

Fundamental changes to the EU VAT regime (EC Directive 2008/8/EC)

The current VAT system is in need of modernisation to accommodate new ways of doing business (e-commerce etc) which were not originally advised when the EC6th VAT Directive was first drafted. The following represents only a brief overview of the framework of proposed changes to be made to the VAT system.

There is a desire to move taxation to member state where services "consumed".

Proposals being discussed cover four areas:

1. Place of supply of business to business (B2B) services (to change 2010)

B2B supplies will all move to the place where the customer is established, subject to "use and enjoyment" rules to avoid double taxation or no taxation – this could lead to confusion, BUT there will be exceptions for; services related to immovable property, cultural, artistic, sporting, scientific, educational, entertainment services passenger transport where there is no change.

In practice there are unlikely to be too many changes since existing simplification rules often allow for a "tax shift" to the customer's member state.

Supplies related to work on goods (no need to remove), hire of transport (where used by customer), and intermediary services (where customer is established) will see change.

Potential problems

- The VAT liability on non Schedule 5 services will be shifted to the member state of the customer under the reverse charge rules, so the services will potentially be subject to a different local VAT rate to that currently applicable.
- Use of the reverse charge may cause partial exemption issues

2. Reporting requirements (to change 2010)

Monthly EC Sales lists will be extended from goods to cover EC services also.

This will result in a major increase in administrative burden and affected firms will need to reconfigure their accounting systems as a matter of urgency.

3. Services supplied electronically eg. telecoms, broadcasting etc (to change 2015)

Telcoms, broadcasting and electronically supplied services from 2015 will be supplied where the customer resides (change for business to consumer). This includes transmission, emission and reception of signals, audio and video signals, and services supplied using the internet or similar.

Note

The existing special scheme for non-EU suppliers to register in a single member state will be extended from 2010 to include non-EU suppliers of telecoms and broadcasting.

The existing special registration scheme for non-EU suppliers is to be amended to try to simplify VAT accounting.

4. EC 8th Directive refunds (to change 2010)

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The present paper based system for EC8th Directive claims is to be replaced by an electronic claims procedure subject to tighter time limits for the relevant tax authorities.

A common European system will also be introduced enabling all EU wide claims to be submitted by an agent in any member state.