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# RTvat:

## Response to the European Commission's Green Paper On the future of VAT: Towards a simpler, more robust and efficient VAT system

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## INTRODUCTION

RTvat is a not-for-profit organisation that has for some time been campaigning for a fairer VAT collection system based on the principles of real-time tax collection.

The concept is very simple; instead of the current delayed-reporting system in which VAT is collected by businesses on behalf of tax authorities and remains in their bank accounts for a period of time before being remitted, VAT can instead be calculated and extracted in real-time **on payment of each transaction**, with the due amount paid directly to the tax authority and the net paid directly to the vendor.

**The systems and technologies required are not new**; indeed they have been in widespread use for many years in the credit card and financial transactions industries.

The concept is fundamentally the same as that used every day on millions of credit card transactions; gross payment is accepted from the buyer; a real-time fraud analysis is employed to detect and filter potential fraudulent transactions; a fee is deducted (i.e. the payment is split) and paid to the credit card issuer; and the net amount is then remitted to the seller. All elements of the transaction are controlled from a central transaction server, which links to individual banks, card acquiring companies and point-of-sale terminals. In the credit card environment, this process takes only seconds, wherever in the world the buyer and seller are located.

In practice, the central server for credit cards (Visa or MasterCard) settles a net amount each day with the participating banks. Totals on all transactions for that day are added, and the net amount to be paid or collected is submitted to each bank for settlement as required.

In the RTvat model for VAT collection, the VAT payment is split from the transaction total and managed by 27 separate national servers linked to a central exchange system. As with the credit card transactions and fees, this is presented as a daily net total to be settled among each of the participants; domestic transactions are handled directly by the 27 national servers while cross-border transactions additionally flow through the central exchange.

As with the credit card model, direct links are made with participating banks, telephone-based payment providers, stored value and credit card issuers, as well as the bank accounts of each of the Member State Tax Authorities. The net collected VAT is correctly settled to the appropriate tax authority, according to the rates and regulations applicable in each Member State (for domestic transactions) or according to the cross-border rules in force between that country and the 26 other Member States for intra-EU transactions. Note that the current system of zero-rating transactions across Member State borders would be unnecessary under this proposed system; the server would be quite capable of calculating and applying appropriate rates between buyer and seller under any envisaged system between the two principals to the transaction – whether that be origin-based, destination-based, or a combination of the two.

In the same way as the initial VAT payment is made, any allowable reclaim can also be made in ‘real time’ i.e. as part of the same daily settlement.

In order to optimize the efficiency of the transaction and secure against fraud, it is critical that a similar fraud analysis system as that used for credit cards be applied to satisfy the tax authority that a reclaim is due. The recommendation generated by the fraud analysis tool is

dependent on many individual data items, but is primarily calculated on the type of product or service being sold, and the trading history of the two participants in the transaction.

In terms of the Green Paper, the proposed system contains elements of the **Split Payments** and **Central Data Collection** models as described; however, those models alone do not address some of the fundamental weaknesses inherent in the current system. Significant advantages in **fraud reduction, efficiency of collection and reduction in administrative burden** can be gained by combining the Split Payments and Central Data Collection concepts and combining them with the additional factors:

- Collection of VAT on **payment of each transaction in real-time**
- Real-time **fraud analysis** on each transaction
- Split payments on **all** transactions – B2B, B2C and cross-border
- Allowable **reclaims** calculated, submitted, approved and paid in real-time

By establishing a Central Server system interfaced to 27 individual National Servers, each running an identical core system, a central rulebase can be used to apply rates and legislative rules from each Member State across any intra-EU transaction; there would be no need for zero rating or flat rating of intra-EU transactions, or for rate harmonization across Member States. Instead, the correct VAT to be applied to any scenario would be calculated and applied automatically from the central server system.

The inclusion of automated allowable reclaims within the real-time system would ensure that businesses would receive the refunds they claim on allowable purchases in a timely fashion, ensuring neutrality of cashflow impact while retaining the advantage of funds never being in the possession of the vendor. **The role of the business as unpaid tax collector would no longer be required**, and the requirement to account for VAT would be largely an automated process with data drawn from the Central Data Collection system.

Although the RTvat system will work most effectively with electronic payments, cash payments can be accommodated by a system of daily deposits and data disclosure. However, it is recommended that implementation of the system should include both incentives and disincentives to encourage use of electronic rather than cash-based transactions. Essentially electronic transactions would be made both cheaper and more convenient than cash for both businesses and consumers. Businesses making cash payments would probably be subject to more extended verification and delays on refund processing.

Incentives to encourage purchasers to insist on paying electronically are already operating in several countries, notably in South America. With the spread of mobile phone-based payments and stored value cards predicted to become a major factor in consumer transactions, it is important that tax collection is prepared. A move away from cash becomes both more likely and more worthy of positive action.

The cost of implementation of such a system would be far less than is widely perceived, based as it is on established and well-tested technologies. Furthermore, by following a similar model to that used in the credit card industry whereby each transaction carries an additional small flat-rate fee, many of the capital and running costs could be covered without the need for major investment by governments or European Institutions. Initial costing analyses indicate

that a fee of just €0.25 per transaction over €10 would be sufficient to meet the overall cost of the system, including capital investment by tax authorities, central server and software infrastructure, and ongoing maintenance and running costs.

Compared to the savings in administrative overheads that businesses will enjoy through the use of the system, costs incurred for initial software re-tooling and the ongoing small transaction fees will still represent a significant saving over the current systems. Some companies may experience an initial cashflow disadvantage through no longer retaining collected VAT on behalf of the Tax Authority; other businesses who generally receive net VAT refunds will have a more beneficial cashflow position.

Clearly the RTvat system works most effectively on electronic transactions. Cash transactions can be accommodated, but need to be converted to a data format to become part of the system. The proposal is that the merchant would need to deposit cash from transactions on a daily basis, together with a data record of the transactions to which they refer. Refunds on such sales would be delayed in order to allow for the extra processing required – and as a disincentive. Ultimately the use of cash should be actively discouraged, with both incentives and disincentives to ensure that purely electronic transaction methods are more convenient, less time consuming, and cheaper than cash; one suggestion is that **both** parties to a cash transaction which is found to be fraudulent or aimed at evading payment of VAT should be jointly liable for the payment.

A major advantage of the proposed system is the potential for ease and swiftness of implementation. As the fundamentals of the system – including hardware, software, switching systems, database technology and communications protocols – are already in everyday use globally by the credit card and transaction processing industries, the issue would primarily be one of integration with Tax Authorities' existing systems and with business' accounting packages. It is anticipated that these integrations could be completed and a viable system established within one year from approval.

In a recent article in the *International VAT Monitor*, Professor Richard Ainsworth, Adjunct Professor at Boston University School of Law, concluded:

“The only solution that is actually capable of preventing missing-trader fraud and also limits several other forms of fraud, such as suppression fraud, is RTvat. It retains all safety mechanisms of a true VAT system and, at the same time, prevents the collection risk for the tax authorities. RTvat is based on the principle that transactions are paid for through banks, which is already the common method of payment for B2B transactions and, increasingly, also for B2C transactions (final consumers increasingly pay with plastic money). It requires a shift of the time on which VAT liabilities arise and input tax can be deducted, but that amendment should have a positive effect on the economy as a whole.

... RTvat is by far the most promising and practical solution for a robust VAT system.”<sup>1</sup>

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<sup>1</sup> Technology Can Solve MTIC – VLN, RTvat, D-VAT certification, Prof Richard Ainsworth, *International VAT Monitor* May 2011.

## OUTLINE OF A MODERNISED VAT SYSTEM UNDER A REAL-TIME COLLECTION SYSTEM AS DEVELOPED BY RTVAT

This note outlines how an electronic system could be used to modernise VAT using technology and systems which are common in the payment and settlement industries.<sup>2</sup>

Such changes will reduce administrative costs and revenue losses in the collection of VAT. The technical elements in the basic structure outlined below are relatively straightforward and can be achieved cost-effectively and rapidly since they are based on systems already in use today. The nature of the changes required are those which have already been embraced successfully elsewhere.

The basis of the proposal is:

1. A move to real-time collection of VAT including the settlement of allowable reclaims based on the time of actual payment by the buyer to the seller of goods and services.
2. The charging of VAT on all intra-EU transactions, as foreseen in the original Single Market proposals.

The technical obstacles which frustrated implementation of the latter proposal can now be overcome, with intra-EU transactions handled through a secure network of processor servers. This in itself will virtually eliminate carousel fraud. Movement to real time collection - i.e. as VAT is paid on a transaction it is remitted to the relevant tax authority - means that the current situation where many merchants effectively receive unsecured interest-free loans on an indiscriminate basis from the tax authority is ended.

Financial systems in the modern world run in real time but the VAT system continues to run on an extended period batch system. This built-in lag, which may be of several months, means that governments are unable to use the advances in technology that are at the heart of business control systems. There is accordingly a long gap between the events which matter – the charging of tax on individual transactions – and the time when tax administrations can identify and react to problems.

The RTvat system has at its heart the objective of shifting VAT from batch to real time, and in so doing to enhance the efficiency of the tax system. Its structure is designed to be secure and controllable, with flexibility for national tax administrations to control tax rates, derogations and special national practices as well as national data and reporting requirements within a generally agreed minimum standard. It is based on systems that are open standard and do not restrict entry for service suppliers.

## **Fundamental assumptions on the VAT system**

For B2B transactions the invoice remains a key part of the transaction, identifying the parties, describing its nature, setting out the computation of the tax and providing all the other information needed to complete payment of both the underlying commercial transaction itself and the tax. Furthermore, the tax invoice provides information which is essential to establishing the buyer's claimed input credit on the transaction.

The fraud analysis tool uses real-time data received from the transaction in order that immediate recommendations can be made on whether or not to release an automated reclaim. If there is a doubt regarding either the initial transaction (from the perspective of a money laundering or other criminal activity risk) or the reclaim (as to whether the specific transaction is allowable), then the tax authority may intervene in the transaction or reclaim until it is resolved – in the same way as a credit card company may ask for confirmation of a retail transaction if there is suspicion of fraud.

Technology can be used to change the collection of tax so that systemic losses and openings for fraudsters are minimised. To the maximum extent possible, the correct tax authority should receive the correct VAT amount as close to the time of payment of the transaction as possible. All the information needed to be able to make a real time, informed decision on whether or not to grant a request for a refund must be available. Tax authorities can control parameters for refunds including restrictions. However, for compliant businesses with good track records, the process of dealing with refund requests could virtually be automated.

Encouraging a general move to electronic payments is an important part of the model. The role played by cash and cheques is declining, particularly in intra-Community trade and may in time disappear completely.

## **Design of server network**

To process both intra-Community and domestic transactions a network of twenty-seven identical servers which are linked and act as the communication and funds transfer centres in each Member State will be established.<sup>3</sup>

These server systems may be broken down into sub-sectors where different areas within a Member State have separate local tax authorities, such as in the situation with the German Länder. In this case, the sub-national authority can have its own server, but all data is also stored and managed at the federal level.

The server network links to existing legacy systems and current national reporting formats can be retained. The enhanced quality of data as well as direct access to the server will enable tax administrations to improve the quality of reports and the verification of taxpayers' activities.

## **The format of the dedicated server network**

The SEPA structure demands that all payment networks be capable of passing XML data in a compatible format, and at an acceptable price. The RTvat server network design takes this concept forward so that three other facets are incorporated:

1. Each Member State has its own server with all domestic transactions being processed by that server.

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<sup>3</sup> This note focuses on the changes to the VAT system and does not go into detail on the human and technical resources needed for the server network.

2. The separation of the VAT amount from the payment to the seller of any net amount is a simple task to be performed at the server. This can be applied to all electronic payments, whether bank, phone or card-based.
3. The network of servers in each country is secure and in real time. The fraud scrubbing function also operates in real time, so that fraud control officers can check suspicious trades in minutes. (The tax administrations can also decide to delay any dubious refund requests for as long as they wish.).

This format enables each government to have complete confidence about the security of data on the system, while being structured so that the movement of necessary data to other tax administrations via their own local servers will be handled correctly and quickly.

The role of the server network is similar to that of Visa, i.e. the fund flow passes through a central point and is distributed fully from there. In Visa's case, the only deduction made before transfer of funds to the seller's bank is the fee for interchange. In the RTvat server network solution, the amount of the deduction is the VAT due on the transaction, as well as the fees payable.

### **How transactions are treated under the RTvat model**

The common features of the system are as set out above. There are inevitable variations in commercial practice and in the VAT system itself which will result in a need for different approaches to the collection of VAT.

Some of the more economically important formats are described in a step by step basis in the attached tables<sup>4</sup>.

Table 2 - Transaction flow for intra-Community B2B transactions settled by electronic transfer.

Table 3 - Transaction flow where buyer provides card data to seller either at POS or by web-based interface or by arranged direct debit agreement.

Table 4 - Transaction flow for domestic B2C transactions where buyer pays in full for goods or services at the place and time where delivered.

Although tax is for the most part collected (and refunded) under a real time and largely automated system, this occurs on the basis of data supplied by the taxable person. A periodic return (monthly, quarterly or annual) will continue to be required to allow the taxable person to confirm the correctness of the information on individual transactions over the period and that all taxable activities have been correctly accounted. Given the nature of the automated system and the associated record-keeping system however, the preparation of this report should not be onerous.

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<sup>4</sup> Although these are the most significant categories, not all types of operations are covered in this short working document. The system envisaged however is both scalable and transposable.

## **TABLE 1**

### **PROFILE OF TAXABLE PERSONS, WHICH UNDERWRITES THE FRAUD SCRUBBING FUNCTION, SHOULD INCLUDE THE FOLLOWING DATA FIELDS:**

- VAT identification number.
- Fixed establishments linked to this VAT number.
- Name and address(es) of taxable person.
- Main business activities (descriptive or code based)
- Monthly patterns of sales for last 5 (less or more ?) years

Monthly patterns of purchases for last 5 (less or more?) years **These profiles will need to be established from the outset for each taxable person – but this process should draw to the maximum extent possible on the existing data in the hands of national tax administrations.**

**TABLE 2 - TRANSACTION FLOW FOR INTRA-COMMUNITY B2B TRANSACTIONS SETTLED BY ELECTRONIC TRANSFER (ASSUMING THERE CONTINUES TO BE A DISTINCTION FOR B2B AND B2C)**

1. Seller draws up invoice, respecting the following specification,
  - Unique sequence number and date for identifying transaction.
  - Name and address of supplier plus VAT registration
  - Name and address of customer plus VAT registration details.
  - Place of delivery (if not as above).
  - Details of goods or services supplied.
  - VAT computation at appropriate VAT rate to be charged to the buyer for the transaction based on the status of the buyer (business or non-business, Member State of delivery or consumption, etc) and the rate applicable for the specific goods or services in the transaction through an automatic look-up facility via the server network.
  - Settlement date.
  - Bank details for settlement (for tax settlement assumed that VAT registration details are sufficient in most cases to trigger payment to correct account of entitled tax administration).
  - Other details – as defined in invoicing obligations.
2. Invoice transmitted to buyer (and captured by RTvat system).
3. Buyer validates invoice – verifies delivery of goods or services, price, tax computation, etc
4. Buyer schedules payment and authorises his bank to make settlement in accordance with invoice data
5. Buyer's bank debits buyer's account with full amount and credits the VAT server network.
6. Server network pays net proceeds to seller's bank.
7. Server pays VAT to the appropriate Tax Authority – normally on B2B trades with electronic settlement, this is the buyer's Tax Authority.
8. Seller's bank credits net amount to the seller's account
9. Buyer's initiates procedure for claiming refund (where entitled)<sup>5</sup>.
10. Tax authority processes refund request and pays appropriate amount to buyer's bank within agreed limits – this process can be virtually automated when fraud checking tool is functioning correctly.

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<sup>5</sup> Normally this will on the basis of invoice details – but if the invoice details have already been captured by the system when the transaction was initiated then this could be used to expedite or automate payment.

**11.** Seller receives confirmation that the VAT liability on the transaction has been discharged.

**TABLE 3 - TRANSACTION FLOW WHERE BUYER PROVIDES CREDIT OR DEBIT CARD DATA TO SELLER EITHER AT POS OR BY WEB-BASED INTERFACE OR BY ARRANGED DIRECT DEBIT AGREEMENT.**

1. Buyer initiates an order to purchase goods or services.
2. Seller prepares invoice (as per previous specification), sends invoice to customer and instructs server system to debit the buyer's card (link between system and card processor has to be clarified).
3. Card issuing bank is contacted with details of the proposed transaction, gives approval (blocking funds if necessary) and informs the seller by generating an authorization flag.
4. The seller can now release the goods or perform the service, if that is part of the requirement.
5. The issuing bank debits the account of buyer and transfers the funds, less its fees, to server system.
6. Server system makes payment to the seller's bank for credit to the seller's account of the net proceeds.
7. Balance of buyer's payment (tax amount) is transferred at the same time to the appropriate tax authority.
8. Buyer makes refund request and the tax authority checks available data (including fraud checking process) to see that the buyer is entitled to this.
9. Tax authority issues refund to buyer's bank account within agreed time limits.
10. The seller receives confirmation that the VAT has been discharged.

**TABLE 4 - TRANSACTION FLOW FOR DOMESTIC B2C TRANSACTIONS WHERE BUYER PAYS IN FULL FOR GOODS OR SERVICES AT THE PLACE AND TIME WHERE DELIVERED.**

1. Buyer initiates process of purchasing goods or services.
2. Tax inclusive price fixed by seller (applicable VAT rate is known and captured but retail buyer will not require a tax invoice<sup>6</sup>) and payment procedure is commenced to allow buyer to complete purchase.
3. Where payment is by electronic means, customer's bank is contacted with details of the proposed transaction, gives approval (blocking funds if necessary) and informs the seller by generating an authorization flag.
4. The seller can now release the goods or perform the service, as required.
5. The issuing bank debits the account of buyer and transfers the funds, less its fees, to server system.
6. Server system makes payment to the seller's bank for credit to the seller's account after collecting the tax on the transaction (on the basis of data input by supplier at the point where the transaction is initiated).
7. Balance of buyer's payment (tax amount) is transferred at the same time to the appropriate tax authority.
8. Where buyer makes payment by cash or cheque, this will have to be lodged by seller who, in these instances only, bears the responsibility to ensure correct payment of tax at time of lodgement<sup>7</sup>.

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<sup>6</sup> Even though no invoice is normally required for B2C retail sale, VAT details are normally available at this point lest a customer asks for a tax invoice.

<sup>7</sup> Fraud tools will have functionality to rapidly identify incorrect treatment or misrouting of cash and cheque receipts. Suppression of tax receipts in this manner can be contained but is unlikely to be eradicated completely.

## RESPONSES TO QUESTIONS IN THE GREEN PAPER

The following responses are based on the implementation of the system outlines above.

*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?*

It is clear from survey results among businesses in the Member States that the current VAT arrangements are providing an obstacle to trade, with many SMEs in particular reporting that doing business outside the borders of the EU is simpler than intra-EU cross-border trade. There is no technical reason why cross-border transactions should not be treated in exactly the same fashion as trades within a single Member State.

*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?*

Intra-EU supplies should be taxed in the same way as supplies within a single Member State. By applying a single central rulebase it will be simple for both buyers and sellers to apply the appropriate rates for each specific transaction. Rates may be based on the origin system, or the destination system, or a combination of the two if required; as long as the rules can be formulated, they can be applied through the use of the electronic transaction system. However, for clarity it is desirable that the system be kept as clear and transparent as possible, and it appears that taxation based on the place of supply is the most logical system to apply in most instances.

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

This specific question goes beyond the scope of the issues addressed by RTvat which are essentially focused on improving the collection of the tax. Whatever arrangements are put in place for public authorities and holding companies, these can be accommodated in an automated collection system.

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

In our view, there are currently too many exemptions and exceptions. They make for an unfair system, as SMEs cannot afford the same advice as large companies. Many of the exemptions were originally designed to make the cost burden less oppressive on the less-wealthy. But this is frequently not the impact – and there are far better ways to offset higher VAT than creating over-complicated exemptions.

Given the criticality of the need for action, we suggest no changes for the first year, but a complete overall of the exemptions in year 2.

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

The RTvat system as described could accommodate any number of exemptions and exceptions within its rulebase; however it appears clear that an efficient and fair system should minimise exemptions and broaden the tax base while reducing rates or providing targeted relief for those specific groups who would be adversely affected.

Some countries outside the EU are dealing with these matters by granting benefits to those deserving of them – and technology is able to make this happen effectively and confidentially. For instance, a merchant sells a pint of milk to a pensioner, which has 20% VAT included in the price. The pensioner is debited –at the central server – only 50% of the cost, as the state provides the benefit to cover the difference. The merchant is unaware of the discount, so there is no loss of face.

*Q6. Which of the current VAT exemptions should no longer be kept? Please explain why you consider them problematic. Are there any exemptions which should be kept and, if so, why?*

Not specifically addressed. In an ideal VAT system, exemptions should be minimised. Nevertheless an automated system can accommodate exemptions as long as they are consistently and clearly defined.

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

Not addressed.

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

Not addressed.

*Q9. What do you consider to be the main problems with the right of deduction?*

A major problem is the need for businesses to understand the rules as they are applied across the EU. By establishing a central rulebase in which all current rates, legislation and exemptions are applied automatically and used by businesses in requesting refunds, the burden on businesses is reduced. Furthermore, by applying a real-time fraud analysis to each transaction, potentially non-allowable deductions can be identified and referred for further investigation.

*Q10. What changes would you like to see to improve the neutrality and fairness of the rules on deduction of input VAT?*

Implementation of a real-time automated system should be a priority.

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

The current rules are problematic on a number of levels, not least the opportunities for fraud due to the zero-rating across borders. The complexity of the system is a positive disincentive for SMEs in particular to trade across internal borders, with many businesses finding it easier to trade outside of the EU.

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

A centralised system is critical; while greater co-ordination between tax authorities is desirable, a more practical solution is to introduce a single, auditable and verifiable central server to which each individual tax authority would link and contribute data. National rules would be stored in the central rulebase and applied uniformly across the entire system. VAT

due to each tax authority would be calculated centrally on each transaction and remitted automatically to the appropriate tax authority; similarly refunds would be paid in an automated fashion across borders in exactly the same way as they would for internal transactions.

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

Not specifically addressed.

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

Not specifically addressed.

*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?*

Not specifically addressed.

*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)?*

Consistency in interpretation and implementation is critical to the success of any cross-border system, as is the compatibility of data interchange. Regulations, rate information and rules must be provided and applied centrally.

The problem of obtaining unanimity is a major obstacle in preventing progress to a modern system. The use of a Council regulation could help to establish a centralized system; at a minimum, information should be centralized, up-to-date and freely accessible across the EU.

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

Not specifically addressed.

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

With a centralized real-time collection system with each transaction calculated according to the rulebase on a single central server system such derogations would become easier to administer. Derogations operated by individual Member States for political or other reasons could be accommodated swiftly and consistently within the central rulebase.

*Q19. Do you think that the current rates structure creates major obstacles for the smooth functioning of the single market (distortion of competition), unequal treatment of comparable products, notably online services by comparison with products or services providing similar content or leads to major compliance costs for businesses? If yes, in what situations?*

Not specifically addressed. Complexity in rates, provided the coverage is clear, can be accommodated within an automated system.

*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'?*

Under the RTvat system there would be no need for rate harmonization, nor for exemption or reduced 'flat' rates for cross-border transactions. Individual Member States could if desired retain a number of different rate bands for different goods or services, provided it could be clearly defined under what circumstances such rates were to be applied.

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

Not specifically addressed – see however more general comments.

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

Not specifically addressed - see however more general comments.

*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?*

The cost of VAT compliance for companies is already high, and rises with each new regulation and attempt to 'patch over' the existing flawed system. The recommendations of the High Level Group are useful in identifying the scope and extent of the problem, but the suggested measures will not significantly address the issues. By implementing a real-time, automated collection and reclaim system based on each transaction, the administrative burden will be significantly reduced; most of the data required for companies' reporting obligations will be generated automatically by the central server's audit trail, and the onerous task of collecting and remitting taxes on behalf of the tax authority will be eliminated.

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

Under the RTvat proposals, the administrative burden for small businesses would be significantly reduced. VAT-compliant business transactions would effectively become as simple as a credit card transaction in many cases, with VAT deducted automatically in the course of the transaction. All information necessary for VAT compliance and record-keeping would be provided to the registered business in the form of an audit trail of transactions noting the amount of VAT extracted on each. Under these circumstances there would be little need for exemptions, simplifications or registration thresholds for small businesses.

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

Not specifically addressed.

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

Not specifically addressed.

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

The one-stop-shop concept is fundamental to the RTvat proposal, with information, rules, rates, registration and submission performed through the central server system. For specific features, please refer to the explanations at the beginning of this document.

*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?*

Current rules clearly create difficulties for inter-company and intra-company cross-border transactions. By applying real-time VAT collection and real-time refunds consistently on all transactions – inter-company, intra-company and cross-border – many of these difficulties can be resolved and clarity achieved.

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

The establishment of a Central Data Collection system, and the application of real-time fraud analysis to each VAT transaction, enables the establishment of a complete and comprehensive data resource which can be mined for synergistic links with other taxes and in particular with the customs IT developments which are expected to be in place by 2015. Trust profiles can be established for companies to verify that their business activities lead to compatible and consistent tax treatment across a number of areas.

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

This question is dealt with in depth at the beginning of this paper. In short, each of the models outlined has significant shortcomings if applied in isolation, and a number of critical components are missing from the supplied models. The most effective solution can only be a combination of the Split Payments and Central Data Collection models, with the fundamental addition of real-time collection and reclaim of VAT on each transaction, real-time fraud analysis of each transaction, and consistent application across all arenas – B2B, B2C and cross-border.

*Q31. What are your views on the feasibility and relevance of an optional split payment?*

An optional model would lose many of the benefits of full implementation and would result in far fewer benefits in terms of fraud reduction, administrative burden reduction and level playing field. It would be better than nothing – but only as a first step!

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

It is well recognised that in some Member States businesses find significant problems in dealing with their local tax authorities, let alone those of other Member States. By implementing a consistent centralized data collection system in which most processes of collection and reclaim are automated, the need for intervention by the tax authority becomes significantly reduced, and the comprehensive audit trail provides verifiable data on which to base decisions and judgments.

*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?*

We recommend a full, comprehensive and consistent application of a real-time VAT collection and reclaim system, with real-time fraud analysis on each transaction. A central rulebase should be established, with national servers in each Member State linked to a central server for co-ordination, application of rates, regulations and exceptions, and real-time settlement of collection and reclaims across Member States. The technology and systems required are widely used in the credit card and transaction processing industries, and a number of solutions providers have the expertise and applications available to ensure a rapid, cost-effective and consistent application.