

THE AGN EUROPEAN REGION -- 2007 VAT Survey--

AGN International is an association of separate and independent accounting and consulting firms, represented in 83 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys of corporate taxes, parent companies, corporate, value added (VAT), salary and social security and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons from year to year and from country to country and give an insight into trends.

Introduction: It is recognised that the attitude of business towards taxation has always been to regard it as simply another cost. So like any other item of expenditure business will try to control and minimise taxation. This was not always the case for VAT which was, in its earlier years, almost completely ignored because it was not considered to be a cost and therefore did not require minimisation or control.

This was partly because business accounting records are compiled on a VAT exclusive basis and irrecoverable VAT was generally hidden from view. In addition costs of compliance were relatively small as VAT was simply a small additional burden placed on existing accounts staff. So for a long time it was not obvious that VAT was a potentially large cost to business.

However the continuing trend towards complexity and ever increasing rates of VAT have led to a recognition by all businesses that VAT can become an enormous drain on resources for two main reasons:

1. The cost of complying with VAT regulations can be extremely high and the cost of getting things wrong is potentially extremely damaging; and
2. More and more businesses are faced with the prospect that not all VAT incurred on business expenses is recoverable.

The objective of the annual VAT survey attempts to identify and compare key aspects of the VAT rates and systems in place across Europe including the recovery of VAT by a company established in one European country from all other European countries. By so doing it is hoped to provide a useful tool to help business control the ever spiralling cost of VAT.

Countries Covered: The 2007 survey covers 31 countries (27 members of the EU as well as Croatia, Isle of Man, Russia and Switzerland).



Results of the 2007 Survey

VAT Rates: From this it can be seen that there is a wide variation in rates of VAT across Europe which can be a hidden source of VAT cost to business. Firstly, a high standard rate will result in a heavy cost for any business unable to fully recover VAT or which incurs high expenditure on items for which VAT recovery is specifically blocked. Secondly, the existence of so many rates adds to complexity and pushes up compliance costs. This will be a particular problem for any business looking to expand into other countries.

Registration Thresholds: The wide variation in VAT registration thresholds is another indicator of potential complexity and a trap for the unwary business involved only periodically in cross border transactions.

Reporting Requirements: Any business that is looking to establish in another jurisdiction the confusing array of VAT reporting requirements can cause a major compliance headache and add to costs. This is particularly highlighted by the many and varied reporting periods and timescales. In theory compliance costs within the EU should be lower due to the existence of the Single Market. However, although the introduction of the Single Market regulations happened 15 years ago the VAT rules in the EU are a long way from being harmonised. As a result international business is just as costly in the EU as elsewhere.

CONCLUSION:

The main conclusions from the 2007 VAT Survey are therefore:

1. Never assume that the VAT system in another country is in any way similar to your own; and
2. Always beware of VAT.

So it is advisable to check out the VAT implications of a transaction before rather than after the event.

Before taking or refraining from action in relation to the above, specific professional advice should be taken.

Full details of the AGN surveys, including a chart comparing the countries surveyed, can be downloaded from the internet at www.agn-europe.org Our Organisation Latest-Tax Surveys