

EUROPEAN COMMISSION
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Green Paper on the future of VAT – Towards a simpler, more robust and efficient VAT system, COM (2010) 695 Final

The Confederation of Swedish Enterprise (*Sw: Svenskt Näringsliv*) is the most prominent Swedish business organization and represents 50 separate employer and trade associations. The Confederation has approximately 60 000 member companies with about 1,5 million employees. The Confederation is an active member of BUSINESSEUROPE.

Summary

The Confederation of Swedish Enterprise has reviewed the above-mentioned Green Paper. In conclusion, The Confederation has made the following observations:

- The current rules constitute an obstacle to the internal market.
- The rules for the public sector should be reviewed.
- All exemptions should be reviewed.
- The rules for VAT deductions should be harmonized.
- A clear rule is needed regarding how to determine whether a supply is qualified as a good or service and constitutes a single or several supplies.
- An EU forum should be created to resolve corporate VAT issues and disputes between Member States and to prevent double taxation.
- National derogations lead to a complex regulatory framework affecting competition.
- A simplified and harmonised VAT return and reporting is a necessary measure.
- Uniform and harmonised requirements regarding invoicing are necessary measures.
- The regulatory framework should be simple and designed for all companies and consequently specific regulations for small business should not be required.
- Cross-border group registration should be investigated further.
- The synergistic effects in the customs and excise tax areas should be utilized.
- Proposed alternative collecting models should not be implemented.
- Instead, the best examples of an efficient VAT collection model within the EU should be utilized, the regulatory framework harmonised, the rules simplified, the cooperation between the tax administration, customs service and police enhanced to combat the black economy, VAT fraud and financial crime.

General comments

The Green Paper indicates that the complicated rules concerning value added tax (hereinafter VAT) entails high administrative burdens for businesses and that dealing with VAT accounts for almost 60% of the total burden measured for the 13 priority areas within the programme for the Better Regulation Agenda. The strategy during the last decade has been to simplify and modernise the existing VAT system, which has yielded some positive results, but this work has now come to a dead end.

The Confederation of Swedish Enterprise can confirm the major problems that the current rules cause. VAT is by companies perceived as one of the most complicated taxes. The regulatory framework is so complex that it is virtually impossible for a company to know whether they are doing everything correctly. Furthermore, many companies testify that several differentiating answers to the same question can many times be obtained from the Swedish Tax Agency. Also the rulings from the Swedish administrative courts and from the European Court of Justice demonstrate the complex rules that are not necessarily interpreted in the same way neither within Sweden, nor by different Member States. Unlike income taxation, where a result will be taxed, VAT rules must be correctly implemented for every transaction, every invoice and on an every-day-basis. Any errors that accumulate can result in large amounts and the companies may face large penalties for incorrect handling. VAT can therefore involve major tax risks for companies even though it should be borne by consumers and not by the companies. In relation to VAT, companies act as an unpaid collector.

Moreover, in the area of VAT practical problems occur that need to be handled in corporate financial systems. The current IT systems do not automatically support a correct and efficient VAT treatment. The result is that each company's unique transactions need to be identified and coded in order for the accounting and invoicing of VAT to be correct. This leads to large costs for companies.

Other types of problems that the current VAT regulatory framework leads to are highlighted under each respective section below.

The Confederation of Swedish Enterprise wishes to stress that the need for simplified and improved VAT rules in the EU is an absolute necessity. To do nothing is not an option.

Principle of taxation regarding intra-EU transactions

Q1. Do you think that the current VAT arrangements for intra-EU transactions are suitable enough for the single market or are they an obstacle to maximising its benefits?

Q2. If the VAT arrangements are an obstacle, what would you consider the most suitable VAT arrangements for intra-EU supplies? In particular, do you think that taxation in the Member State of origin is still a relevant and achievable objective?

The existing taxation principles of VAT within the EU are the principle of origin for business to consumer trade (B2C) and the destination principle for business-to-business trade (B2B). The risk of VAT fraud within the EU has led the regulatory framework to extend with a number of administrative burdens such as an extended reporting obligation in the VAT return as well as in the EC-sales list. Furthermore, there is an additional oppressive burden for companies to be able to prove, with different types of documents, that for example movement of goods has taken place, that VAT-identification has taken place and that the company has been in good faith (bona-fide). These burdens affect the reputable companies, but rarely lead to the punishment of actual fraudsters for illegal trade or carousel fraud. In this context, companies have testified that the burdensome EU VAT regulations have led to decisions to avoid EU trade and redirect transactions to third country imports. Companies further point out that the current VAT regulations has led to the avoidance of multi-step transactions (e.g. triangulation etc.) and that certain delivery conditions or means of transport are not allowed. Consequently, the combined result means that the most effective business decisions and/or transport routes are not taken, and that the regulations constitute an obstacle for growth as well as a problem for the environment. The whole idea of the internal market is counteracted by the complex and administratively burdensome VAT regulations.

The Confederation of Swedish Enterprise therefore considers the current rulemaking and management of the VAT regulations to constitute an obstacle for the internal market. The Confederation of Swedish Enterprise believes that taxation in the state of origin should, from a corporate perspective, simplify the system the most. However, such a system requires harmonisation of VAT rates in the EU and a need for an effective clearing mechanism. If such a system cannot be realized the remaining option is to introduce a general reverse charge, to tax intra-EU transactions or to simplify the destination principle. The Confederation of Swedish Enterprise considers that a simplification of the destination principle (B2B) is the most appropriate option. Taxation of both goods and services should, in that case, be more closely linked to the buyer's VAT registration number.

Neutrality

Q3. *Do you think that the current VAT rules for public authorities and holding companies are acceptable, particularly in terms of tax neutrality? If not, why?*

Q4. *What other problems have you encountered in relation to the scope of VAT?*

Q5. *What should be done to overcome these problems?*

The Confederation of Swedish Enterprise considers that the current rules regarding the public sector in the VAT directive must be reviewed.

The Confederation of Swedish Enterprise is of the opinion that the question, of whether a holding company is operating inside or outside the scope of VAT, is so complex that it becomes impossible for the companies, the tax administration and the courts to deal with it. When the framework is complex, as for transactions within or outside the scope of VAT, the complexity is enhanced through pure academic reasoning often lacking a practical link to a company's day-to-day business.

The current rules also give rise to a number of other application issues. Such problems arise due to the fact that the Swedish VAT Act is incoherent with the VAT directive. For example, the use of VAT concepts is not the same in Swedish national law (e.g. taxable person). Furthermore, there are major application problems and differences between Member States when it comes to the VAT effects related to the receiving of contributions. The existence of uncertainty in terms of the application of VAT rules lead to uncertain economic consequences and poses an obstacle for the establishing of new businesses, research and development.

The Confederation of Swedish Enterprise believes that the VAT rules must be simple and clear so that all stakeholders understand when outgoing transactions should include VAT and when deductions can be made of input VAT related to expenses.

Exemptions from VAT

Q6. *Which of the current VAT exemptions should be abolished? Please explain why you consider them problematic. Are there any exemptions which should be kept and, if so, why?*

Q7. *Do you think that the current system regarding taxation of passenger transport creates problems either in terms of tax neutrality or for any other reason? Should VAT be applied on passenger transport irrespective of the means of transport used?*

Q8. *What should be done to overcome these problems?*

The Confederation of Swedish Enterprise considers that a review is needed of all the current exemptions and that the number of exemptions needs to be reduced. The current exemptions are not adapted to the society of today and they were implemented during a time with lower VAT rates. Currently, Sweden has the highest VAT rate in the EU, which means that a high VAT cost (blocked input VAT) arises for non VAT-able businesses with no input VAT-deduction. Companies with no input VAT deduction claim that the current VAT rules have a

negative impact on business decisions concerning investments and outsourcing. Furthermore, companies with no input VAT deduction have difficulties in finding appropriate business premises for their operations. Many landlords avoid non VAT-able tenants since such lease results in a negative VAT situation for the landlord.

The exemptions lead to very complex legal evaluations, e.g. regarding what constitutes financial services, real estate services and insurance services. In addition, the internet and mobile services have raised complex questions about what constitutes intermediary services and payments. The Confederation of Swedish Enterprise would also like to point out that the current exemptions lead to an increased legal uncertainty surrounding other services that are purchased through procurement by non VAT-able entities. For example, there are a large number of court cases concerning procured IT and staffing services which support the view that such services could be regarded as VAT exempt, as they are closely linked to, for example, a VAT exempt financial service. This essentially mean that the same service can be treated differently depending on who is procuring the service.

Services relating to passenger transportation is a very complex area since it is not uncommon for a single transport to be undertaken both within a Member State, between Member States as well as outside the EU. Member States apply different rules (exemption, zero rate, reduced rate, standard rate), which affect both competition as well as the complexity of VAT treatment for all the companies that carry out cross-border passenger transport services. The Confederation of Swedish Enterprise believes that the VAT rules must be harmonised and simplified. The area of passenger transportation services should be taxable, but it should be investigated if a zero rate can solve the above-mentioned problems.

In this context, the Confederation of Swedish Enterprise would also like to address the complex VAT rules that apply to travel agents. Apart from the above-mentioned issues relating to passenger transportation, there are additional issues. The standard rate is applied on reservation fees even if the underlying service (passenger transport, hotels, etc.) are taxed at a reduced rate. Furthermore, Member States have implemented the margin scheme in different ways.

Deductions

***Q9.** Which are the main problems with the right to deduction?*

***Q10.** How can neutrality and fairness be improved when it comes to the rules regarding the right to deduction?*

The Confederation of Swedish Enterprise wishes to stress the fact that the VAT is a consumption tax, a fact that is too often overlooked by the Swedish Tax Agency and the Member States. It is far too common with legal proceedings that focuses on formal deficiencies such as insufficient invoices, this despite the fact that formal deficiencies, in themselves, usually do not lead to any overall VAT losses for a Member State. The result is unnecessary and costly legal proceedings for all parties concerned. Instead, the resources ought to be used to identify and combat VAT fraud and the black economy.

For businesses that carry out taxable as well as non taxable activities, complex assessments occur with respect to the allocation of input VAT. Current IT systems do not always support such allocations, which consequently results in significant costs for businesses since these businesses instead have to manage manual processes on site and invest in employees, knowledge and IT.

Further, problems exist with Member States' various standard deductions limitations (e.g. for expenses relating to restaurants, cars and hotels). The problems consist of lack of information about applicable rules and of practical issues within IT systems when the rules differ between countries. This contributes to an increased administrative burden and increased costs for businesses.

Another problem is input VAT deductions attributable to expenditure incurred before the formal VAT registration and during a business' preparatory phase. Member States have different views regarding deduction or not.

Several problems arise when it comes to the recovering of foreign VAT. If a supplier incorrectly adds VAT on an invoice, the customer is denied VAT refund. In some Member States, the supplier can only correct the invoice in the course of one year. This can lead to a situation with blocked VAT. In this context, companies also testify to a certain degree of discrimination. In practise, Tax administrations seem to be more indulgent towards domestic enterprises than towards foreign enterprises, for example concerning formal deficiencies in an invoice.

The rules regarding VAT deductions must be harmonised and be based on the principle of neutrality, which means that all input VAT should be deductible for businesses.

International services

Q11. What are the main problems with the current VAT rules for international services, in terms of competition and tax neutrality or other factors?

Q12. What should be done to overcome these problems? Do you think that more coordination is needed at the international level?

This section refers to international services to and from countries outside the EU. We have also included some comments related to trade within EU. A simplification regarding place of supply of services has been implemented in the VAT package 2010. The simplifications were requested from businesses and have led to major improvements. However, the Confederation of Swedish Enterprise is critical to the new obligation to report services in the EC-sales list. This obligation has increased the administrative burden. This obligation was established as a means to counteract fraud. However, the Confederation of Swedish Enterprise questions that fraud is discovered in this way. Further, the place of supply of services still cause problems since Member States interpret some rules differently (e.g. storage, repairs, transport operations, conferences etc.) and this have resulted in double taxation.

Furthermore, the Member States have implemented article 59a of the VAT directive in different ways. The article deals with how to prevent double taxation, non-taxation and distortion of competition and focuses on transactions carried out outside the EU. In this respect, a number of cases can be foreseen where double taxation may arise, especially when transactions are carried out and taxed in a non-EU country and where, additionally, article 59a imply that a Member State within the EU can opt to tax the same transaction. In our opinion a general review must be made of the governing rules within the EU as well as with OECD in order to identify and avoid double taxation.

A major problem is determining if a transaction should be regarded as a single composite supply or several independent supplies. This assessment affects whether a supply should be classified as a supply of a good or a service and whether the supply should be regarded as one supply or as several supplies that should be taxed separately. This classification affects the applicable VAT rate, the taxable base, the content of an invoice and not the least place of supply. Member States have different national assessments, guidelines and tests in order to determine this issue. This means that disputes and double taxation may occur. The Confederation of Swedish Enterprise requests for a clear EU rule to be introduced immediately regarding this issue.

Within the VAT area there are no international double taxation agreements eliminating double taxation. Furthermore, there is no policy forum to which companies can address corporate VAT issues and disputes between Member States. The Confederation of Swedish Enterprise is of the opinion that such an EU Forum (with inspiration from "the Joint Transfer Pricing Forum", the JTPF) should be created without delay.

The legal process

Q13. Should any provisions of EU VAT law be laid down in a Council regulation instead of in a directive? If yes, which ones?

Q14. Do you consider that implementing rules should be laid down in a Commission decision?

Q15. If this is not achievable, would guidelines on new EU legislation regarding VAT be useful even if they are not legally binding for the Member States? Do you see any disadvantages of issuing such guidelines?

Q16. From a broader perspective, what should be done to improve the legislative process, its transparency and the role of stakeholders in the process, from the initial phase (drafting the proposal) to the final phase (national implementation)?

One problem addressed above include the fact that Member States have implemented the EU VAT legislation differently which cause practical problems, costs and legal uncertainty for companies. The Confederation of Swedish Enterprise is of the opinion that there may be advantages in using EU regulations rather than EU directives.

National derogations and the ability of the EU to act quickly

Q17. *Have you encountered difficulties as a result of derogations granted to Member States? Please describe these difficulties.*

Q18. *Do you think that the current procedure for granting individual derogations is satisfactory and, if not, how could it be improved?*

Harmonisation is crucial to achieve a simple and uniform VAT legislation. As soon as deviations occur in any Member State it inevitably leads to distortions and administrative burdens for companies. A variety of national deviations already occur in the VAT area, for example in respect of VAT rates (e.g., books, clothes, telecommunication), thresholds for small businesses, VAT- and excise warehousing, local reverse charge taxation (e.g. construction, emissions), imports from countries outside the EU etc.

The Confederation of Swedish Enterprise notes that national deviations lead to a more complex regulatory environment which affects the competition. Current application of national deviations is not satisfactory and an evaluation must be made. Exemptions and derogations should only be allowed in exceptional cases and the effects of such deviations must continuously be evaluated to ensure that appropriate measures are directly taken to counteract increased complexity and deteriorated conditions of competition.

VAT rates

Q19. *Does the current VAT rate structure create major obstacles for a well functioning single market (distortion of competition), unequal treatment of comparable products, notably online services by comparison with products or services providing similar content, or lead to major compliance costs for businesses? If yes, in what situations?*

Q20. *Would it be preferable to have no reduced rates at all (or a very short list), which might enable Member States to apply a lower standard VAT rate? Or would you support a compulsory and uniformly applied reduced VAT rate list in the EU particularly in order to achieve specific political objectives as laid down in 'Europe 2020'?*

The Confederation of Swedish Enterprise notes that the question of allowing one or several VAT rates is very complex. Harmonisation is always preferable as a measure of simplification, especially when deviations can create problems in cases of demarcation, administrative burden and competitive deviations. At the same time, reduced VAT rates can be interesting measures in certain contexts such as to influence consumption patterns and employment etc. It should be investigated if, for example, any social exemption could be replaced by a reduced rate or a zero rate. The Confederation of Swedish Enterprise is of the opinion that allowed deviations should be included in an EU list.

Reducing ‘red tape’

Q21. What are the main problems you have experienced with the current rules on VAT obligations?

Q22. What should be done at the EU level to overcome these problems?

Q23. What are your views particularly on the feasibility and relevance of the suggested measures including those set out in the reduction plan for VAT (N° 6 to 15) and in the opinion of the High Level Group?

Initially, the Confederation of Swedish Enterprise wants to stress that VAT is perceived by the companies as one of the most complex taxes involving a major administrative burden. Companies reveal that there are several areas that involve high administrative costs.

EU trade

In cross-border transactions within the EU, companies must ensure compliance to the VAT directive, to the rules implemented in the country concerned and, at the same time, be informed of possible national derogations. Companies announce that there are problems in getting access to relevant information and that they often have to purchase information from external advisers. This leads to higher compliance costs in cross-border transactions compared to domestic transactions.

The Confederation of Swedish Enterprise believes that there must be an information system within the EU that, in real time, can supply companies with timely and practical information on current VAT rules both in the Member State of origin, in cross-border trade and in internal transactions within the territory of another Member State. As stated above (Q11-12), the Confederation of Swedish Enterprise believes that an EU body should be established in order to give companies a forum to turn to concerning complex questions about VAT.

Declare and report VAT

Great variations exist between Member States concerning the requirements for VAT reporting. Some Member States have comprehensive ten pages VAT return while other Member States only require information in a few boxes. Some Member States require reporting in EC-sales lists for acquisition of services within the EU as well as for domestic reverse charge transactions. Gradually, the reporting obligation has increased justified by purposes of control and fraud. The Confederation of Swedish Enterprise questions the argument that an increased reporting obligation leads to an actual decrease in the amount of fraudulent behaviour. The Confederation of Swedish Enterprise considers that a simplified and harmonised VAT return is an important and necessary part of a future VAT strategy.

The invoice

There are different requirements in different national laws as to what an invoice should contain. In Sweden, rules relating to this can be found in the Book-keeping Act (*Sw. Bokföringslagen*), the Tax Payment Act (*Sw. Skattebetalningslagen*) and the Limited Company Act (*Sw Aktiebolagslagen*). However, the most detailed requirements are set out in the Swedish VAT Act (*Sw. Mervärdesskattelagen*). The regulations concerning invoicing have gradually been harmonized within the EU but still a wide variety of national deviations remain.

Companies engaged in international activities testify that the various invoicing requirements in different Member States involve a burdensome administration and consequently result in major costs. In order to avoid any manual routines, the invoicing system must be constructed based on the rules of the country that requires the most information. Issues highlighted by the companies in this respect include the following:

- That separate sequential numbers are required for foreign taxpayers.
- That the invoice has to be issued in the local language.
- That a signature is required on paper invoices.
- That the amount has to be specified in the local language as well as in local currency.
- That there is a requirement that the customer's VAT number is included on the invoice for local supplies in a Member State.
- That the time limit for when an invoice has to be issued is too short.
- That there are restrictions for when self-billing is allowed.
- That many Member States require qualified signatures when e-invoicing is used.

The Confederation of Swedish Enterprise believes that a unified EU standard concerning the design and requirement of the invoice is a necessary step to decrease the administrative cost.

IT systems

A common misconception is that companies, with simplicity, can handle all forms of VAT rules in their IT systems. However, current IT systems do not automatically support a correct and effective VAT reporting which means that each company's unique transactions must be identified and coded manually in order to insure a correct VAT accounting and invoicing. This entails large costs for companies. When it is not possible to deal with all types of transactions in IT systems, only costly manual processes remain.

The High Level Group of Independent Stakeholders

Below, The Confederation of Swedish Enterprise will comment on the proposed measures by the High Level Group of Independent Stakeholders.

Abolishing annual summary VAT returns (Recommendation 6)

There is no requirement for an annual summary of VAT returns in Sweden. We support the proposal to abolish such a requirement within the EU.

Reducing the frequency of the periodic VAT return (Recommendation 7)

Sweden applies different accounting periods today, but based on much lower turnover thresholds. We support the proposal to raise the thresholds. However, this should include a possibility for companies to voluntarily submit more frequent reporting.

Simplifying the proof required for the VAT export exemption (Recommendation 8)

We support the proposal.

Abolishing the intra-EU acquisitions listing (Recommendation 9)

There is no such requirement in Sweden. We support the proposal to abolish such a requirement within the EU.

Abolishing 'nil' intra-EU sales listings (Recommendation 10)

There is no such requirement in Sweden. We support the proposal to abolish such a requirement within the EU.

Introducing a real-time VAT collection system (Recommendation 11)

The proposal represents an alternative recovery system that we do not support.

Facilitating use of the power of attorney to submit VAT returns and listings (Recommendation 12)

It is possible to use a power of attorney in Sweden. We support the proposal for application within the EU.

Increasing the use of e-government solutions (Recommendation 13)

We support the proposal of increased possibilities to use e-government solutions.

Incorporating VAT registration into general business registration (Recommendation 14)

This is already in force in Sweden. We support the proposal to be applicable within the EU.

Harmonising measures to combat VAT fraud in line with best practice (Recommendation 15)

We support the proposal.

Small businesses

Q24. Should the current exemption scheme for small businesses be reviewed and what should be the main elements of that reassessment?

Q25. Should additional simplifications be considered and what should be their main elements?

Q26. Do you think that small business schemes sufficiently cover the needs of small farmers?

The Confederation of Swedish Enterprise is of the opinion that the regulatory framework, in respect of VAT, should be designed in such a simple way that all companies, both small and large, will be able to apply the rules. Thus, no special rules for small businesses are needed.

Other potential simplification initiatives

Q27. Do you see the one stop shop concept as a relevant simplification measure? If so, what features should it have?

The Confederation of Swedish Enterprise is of the opinion that the proposal for a single point of contact (the "one stop shop") is an interesting proposal, which should be investigated further. However, such a system must be simple and easy to manage in practice in order to

avoid increased administrative burden. The system must cover both output and input VAT and should include all taxable transactions within the Member State (that is, both goods, services, B2B and B2C). It should be voluntary for companies to decide whether to apply the system or to choose foreign VAT registration. Furthermore, the system has to be based on a single standardized IT platform to be used generally across the EU. It is of great importance to learn from the experience gained during the implementation of the VAT refund portals from 2010, this in order to avoid that similar problems recurring.

Q28. *Do you think that the current VAT rules create difficulties for intra-company or intra-group cross-border transactions? How can these difficulties be solved?*

Large companies announce that a predominant part of the cross-border EU trade is attributable to intra-group trading. As much as 70-80% of all cross-border trade within the EU is related to intra-group trading. Several large Swedish corporations confirm this figure. If a simplification can be achieved within the framework of e.g. cross-border group registrations, and such a simplification would facilitate an increase in the ability to identify and combat VAT fraud, The Confederation of Swedish Enterprise believes that such a suggestion should be explored further.

Q29. *In what areas of VAT legislation should you promote synergy effects with other tax and customs legislation?*

The Confederation of Swedish Enterprise is of the opinion that there can be several different areas that can be worth exploring for future possible synergy effects, for example the customs rules and the rules regarding VAT and excise warehousing.

Reviewing the way VAT is collected

Q30. *Which of these models looks most promising in your view and why? Would you suggest other alternatives?*

Summary

The Green Paper indicates that the VAT collection system within the EU is not optimal and that great variations in the so-called VAT gap (losses of VAT) exist between the different Member States. A total change of the VAT collection system as suggested in the Green Paper would, according to the Confederation of Swedish Enterprises, not be the right way going forward. The theoretical VAT gap consists of fraud, involuntary failures, bankruptcies, and the black economy. The VAT rules should not be made further complicated just in order to combat the black economy. This problem must be dealt with in other ways. If the starting point is that the information in the Green Paper gives a fair picture of the size of the VAT gap, then there are a number of Member States having a well working VAT collection. The starting point must then be to learn from the best examples of VAT collection in order to improve the average revenue collection and to reduce the VAT gap in the EU. Furthermore, other non-VAT-related measures must be used to address the issue of the black economy. Nothing indicates that the proposed alternative VAT collection methods will combat fraud, but rather that several of the proposed alternatives could result in the manifestation of parallel economies with an extended alternative market of barter-trade or pure black

economy. The economic merit, which Member States are believed to make based on the proposed alternative collection models, are based on "fraudsters" choosing to follow the rules for each respective model, which is something that fraudsters are rarely eager to do. Instead, those who are affected by these rules are the reputable companies.

The Confederation of Swedish Enterprise rejects the alternative collection methods. Instead, the Confederation of Swedish Enterprise believes that the best examples of an efficient VAT collection model within the EU should be used on an EU level, that the regulatory framework should be harmonised, the rules simplified, and the cooperation between the Member States' tax administrations, customs and police should be increased in order to combat the black economy, VAT fraud and economic crime. The Confederation of Swedish Enterprise is of the opinion that these measures are the most effective ways to decrease the losses of VAT revenue at EU level.

1. Split payment model

According to the Green Paper, this alternative assumes that the customer instructs its bank to pay for goods or services. The bank then splits the payment so that part of the taxable amount is paid to the provider/supplier and the VAT amount is transferred directly to the tax agency. The model aims to keep the VAT separate from the companies' other assets. By separating the principal amount and the VAT amount, the VAT can be blocked from use of the companies and thus fraud via missing traders can be eliminated.

The Confederation of Swedish Enterprise notes that companies will still fall into a position where they will continue to act as tax collectors of VAT, however with the big difference that they are no longer entrusted to manage the outgoing tax. This leads to an impaired cash flow for business, which in turn can lead to VAT rules affecting payment terms. VAT rules affecting payment terms is, moreover, something that is not in conformity with the principle of neutrality. The model has a variety of unresolved issues such as how card- and cash payments are handled. Technically speaking, the model could work for card payments but not for cash payments. This model is not realistic since the Green Paper suggests that 89% of all payments for amounts under 20 € and 39% of all payments above € 100 is paid in cash within the EU. Other unresolved issues arise related to instalments, late payments, self-billing, fringe benefits, cancellations of invoices as well as for intra-group transactions for which the banking system today is not used at all.

The Confederation of Swedish Enterprise rejects this model. What is fundamental to a neutral VAT system is that tax issues should not have any impact on commercial decisions. The model is not realistic and is not in line with the ambition to reduce the administrative burden for businesses. Moreover, the Confederation of Swedish Enterprise questions if the model prevents the development of emerging parallel economies with increasing barter-trade and illegal trade as a result.

2. Central VAT monitoring database model

According to the Green Paper the model involves all the invoice data to be transferred in real time to a centralised database. This way, the Swedish Tax Agency will receive information much faster. The model requires the introduction of compulsory e-invoice for all companies in all Member States.

The Confederation of Swedish Enterprise notes that the model does not appear to be realistic, when taking into consideration the work that has just been finalised regarding EU's invoicing directive. The model means increased costs for businesses during the process of adjusting to compulsory e-invoicing and for the double invoicing that will be the result. The model will result in problems when it comes to the choice of a particular standard for an e-invoice or will alternatively result in all e-invoices being accepted. The latter situation would mean 27 different systems for invoicing and this would not reduce the administrative burdens, which the model is actually aiming to do. The Member States have very different views on e-invoicing and the security for e-invoicing. Problems will also arise as a consequence of the enormous amount of data that the Swedish Tax Agency will be forced to handle. The Green Paper implies that approximately 30 billion invoices per year within the EU will demand a lot of resources when it comes to the handling of data. Sensitive security issues will arise for businesses when information about a business' complete financial activities will be sent to a centralised database outside of the business' control.

The Confederation of Swedish Enterprise rejects this model. What is fundamental to a neutral VAT system is that tax issues should not have an impact on commercial decisions. The model is not realistic and is not in line with the ambition to reduce the administrative burden on businesses. Moreover, the Confederation of Swedish Enterprise questions if the model prevents the development of emerging parallel economies with increasing barter-trade and illegal trade as a result.

3. Data warehouse model

According to the Green Paper the model requires that the taxable person enters pre-defined data related to transactions in an agreed format in a data warehouse for VAT purposes. The warehouse shall be run by the company and at the same time constantly be available for the Swedish Tax Agency. Variations of this model exist in Singapore and Portugal. Experiences show problems relating to the large amount of data and problems of compatibility with different business software. These problems would likely not be smaller if the model were to be implemented in the EU.

The Confederation of Swedish Enterprise rejects this model. What is fundamental to a neutral VAT system is that tax issues should not have an impact on commercial decisions. The model is not realistic and is not in line with the ambition to reduce the administrative burden for businesses. Moreover, the Confederation of Swedish Enterprise questions if the model prevents the development of emerging parallel economies with increasing barter-trade and illegal trade as a result.

4. Certified taxable person model

According to the Green Paper the model is built on businesses having their processes and internal controls certified. Businesses should thus be in control and be able to discover possible risks within their own business. These risks should then be reported to the Swedish Tax Agency for further discussions. The suggested procedure is largely inspired by the “Horizontal Monitoring” and implies that businesses shall turn to the Swedish Tax Agency as soon as a planned transaction can involve a tax risk. Through this method the Swedish Tax Agency can constantly control and monitor the business’ risky transactions. It also gives the Swedish Tax Agency the possibility to be extra alert within business sectors of high risk.

The Confederation of Swedish Enterprise is of the opinion that the model can result in businesses being regarded as potential imposters just because they belong to a particular business sector. Even businesses that chose not to certify their process may come to be regarded as potential imposters. Moreover, the model is time consuming and costly for the Swedish Tax Agency as well as for businesses. The Confederation of Swedish Enterprise fears that there are obvious risks that the Swedish Tax Agency will act to influence purely commercial decisions such as which type of IT system companies must use in order to meet to the certification requirements. What is fundamental to a neutral VAT system is that tax issues should not have an impact on commercial decisions. One unresolved issue is who will perform the certification and control its enforcement. In case the certification would be the responsibility of an external part there is a risk that the large accounting firms would in fact be the only parties able to practically handle these engagements. This could lead to an oligopoly, which is hardly desirable in the internal market where the most basic principles are freedom of establishment and competitive neutrality. A model based on this type of external certification is in practise nothing else than the outsourcing of the Swedish Tax Agency’s control functions that in the end will be financed by the businesses.

The Confederation of Swedish Enterprise rejects this model. What is fundamental to a neutral VAT system is that tax issues should not have an impact on commercial decisions.

Protect reputable businesses against involvement in fraud

Q31. Is the system with a voluntary and divided payment feasible and relevant?

This refers to a system that has similarities with the above mentioned split payment model with the difference that the customer voluntarily can take on certain requirements and pay the tax immediately. The Confederation of Swedish Enterprise rejects this model and refers to its answer under Q30 above.

Efficient and modern administration

Q32. Do you agree to these proposals to approve the relationship between businesses and tax agencies? Do you have any other suggestions?

The Confederation of Swedish Enterprise notes that businesses have the same aim as the Member States, thus a simple and efficient collection of VAT and fast and efficient combat fraud.

As stipulated under Q30 above The Confederation of Swedish Enterprise believes that totally changed ways of collecting VAT is not the answer. The Confederation of Swedish Enterprise is of the opinion that the best examples of collecting VAT within the EU should be use on an EU level, that the regulatory framework should be harmonised, the rules simplified, and the cooperation between the Member States' tax administrations, customs service and police should be increased in order to combat the black economy, VAT fraud and economic crime. The Confederation of Swedish Enterprise is of the opinion that these measures are the most effective ways to decrease the VAT gap at EU level.

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