of suspicious activities. The Member States will be able to audit and study together cross-border exchange activity when real-time alerts detect presumed fraudulent transactions, and also alert other Member States' Tax Administrations when revenue losses in VAT are suspected. Once implemented, there will be established a mechanism with which Member States will be able to process and inspect data on VAT fraud through the Eurofisc¹⁰, a network developed and maintained by experts from different Member States.

On November 2017, the Commission proposed new rules¹¹ on administrative cooperation between Member States' Tax Administrations in order to fight VAT fraud more efficiently. These proposed measures should:

- improve the exchange of information between Member States' Tax Administrations and the coordination of their actions, including joint audits.
- initiate an operational cooperation between Member States' Tax Administrations in Eurofisc and law enforcement authorities at EU level.

Finally, on December 2018, the Commission proposed two new measures which would help to establish better cooperation between tax authorities and Payment Service Providers such as credit card and direct debit providers:

⁹ EUCARIS was an initiative of several European countries, formalized by the commonly referred as the *Prüm Decision*, focused on the data-exchange regarding vehicle registration, driving licenses, and the accompanying personal data (See Council of the European Union, 2008). Its purpose was to create one single network within the EU area of road transport by connecting national registration authorities, as a national hub, and to prevent expensive investment in several parallel networks.

¹⁰ Eurofisc was established with the objective to promote and facilitate multilateral cooperation in the fight against VAT fraud (See Council of the European Union, 2010). It functions as an early warning system: Eurofisc liaison officers communicate information regarding suspicious activities on businesses suspected of being involved in VAT fraud. There are five working fields within Eurofisc that each focus on a specific type of fraud:

- Working Field 1: Missing Trader fraud/Carousel fraud.
- Working Field 2: Cars, boats and planes.
- Working Field 3: Abuse of CP42.
- Working Field 4: VAT Observatory: identifies and examines new risks, trends, and fraud developments.
- Working Field 5: e-Commerce.

Member States manage Eurofisc, but they can decide in which working field to participate. See more in Eurofisc (2008).

¹¹ See European Commission (2017).

- Proposal for a Council Regulation¹² amending Council Directive 2006/112/EC, as regards introducing certain requirements for payment service providers. This proposal complements the current VAT regulatory framework as recently modified by the VAT E-commerce Directive in the context of the Commission's Digital Single Market Strategy. Furthermore, this initiative strengthens the administrative cooperation framework to better tackle e-commerce VAT fraud and restore fair competition.
- Proposal for a Council Regulation¹³ amending Regulation (EU) No. 904/2010, as regards measures to strengthen administrative cooperation in order to combat VAT fraud. This proposal lays down rules for the Member States to collect in a harmonized way the records made electronically available by the payment service providers pursuant to Article 243(b) of the VAT Directive. Furthermore, the proposal sets up a new central electronic system for the storage of the payment information and for the further processing of this information by anti-fraud officials in the Member States within the Eurofisc framework.

All of these initiatives are part of the taxation package for the creation of a single VAT area in the EU. It aims at tackling cross-border VAT fraud by implementing the Council and European Court of Auditors recommendations, and drastically and swiftly improving how Member States' Tax Administrations cooperate.

6. Conclusions

Everyone agrees the VAT system has to evolve and renew, and it is really necessary to create a real single VAT area in the EU, but simply adding new obligations and bureaucratic controls will not be a viable long-term solution. The current European VAT system is also fragmented and too complex because Member States have different regulations and tax rates. Besides, it also has difficulties with the new business models of the digital era, because differences in the types of VAT, which categorize physical and digital goods and services, do not fully reflect current realities.

VAT fraudsters operate increasingly cross border, and the total amount of VAT not collected in EU because fraud is absolutely unacceptable. The Action Plan on VAT provides the steps to create a single VAT area in the EU. The Plan establishes a set of actions to harmonize regulations and tax rates; to simplify and reduce workloads for taxpayers, especially SMEs; to tackle VAT gap; to allow the VAT system to adapt to the digital economy, and to fight VAT fraud.

The principle of taxation in the country of destination will be established for achieving a successful implementation of a single VAT area. This means that the current tax rule, which establishes VAT is directly collected by supplier from the customer, will expand to cross-border transactions. E-Commerce companies will be able to reduce the number of VAT registration by enrolling in the MOSS regime.

The cooperation between Tax Administrations will increase by implementing faster exchange information mechanisms, providing real-time databases, which will reduce deadlines and bureaucracy, and will strengthen the fight against VAT fraud. With the Action Plan measures, most of the current VAT system problems would be solved, and VAT fraud would be largely reduced. Therefore, to create a single VAT area in the EU is the challenge to be achieved in the coming years.

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¹² See European Commission (2018a).

¹³ See European Commission (2018b).

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