European Union

Ine Lejeune

Never Waste a Good Crisis: Turning the EU VAT System into a Win-Win-Win

After the current COVID-19, crisis the contribution of VAT to the EU Member States' budget will be crucial. Maximizing the collection of VAT at the lowest cost of compliance for businesses will be key, although it might not be enough to finance the recovery. So why just focus on burden reduction and the definitive VAT system? Let us instead take a strategic long-term approach and redesign the EU VAT system into a best practice, taking a holistic approach: a win-win-win for all stakeholders.

1. Introduction

When reading the Mission Letter that Commissioner Gentiloni received from Ms Von der Leyen, the President of the EU Commission, together with the European Commission' s 2020 Work Programme,[1] one can conclude that "simple and better targeted regulation" (including the "one in, one out" principle),[2] burden reduction,[3] enforcing the single market also for small and medium-sized enterprises (SMEs),[4] respecting the principles of proportionality and subsidiarity and showing the benefit of European action are some of the main targets of the new European Commission in the area of taxation. Is this "the" opportunity to turn the EU VAT system into a best practice VAT: broad based, simple, neutral … with common EU obligations and enforcement?[5]

Unfortunately, VAT is only once mentioned in the Mission Letter to the Commissioner, in the paragraph on fraud. Why is this problematic and worrying?

Because there are more than 35 million taxable persons (i.e. "unpaid tax collectors" as also recognized by the Court of Justice of the European Union (ECJ))[6] in the European Union.[7] A small minority of criminals is attacking the system and destroying the level playing field in the single market to the detriment of legitimate traders. Every year the Commission presents its VAT gap report,[8] which seeks to determine the amounts of VAT loss on account of lack of compliance, ranging from negligence, omissions, non-deliberate errors, differences in interpretation, lack of knowledge and insolvencies to deliberate actions such as tax fraud, tax evasion and tax avoidance.[9] No numbers are included specifying those causes in the EU Commission's report, although carousel fraud seems to be the most damaging fraud (up to EUR 50 billion annually according to the previous VAT gap report). Two percent of organized crime groups would be behind 80% of carousel schemes.[10]

The United Kingdom annually publishes the composition of its tax gaps. The VAT gap was estimated to be GBP 12.5 billion in 2017-18. The missing-trader intra-Community (MTIC) fraud was less than GBP 0.5 billion. VAT avoidance was estimated at GBP 0.1 billion. Criminal attacks on all tax systems were assumed to represent 0.8% of all

* **Attorney, author, lecturer at Vienna University (WU) and Brussels University (VUB) Diplomatic Academy and member of the editorial board of the International VAT Monitor, former member of the EU Commission's VAT Expert Group (2012-19). Former Partner PwC Legal (2014 – 30 June 2019) and former Global Leader PwC Global Indirect Taxes Network (2002-12).**

1. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission Work Programme 2020, *A Union that strives for more Brussels*, Brussels, 29 Jan. 2020 COM(2020) 37 final and Annexes 1-5.
2. The Commission will present a Communication on Better Regulation (Commission Work Programme 2020, p. 9) and will also develop a new instrument based on the "'one in, one out' approach to ensure that newly introduced administrative burdens are offset by relieving people and businesses – notably SMEs – of equivalent administrative costs at EU level in the same policy area." Commission Work Programme 2020, at p. 10.
3. Commission Work Programme 2020, at p. 10.
4. Id., at p. 4.
5. This article is a follow-up of the author's Column in the previous issue of this journal, I. Lejeune, *EU VAT to Become a Win-Win-Win: A Dream to Come True?*, 31 Intl. VAT Monitor 2 (2020), Journal Articles & Papers IBFD.
6. *See* PL: Opinion of Advocate General Kokott, 14 Nov. 2019, Case C-547/18, *Dong Yang Electronics sp. z o.o. v. Dyrektor Izby Administracji Skarbowej we Wrocławiu*, para. 72 (case law referred to in footnote 26), Case Law IBFD; CZ: ECJ, 8 May 2019, Case C-127/18, *A-PACK CZ, s r.o. v. Odvolací finanční ředitelství*, para. 22, EU:C:2019:377, Case Law IBFD (accessed 22 Apr. 2020); IT: ECJ, 23 Nov. 2017, Case C-246/16, *Enzo Di Maura v. Agenzia delle Entrate – Direzione Provinciale di Siracusa*, para. 23, EU:C:2017:887, Case Law IBFD (accessed 22 Apr. 2020); DE: ECJ, 21 Feb. 2008, Case C-271/06, *Netto Supermarkt GmbH & Co. OHG v. Finanzamt Malchin*, para. 21, EU:C:2008:105, Case Law IBFD (accessed 22 Apr. 2020); and IT: ECJ, 20 Oc. 1993, Case C-10/92, *Maurizio Balocchi v. Ministero delle Finanze dello Stato* (accessed 22 Apr. 2020), para. 25, EU:C:1993:846, Case Law IBFD.
7. The number of taxable persons is not made public. As part of the Study on the feasibility and impact of a common EU standard VAT return, based on a compilation of data the number was defined but this was in 2013. The total number of taxpayers in the EU-27 (Croatia had not yet joined the European Union at the time of completion of the Study) was 35,731,378. The assumption is that this number has increased. I. Lejeune et al., *Study on the feasibility and impact of a common EU standard VAT return*, Specific Contract No. 9, TAXUD/2011/DE/329, executive summary p. 3 (2013).
8. CASE, *Study and Reports on the VAT Gap in the EU-28 Member States: Final Report*, TAXUD/2015/CC/131 (2018).
9. FISCALIS 2020 Tax Gap Project Group, subgroup VAT fraud (FPG/041), *The concept of Tax Gaps, Report III: MTIC Fraud Gap estimation methodologies*, p. 16 (Nov. 2018).
10. As reported by the European Commission in its Amended proposal for a Council Regulation amending Regulation (EU) 904/2010 as regards measures to strengthen administrative cooperation in the field of value added tax, COM(2017) 706 final, Primary Sources IBFD. *See also* ECA, Special report 24/2015, *Tackling intra-Community VAT fraud: More action needed*, p. 9.

uncollected taxes,[11] meaning GBP 0.1 billion of VAT. The total impact of criminals would represent GBP 0.7 billion or 5.6% of the uncollected VAT, i.e. 0.5% of the net total theoretical liability in the United Kingdom of GBP 137.36 billion.

This shows the need for measures targeted at the small minority of organized fraudsters, instead of disproportionate "general solutions" applicable to all taxable persons causing new burdens for compliant business.

In the remainder of this article, the author outlines a couple of proposals for proportionate and targeted actions to tackle VAT fraud (section 2.). She also discusses even more ambitious ideas for a complete reshuffling of the EU VAT system in the post-COVID period (section 3.). Summary conclusions are offered in section 4.

2. Proposals for Targeted Actions

2.1. A common EU VAT registration system

A common EU VAT registration system should be set up for both established and non-established businesses, i.e. one EU standard set of requirements to register in all Member States at once. Twenty-seven different registration requirements turned into one remove a major barrier to (cross-border) trade in the single market, especially for SMEs. The European Commission's benchmark of "one in, one out" would be exceeded: 27 rules replaced by 1!

In addition, the review of a VAT registration application by Member States should be standardized. Data on the ultimate beneficial owner as in the UBO register[12] should be part of the application, as criminals often start all over by setting up a new legal entity in different Member States. The EU VAT registration should be a "quality" label certifying the taxable person is a trustworthy party to do business with.

At the same time, new common sanctions should be introduced allowing the withdrawal or suspension of a VAT registration and suspending or depriving the fraudulent ultimate beneficial owners of the right to apply again for a new VAT registration in the same or another Member State. Such punitive measures are essential, given the registration is "the driver's licence" of the unpaid tax collector, who is obliged to comply and eventually issue a cheque to the exchequer whilst being granted the right to deduct and to ask for refunds. Fraudsters either do not remit the VAT due or unduly withdraw money from the state. Under the VAT Directive[13] the VAT registration cannot be withdrawn or suspended. A driver's licence can be suspended or even been withdrawn for a certain period, be it a lifetime.

In the author's view, the combination of the EU VAT registration with a common EU sanction of suspension or withdrawal of the VAT identification number (i.e. VAT registration) and excluding fraudsters from registering would protect the system against fraudsters and legitimate traders who may be held jointly and severally liable in the case of fraud within a supply chain. Such liability is usually for the VAT liability and for the late-payment interests and penalties (e.g. in Belgium in those cases penalties applied to VAT representatives or other taxable persons can be as high as 200% of the VAT due).

This EU VAT registration and the EU common sanction system also fit with VAT being an own resource of the Union. The compliance and the application of the common sanction could be monitored and, if need be, prosecuted by the European Public Prosecutor in cases of serious fraud, following a joint action with OLAF (the European Anti-Fraud Office) and/or Europol and the Member States through Eurofisc.[14]

2.2. Standard VAT reports and compliance

The standardization of all VAT reporting/compliance requirements in the European Union to substantially reduce red tape seems the next urgent step to take.[15,16]

Starting with the VAT returns, a proposal for a standard EU VAT return should be reintroduced.[17] Annual savings for business were estimated to be at least EUR 15 billion.

Subsequently, a standard EU VAT data set should be defined that taxable persons have to make available to the tax authorities.

11. HM Revenue & Customs, *Measuring tax gaps 2019 edition, Tax gap estimates for 2017-2018*, pp. 20, 24 and 26 (HMRC 2019), available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820979/Measuring_tax_gaps_2019_edition.pdf (accessed 8 May 2020).
12. All Member States have to create a centralized register of ultimate beneficial owners (UBO register) under Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC, OJ L141 (2015), p. 73, the "4th anti-money laundering (AML) Directive"; as amended by Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU, OJ L156 (2018,) p. 43-74, "the 5th AML Directive".
13. Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, Primary Sources IBFD [hereinafter VAT Directive].
14. Art. 36(3), (4) and (5) were added and para. (2a) was added in art. 49 by Council Regulation (EU) 2018/1541 of 2 October 2018 amending Regulations (EU) 904/2010 and (EU) 2017/2454 as regards measures to strengthen administrative cooperation in the field of value added tax, OJ L259/1-259/11 (2018). Those provisions entered into force on 6 November 2018.
15. I. Lejeune, W. De Clercq & M. Van De Putte, ch. 23, *Compliance Costs and Costs of Collection*, in *Improving VAT/GST – Designing a Simple and Fraud-Proof Tax System*, pp. 633-675. (M. Lang & I. Lejeune eds., IBFD 2014), Books IBFD. This chapter provides an overview and analyses of different studies performed for the EU Commission and compares the outcomes of those with the conclusions from other key studies that can be found in the literature.
16. Compliance costs for business are estimated between 2% and 8% of the VAT collection. Institute for Fiscal Studies, *A retrospective evaluation of elements of the EU VAT system* (IFS 2011).
17. Proposal for a Council directive amending Directive 2006/112/EC on the common system of value added tax as regards a standard VAT return, COM(2013) 721 final, 2013/0343(CNS), Primary Sources IBFD; I. Lejeune et al., *Study on the feasibility and impact of a common EU standard VAT return*, Specific Contract No. 9, TAXUD/2011/DE/329, executive summary p. 3, 2013.

In the past decade, many Member States have introduced additional reporting obligations such as real-time reporting, sending of invoices to the tax authorities, and submission of audit files. Not all of those are in accordance with the OECD Guidance for the Standard Audit File – Tax (SAF-T).[18] In addition, some Member States apply split payments, require specific transportation reports, etc.

The fight against fraud is mostly referred to for imposing disproportionate non-targeted measures on all taxable persons. Taxable persons, small and large, have to study each Member State's compliance obligations. This is expensive. Taxable persons should not be confronted with the difficulty to understand those regulations written in one of the languages of the European Union, the need for assistance by (an) expert(s), setting up and maintaining the accounting and reporting systems by Member States, the cost of (re)training staff, licences for software, hardware, etc. Security measures against hacking are needed as large volumes of data are transferred to the tax authorities.

Once set up, the standard EU VAT data would be stored in a specific tax data warehouse set up by each business. The tax authority would pull out the data if and when needed, thus putting an end to the continuous submission of data to the tax authorities. In practice, it means a move from a push to a pull model, with the great advantage that the risk of data hacking would be reduced. This tax data warehouse would be accessible for the Member States' tax authorities to pull out data for monitoring and auditing including invoices – even real time. They could also use those for risk profiling and benchmarking in the case of sector audits. Desk audits would be facilitated, making on-site audits better targeted and facilitating the prevention of fraud.

Such a pull tax data warehouse holding a standard data set will facilitate international cooperation and joint audits of Member States to fight VAT fraud. It would also be important for the work of the Eurofisc network, the European Public Prosecutor, Europol and OLAF.[19]

18. OECD, *Guidance Note: Guidance for the Standard Audit File – Tax (SAF-T)*. This guidance note focuses on the creation of a computer file that allows the easy export of a predefined set of accounting records in a commonly readable format. This file also makes it easier for taxpayers to provide their electronic records to tax auditors in support of their tax return and for auditors to review accounting records. It results from a specification of one of the principles set out in the note *Guidance on Tax Compliance for Business and Accounting Software*. SAF-T also provides businesses with a tool to meet the requirements of other government or non-government bodies (e.g. statistics agencies, banks, industrial organizations) and it is easier to switch from one accounting package to another. *See* https://www.oecd.org/tax/administration/guidancenote-guidancefordevelopersofbusinessandaccountingsoftwareconcerning taxauditrequirements.htm (accessed 9 May 2020).
The author has been the co-chair of the working group that has prepared the two Guidance Notes approved by the OECD's Committee on Fiscal Affairs (CFA).

19. The European Public Prosecutor will, amongst others, cooperate with OLAF. Its operations start in November 2020. Council Regulation (EU) 2017/1939 of 12 Oct. 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office (EPPO); *see also* http://www.ejtn.eu/News/Protecting-taxpayers-against-fraud-and-corruption/ (accessed on 24 Apr. 2020). Council Regulation (EU) 904/2010 on administrative cooperation and combating fraud in the field of value added tax, as amended by Council Regulation (EU) 517/2013 of 13 May 2013, OJ L158 (2013) and Council Regulation (EU) 2018/1541 of 2 October 2018 amending Regulations (EU) 904/2010 and (EU) 2017/2454, OJ L259/1-259/11 (2018) and Council Regulation (EU) 2018/1909 of 4 December 2018, OJ L311/1 (2018).

20. I. Lejeune et al., *Study on the feasibility of alternative methods for improving and simplifying the collection of VAT through the means of modern technologies and/or financial intermediaries*, p. 55 and Figure 40, p. 214 and Figure 44, p. 217, TAXUD/2009/AO-05 [2010].

21. I. Lejeune et al., *Study on applying the current principle for the place of supply of B2B services to B2B supplies of goods – Place of establishment of the customer*, Specific Contract No. 1, TAXUD/2011/DE/304 Final Report, p. 37 (2012).

This idea was studied in 2009.[20] We would have saved, should it have been introduced in 2018 as suggested in the study, from 2018 to 2020 a minimum of EUR 89 billion and a maximum EUR 142 billion *annually* for all Member States, or a total of minimum EUR 267 billion and a maximum of EUR 426 billion. This is a win-win-win measure: for the national budgets, to protect the VAT system and the legitimate traders against fraudsters, and for the EU budget. What are we waiting for?

2.3. Is the current "definitive system proposal" going in the right direction?

According to his Mission Letter, Mr Gentiloni also must focus on the introduction of the definitive VAT regime. However, the pending proposal is not simplifying the VAT system and is not compliant with the "one in, one out" principle. Business-to-business (B2B) cross-border supplies would be taxed in the Member State of destination, still following the physical flow of the goods with all its consequences and current issues. VAT would be charged by the supplier at the rate of the Member State of destination of the goods. This would be extremely difficult to comply with and would create a barrier to trade in the single market.

Why keep on following the flow of the goods for supplies within the Union? We are since 2010 no longer following the "flow" of B2B services, without specific frauds or other difficulties to collect the VAT. Why not apply the same principles to B2B supplies of goods within the Union? As we are in a service economy, contracts become complex in nature, combining goods with services. Following the goods at importation into or exportation from the Union should be sufficient. Customs is then controlling the physical flow. Such a definitive VAT system would be much simpler and less expensive for business. The simplification already appeared from the legislative changes required to implement this proposal. Of the 414 provisions of the VAT Directive at the time of the study in 2012, 192 were impacted, which is almost half of the provisions. Fourteen percent of all provisions, should be repealed and 19% should be amended. Ten new articles should be introduced.[21]

3. The COVID-19 Crisis: A New Dawn for the EU VAT System?

When Ms Von der Leyen wrote to Mr Gentiloni, the current COVID-19 crisis was not at the centre of the EU Commission's strategy. Today it is. The OECD points out that all macro-economic levers – monetary, fiscal and

structural – will need to be mobilized to overcome this crisis. [22,23]

Consumption taxes are reasonably resistant in times of crisis as shown during and post the 2008 financial crisis.[24] However, the VAT currently collected will not suffice to help financing the recovery.

Therefore, why just focus on burden reduction and the definitive VAT system? Why not instead redesign the EU VAT system taking a holistic approach to tax reform: a win-win-win for all stakeholders?

In the author's view, this is the perfect timing to overhaul the EU VAT system entirely, stopping the current "patchwork" approach.[25] Let us make it best in class.[26] There were occasions before, for example in 2010, just after the financial crisis. At that time the European Commission launched its Green Paper for a simpler, more robust and efficient VAT system within Europe's 2020 Strategy.[27] We are now in 2020, and reforms are even more needed also because of this unprecedented crisis.

Under the EU VAT system, only up to 52% of consumption is taxed on average, compared to 95% in New Zealand.[28,29] Most VAT judgments of the ECJ are due to our narrow-based VAT system with multiple exemptions, limitations to the right to deduct and multiple rates.[30]

The potential growth benefits of shifting the tax mix from taxes on corporate and personal income towards consumption taxes has been highlighted in OECD, IMF and EU Commission research.[31] There is a strong case for countries to broaden their VAT basis, not just to raise revenue, but to reduce the substantial compliance costs and distortions to consumption decisions that arise from multi-rate VAT systems.[32]

Why not move to an EU VAT system with a single rate? In a broad-based EU VAT system, we could lower the average EU standard rate below 21.5%. Alternatively, we could decide to leave the standard rate at its current level and use the additional revenue to cater for the cost of the economic recovery, the ageing EU population (the driver for the recent increase of the standard consumption tax rate in Japan[33]) and even, once we are behind the recovery phase, the Green Deal.[34]

22. G20 Summit Statement from Angel Gurría, OECD Secretary-General, on 26 March 2020, available at https://read.oecd-ilibrary.org/view/?ref=119_119674-tbcxotkmhb&title=Coronavirus_(COVID-19)Joint_actions_to_win_the_war (accessed on 3 Apr. 2020).
23. "Preparing for recovery including through tax policy. While the immediate focus is on maintaining liquidity and providing income support, governments need to prepare for a careful balance of fiscal stimulus and fiscal consolidation once the pandemic subsides." OECD, *Emergency tax policy responses to the Covid-19 pandemic*, available at https://read.oecd-ilibrary.org/view/?ref=119_119695-dj2g5d5oun&Title=Emergency%20tax%20policy%20responses%20to%20the%20Covid-19%20pandemic (accessed 3 Apr. 2020).
24. European Commission, *Tax policies in the European Union 2020 survey*, Graph 7: EU-28 tax revenues, 2000, 2007, 2010 and 2017, available at https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en (accessed on 3 Apr. 2020).
25. I. Lejeune, *The EU VAT Experience: What Are the Lessons?,* in *The VAT Reader* (2011), benchmarking the European Union against best practice, pp. 260-281; and I. Lejeune & J. Daou, ch. 24, *Conclusions; Designing a Simple and Fraud-Proof VAT system*, in *Improving VAT/GST – Designing a Simple and Fraud-Proof Tax System*, pp. 677-702 (M. Lang & I. Lejeune eds., IBFD 2014), Books IBFD. This chapter provides a conclusion to the book on key features of designing a VAT system.
26. Ebrill, Keen, Bodin & Summers, *The Allure of the Value-Added Tax, Finance and Development*, 39 IMF Quarterly Magazine 2 (2002); Ebrill, Keen, Bodin & Summers, *The Modern VAT* (IMF 2001).
27. "After some 40 years, the time has come to have a critical look at the VAT system with a view to strengthening its coherence with the single market, its capacity as a revenue raiser by improving its economic efficiency and robustness, and its contribution to other policies whilst reducing the cost of compliance and of collection. In this way, reforming the VAT system can play a crucial role supporting the delivery of the Europe 2020 strategy and a return to growth through its potential to reinvigorate the single market and underpin smart budget consolidation in the Member States. Any such improvements require a comprehensive VAT system that can adapt to changes in the economic and technological environment and is solid enough to resist attacks of fraud of the kind experienced in recent years.
A simpler VAT system would also reduce the operational cost to taxpayers and tax administrations, thereby increasing the net benefit to the Treasury. Moreover, the key role of businesses in collecting VAT must be properly recognised, since VAT is a consumption tax and not a tax on businesses. VAT compliance costs are a major administrative burden for EU business and reducing this burden would contribute significantly to increasing the competitiveness of European companies." European Commission, Green Paper, *On the future of VAT, Towards a simpler, more robust and efficient VAT system*, pp. 3 and 4, COM(2010) 695/4, available at https://ec.europa.eu/taxation_customs/consultations-get-involved/tax-consultations/green-paper-future-vat-towards-a-simpler-more-robust-efficient-vat-system_en; Staff Working Document, Accompanying document to same, available at https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/common/consultations/tax/future_vat/sec%282010%291455_en.pdf.
28. On average, 44% of the theoretically potential VAT revenue is not collected in OECD countries. The highest VAT revenue ratio is 0.95, in New Zealand, which is clearly globally the best practice VAT system. The data are included in OECD, *Consumption Tax Trends 2018*, p. 55 (data on New Zealand), available at https://www.oecd.org/tax/consumption-tax-trends-19990979.htm (accessed 3 Apr. 2020); Green Paper, *supra* n. 27; *see also* Lejeune, *supra* n. 25; and Lejeune & Daou, *supra* n. 25.
29. Recent data do not seem to be available.
30. Lejeune, *supra* n. 25; and Lejeune & Daou, *supra* n. 25.
31. OECD, *Economic Policy Reforms: going for growth* (2009), was the fifth edition of Going for Growth at a time when OECD countries were thought to be faced with the most severe financial and economic crisis in a lifetime. *See especially* ch. 5, *Taxation and economic growth*, pp. 143-161; European Commission, *European semester thematic fact sheet taxation*, 28 Sept. 2017, available at https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_taxation_en_1.pdf (accessed on 7 Apr. 2020); E. Cammeraat & E. Crivelli, *Toward a Comprehensive Tax Reform for Italy*, IMF Working Paper, WP/20/37 (Feb. 2020), with extensive references to other IMF research on pp. 35-38, available at https://www.imf.org/~/media/Files/Publications/WP/2020/English/wpiea2020037-print-pdf.ashx (accessed on 7 Apr. 2020).
32. OECD, *The effectiveness of reduced VAT rates as a redistributional tool*, in *The Distributional Effects of Consumption Taxes in OECD Countries* (OECD 2014), available at https://doi.org/10.1787/9789264224520-5-en (accessed 8 May 2020); Cammeraat & Crivelli, *supra* n. 31, at pp. 35-38.
33. Japan increased its consumption tax rate from 8% to 10% on 1 October 2019. The standard rate is 10% and the reduced tax rate is 8%, applicable to foods and beverages except for liquors and eating out, and subscribed newspapers issued twice or more per week. The motivation for the increase is: "With the rapidly progressing aging population, the government expenditure for social security benefits has been increasing year by year, and social security expenditures now account for approximately one third of the total expenditures. Meanwhile, at the current Japanese fiscal condition, tax revenue is below the increased demand on budget, which results in relying on debt and deferring the burden to future generations. The purpose of the consumption tax rate hike is to secure stable revenue and to make a social security system for all generations which is sustainable for future generations."
The revenue from the consumption tax rate hike is exclusively used for stabilizing and enhancing the social security. *See* https://www.mof.go.jp/english/tax_policy/consumption_tax/index.html (accessed 7 Apr. 2020).
34. The Commission has adopted the European Green Deal, Striving to be the first climate-neutral continent, on 11 December 2019. The Green

It is popular belief that reduced VAT rates are needed for the purpose of supporting the poor. However, OECD research shows that most, if not all, reduced VAT rates that are introduced for the distinct purpose of supporting low-income households are a very poor tool for targeting support to low-income households: at best, rich households receive as much aggregate benefit from a reduced VAT rate as do poor households; at worst, rich households benefit vastly more in aggregate terms than poor households. Furthermore, reduced rates introduced to address social, cultural and other non-distributional goals – such as reduced rates on books, restaurant food and hotel accommodation – often provide so large a benefit to rich households that the reduced VAT rate has a regressive effect.[35,36] This supports the move towards a single VAT rate system with its efficiency and compliance cost benefits also taking away barriers in the single market, especially for SMEs. Such reform of the EU VAT system should be complemented with measures targeted at low-income groups to compensate households for the removal of reduced VAT rates. This could be achieved through a holistic tax reform, not just focusing on the VAT system, and by also e.g. amending the personal income tax system, targeted benefits, social benefit schemes, social security contributions and other relevant government expenditures.[37,38] The Member States could ask for technical support under the EU Commission's Structural Reform Support Programme (SRSP) to design and carry out such a broad tax reform.[39]

4. Conclusion

There are more than 35 million unpaid tax collectors in the European Union. Unfortunately, a very small minority of criminals destroys the VAT level playing field for legitimate and compliant traders. We need to protect and maximize the VAT revenues, especially post the COVID-19 crisis. This requires an ambitious overhaul of the EU VAT system, using a holistic tax reform shifting from taxing personal and corporate income to consumption.

In this article, the author made several suggestions for reform, including the creation of a common EU VAT registration system, together with new common sanctions to withdraw or suspend a VAT registration and blocking the VAT registration of fraudsters to protect the VAT system, and the standardization of all VAT reporting and compliance requirements in the European Union. The author also suggests that the time is ripe for the implementation of a long-term VAT strategy to accelerate the recovery of the economy post the current COVID-19 crisis, moving away from the current narrow-based VAT system by getting rid of our multiple exemptions, limitations to the right to deduct and multiple rates. This should go hand in hand with targeted measures taken by Member States to compensate low-income households directly for the additional VAT charged.

For any such ambitious reform, the author is aware that the law-making process should also be made more flexible, i.e. that the Member States should agree to move from unanimity to qualified majority voting. This move is one of the missions entrusted to Commissioner Gentiloni.

Moreover, using a "regulation" instead of a Directive to harmonize the VAT systems of the Member States would, in the author's view, also be a desirable development. This would prevent the risk of Member States being "lost in translation" when implementing the EU VAT legislation. It would be a major burden reduction for businesses no longer having to study 27 Member States' legislations and the European Commission's task of enforcement. We could then even envisage a common EU VAT Commentary, an EU VAT advanced ruling system and an EU VAT dispute resolution mechanism.

Deal is a new growth strategy that aims to transform the European Union into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, The European Green Deal, COM(2019) 640 final; Proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law), COM(2020) 80 final. "The Green transition and the Digital transformation will play a central and priority role in relaunching and modernising our economy to recover post the Covid-19 crisis". *A Roadmap for Recovery, Towards a more resilient, sustainable and fair Europe*, p. 3, for the Video Conference of the members of the European Council, 23 Apr. 2020, available at https://www.consilium.europa.eu/media/43384/roadmap-for-recovery-final-21-04-2020.pdf (accessed 8 May 2020).

35. OECD, *supra* n. 32, at pp. 68 and 69; Cammeraat & Crivelli, *supra* n. 31. In this working paper the impact of removing the low 10% VAT rate as part of a comprehensive tax reform for Italy is explained and its impact assessed.
36. Interesting analysis performed by Eurostat. It includes a graph showing the relationship between VAT and the life cycle. Consumption decreases with age and increases for households with a reference person over 60 years old. Eurostat, *Interaction of household income, consumption and wealth – statistics on taxation*, 2017, available at https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Interaction_of_household_income,_consumption_and_wealth_%E2%80%93_statistics_on_taxation&oldid=368103 (accessed on 13 May 2020); Cammeraat & Crivelli, *supra* n. 31, at pp. 35-38.
37. Lejeune, *supra* n. 25; and Lejeune & Daou, *supra* n. 25; *Cammeraat* and Crivelli, *supra* n. 31, at pp. 35-38.
38. S. Cnossen, *What a Federal Consumption Tax Would Mean for America*, p. 48, Tax Analysts (2011).
39. Since 1 January 2020 the SRSP is coordinated by the European Commission's Structural Reform Support Directorate General (DG Reform). *See* https://ec.europa.eu/info/departments/structural-reform-support_en (accessed on 7 Apr. 2020).