

***JBCE position paper on  
GREEN PAPER on the future of VAT  
Towards a simpler, more robust and efficient VAT system***

Japan Business Council in Europe (JBCE) welcomes the opportunity to comment on the European Commission's '*GREEN PAPER on the future of VAT - Towards a simpler, more robust and efficient VAT system*'.

As the organisation representing Japanese businesses in Europe, we are active in contributing to the development of the public policy of the EU.

With this paper, we submit comments on specific questions raised in the Green Paper that are of particular relevance to our members.

Our overall position is that, because VAT is a consumption tax and businesses are collecting VAT for the tax authorities, any change in the future should give benefits not only to the tax authorities but also to businesses through simplification and burden reduction.

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

We think that the current VAT arrangements for intra-EU trade are an obstacle to maximising its benefits.

*Q2. If the latter, 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?*

Many Japanese companies are implementing integration and rationalisation of their European business organisation in order to remain competitive in the Single Market. Accounting functions including VAT administration are often targeted for centralisation with the aim of reducing overall costs and increasing competitiveness.

Although the VAT system in the EU is a common system, in reality, differences among EU Member States are significant. Presently, therefore, the centralisation of VAT administration carries high financial risks.

For example, if centralised accounting staff with limited country specific knowledge makes a mistake in a repetitive transaction, the accumulated amount that should be rectified could become high over a relatively short period. In addition, a penalty may be imposed. To avoid such a high risk, businesses have to either leave accounting staff in local operations or employ a number of accounting staff with country specific knowledge in a central location. In either case, cost-effective centralisation of accounting functions is unlikely to be realised.

Although we have not formed a preference for particular VAT arrangements, we believe the EU and its Member States should simplify and further harmonise the VAT system so that businesses can easily centralise their VAT administration in the EU in a cost-effective manner.

*Q13. Which, if any, provisions of EU VAT law should be laid down in a Council regulation instead of a directive?*

We believe that, for the purpose of realising a better functioning Single Market and therefore enabling more competitive EU businesses, VAT law should be laid down by a Council regulation though we are aware that the Member States would be reluctant to make such a move.

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

If the unanimity requirements are to continue for tax legislation, it may be a good idea to introduce implementing rules in a Commission decision.

*Q15. If this is not achievable, might guidance on new EU VAT legislation be useful even if it is not legally binding on the Member States? Do you see any disadvantages to issuing such guidance?*

As long as all the Member States implement what they have agreed informally, we do not see any disadvantage. However, if the pattern of implementing guidance is irregular among the Member States, it could create more obstacles to business than otherwise. Therefore, forming the consensus and carrying the Member States all the way to its implementation will be the key to such guidance.

*Q16. More broadly, 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)?*

The ideal solution for more centralised approach is the change in the unanimity requirements for tax legislation. Bar such drastic measures, a powerful committee that include the representatives of the Commission and the Member States as well as the representatives of businesses may help guiding more consistent implementation of VAT rules.

*Q20. Would you prefer to have no reduced rates (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 rates list in the EU notably in order to address specific policy objectives as laid out in particular in 'Europe 2020'?*

For the purpose of enabling businesses to centralise VAT administration, we would support a compulsory and uniformly applied reduced VAT rates list in the EU.

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

We believe that the one stop shop concept is relevant as a simplification measure. Businesses should be able to use one stop shop as an option.

*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?*

We believe that considering transactions between interrelated companies to be outside the scope of VAT, or enabling EU-wide VAT groupings, would reduce VAT compliance costs for businesses with EU-wide operations.

*Q29. In which areas of VAT legislation do synergies with other tax or customs legislation need to be promoted?*

It should be made sure that VAT arrangements should mutually complementary with a CCCTB when the latter is realised.

In the customs area, AEOs are based on the certification of the internal control system of a company. The EU should consider building the certification of VAT compliance process and internal controls on the certification of AEOs especially because the certification of AEOs is time-consuming and requires substantial investment by both businesses and customs authorities. The benefits of such efforts should not be limited to one area. By utilising the existing certification, it could contribute to the competitiveness of businesses in the EU.

*Q32. Would you support these suggestions to improve the relationship between traders and tax authorities? Do you have other suggestions?*

We believe that it is important to improve the relationship between traders and tax authorities as we have stated in Q29 by suggesting building the certification for VAT purpose on that for AEOs. It is important that traders could also see the benefit from improved relationship with the tax authorities.

*Q33. Which issues, other than those already mentioned, should be addressed in considering the future of the EU VAT system? What solution would you recommend?*

Currently, EU VAT system does not provide simplification measures for a triangular transaction that involves a third country (i.e. non-EU country). The future VAT arrangements should provide simplification measures for such cases in which a third country trader does not have to register for VAT purpose. In addition, it may be desirable to introduce simplification measures for cases that involve more than one third country traders.