



THE SECRETARY GENERAL

European Commission
DG Taxation and Customs Union
Mr. Donato Raponi
B-1049 Brussels

BELGIUM

February 23, 2016

Dear Mr. Raponi,

Thank you for giving us the opportunity to comment on the European Commission's VAT Action Plan. SME Groups Germany is a business association of about 320 groups with 218,000 businesses, located mainly in Germany and its neighboring countries. Representing small and medium enterprises with significant cross-border activities, we strongly welcome the Commission's efforts to facilitate the VAT processing for firms with sales in multiple EU jurisdictions. We ask the European Commission to further pursue a strategy of lowering bureaucratic hurdles for intra-European trade. Such policy can contribute to deeper market integration and will improve small and medium enterprises' capability to thrive in EU markets.

To minimize distortions from taxation and safeguard a level playing field across the common market, SME Groups Germany wants the VAT Action Plan to embrace the following aspects:

A) Facilitate Tax Administration Effectively

- 1.) SME Groups Germany advocates a fair competition among national tax regimes. We urge the European Commission to apply all its options to push for a stronger harmonization of the VAT bases in the Member States. In particular, we ask the Commission to provide binding guidelines for national tax administrations on how to categorize transactions with respect to the applied VAT rate. Under a reformed system, both tax debtors and the tax administration must be able to determine without large efforts whether a transaction falls under the regular, a reduced, or a zero VAT rate. More harmonized tax bases ease the administrative burden for companies with cross-border transactions; harmonization also cuts the leeway in interpreting the VAT codes in other Member States.



Such binding guidelines would decrease the costs of compliance as well as minimize the number of legal disputes.

- 2.) Unified VAT filing schemes, reporting requirements, and deadlines can further lower bureaucracy. EU-wide, there are currently about 500 different filing systems in place. SME Groups Germany urges the Commission to dismantle the administrative complexity in the existing VAT systems for small and medium enterprises.

B) Enforce Taxation and Promote Tax Justice

- 3.) If a Member State collects the VAT on behalf of another, there must be an economic incentive for the collecting state. Otherwise, taxation of cross-border transactions might suffer from a lack of enforcement. Especially in times where e-commerce is growing fast across the European Union, the VAT Action Plan must prevent firms from avoiding the VAT at all. Next to lost government revenues, a dysfunctional VAT regime could create a market bias in favor of suppliers based in other Member States over local businesses. For instance, a revenue sharing between Member States affected by a specific transaction would represent the simplest incentive structure. We ask the Commission to provide a detailed plan on how the VAT Action Plan will compensate Member States for administrative services related to EU-wide VAT enforcement.
- 4.) In addition, the European Commission must present reliable governance standards and check EU-wide VAT collection systems in national tax administrations. All governance standards must be legally binding, clear, and transparent to all Member States' tax administrations. In any case, governance standards must allow the Commission to sue a Member State in case of non-compliance with predefined minimum criteria. The Commission must have the option of filing for treaty infringement as a last resort. Only with a satisfying degree of reliability among national tax collectors, the VAT Action Plan will be sustainable. Thus, governance standards enforced by the European Commission can improve the functioning of a common market with a level playing field. We ask the Commission to explain how it seeks to monitor and enable tax enforcement for cross-border transactions.

We hope you will find our contributions to the debate on the VAT Action Plan useful. Should you have any questions, please do not hesitate to contact us.

Respectfully yours,



Dr. Ludwig Veltmann

Secretary General