

THE AGN EUROPEAN REGION -- 2004 Survey of Value Added Taxes (VAT) --

Introduction

With 10 new countries becoming members of the EU the comparison of VAT regimes within Europe becomes even more of an EU exercise.

In relation to the EU there should in theory be very few differences. In practice there are still a significant number of variations presenting traps for the unwary.

With regard to those countries that are not EU members it is tempting to assume that they will have a VAT system similar to the EU model. In the main, however, they tailor the rules to suit their local circumstances and in the process create some interesting opportunities in relation to cross border planning.

Summary

Within the EU all member states comply with the requirement to have a standard rate between 15% and 25% other than those territories, such as Madeira, that currently operate a derogation enabling special treatment.

Whereas the non EU countries demonstrate their freedom by having standard rates ranging from 7.6% to 24%, and reduced rates ranging from 2.4% to 12%.

The EU countries should in theory have reduced rates no lower than 5% but the efforts of the European Commission to achieve harmonisation in this area are not succeeding as the continuation of the super reduced rates within countries like the UK and Italy adequately demonstrates.

In relation to VAT registration thresholds, within the EU, the UK, with a threshold of EUR 87,000, continues to be out of step with everyone else by operating a threshold that is considerably higher than the norm. However, it is interesting to note that some of the new members appear to be following the lead of the UK. For example the Czech Republic has a registration threshold of EUR 60,600.

The availability of VAT grouping is quite widespread with a 50/50 split between those countries that allow it and those that do not.

Invoicing requirements are fairly similar across the board although it is interesting to note that some countries, such as Germany, do not set a time limit within which a VAT invoice must be issued to a customer.

The biggest area of difference between EU and non EU countries relates to the availability of VAT refunds. This is compulsory within the EU but seems to be regarded as an undesirable optional extra by non EU countries.

The reverse charge, or tax shift mechanism, is now extremely common which will make it even easier for the European Commission to follow through on its plans to make use of this even more widespread.

VAT return filing is an area where EU countries have almost complete freedom. The difference in attitude can be quite marked with only one or two countries allowing an extension of the time limit for filing of VAT returns.



There are also quite a few countries that require the filing of some form of annual statement in addition to the regular monthly, bi-monthly or quarterly VAT returns.

There are also some significant differences in the amount of time allowed for filing of VAT returns with time limits ranging from 10 to 45 days.

CONCLUSION

This survey can only ever hope to provide a flavour of the VAT systems around Europe and try to highlight the main areas of difference.

Cross border trading continues to be an area of difficulty particularly for small and medium sized businesses that lack the resources needed to assess when they need advice. Yet the taking of good timely advice can be the difference between making a profit on a project or suffering a heavy loss. So our aim is to work towards providing you with a tool that can highlight those areas where the rules are sufficiently different to be hazardous to profit.