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A Pledge for an EU-Harmonized VAT Return

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The global crisis provoked by the Covid-19 disease has affected several spheres of our lives. Apart from health, the biggest impact has been felt in the reduction of production and consumption, accompanied by a general tightening of business conditions. Although the course of the pandemic disease remains a factor of uncertainty, it becomes increasingly apparent that we are heading towards a new economic course. The Covid-19 global pandemic is likely to cause a recession, and depending on the duration, possibly a depression. The decline in business volume is a dramatic reality all over the world, and entrepreneurs are trying to adapt to the “new normal” as much as they can. States have taken several measures, including tax measures, to ease and sustain the business of entrepreneurs. Notably, in most countries, the deadlines for submitting tax forms have been extended, while tax deferrals and payment of tax in installments have been granted. States also find themselves in continuous search for additional measures to mitigate the present and future effects of the global crisis on the economy.

Although many state institutions, including tax administrations, due to the digital evolution, are focused on the further development of digitization and digital public services, it is only the global pandemic that has shown the pivotal importance of digitization. This is true for the state administration, entrepreneurs and consumers alike. Tax administrations, in particular, have two main goals that run in parallel: timely tax collection and providing qualitative services to taxpayers and citizens, with the aim of increasing tax compliance and reducing the administrative burden. Providing qualitative services to taxpayers, among other things, entails a whole range of electronic services, especially relating to submitting mandatory tax forms, including VAT returns. In some countries, electronic submission of forms is also a legal obligation.

For example, in the Republic of Croatia, it is obligatory to submit a VAT return electronically, and only in exceptional circumstances as prescribed by legislation, the submission of a VAT return can be done in a paper format. Also, in the Republic of Croatia, a fully automatic VAT refund is enabled, within strictly prescribed deadlines, for those taxpayers who are recognized as compliant on the basis of the Compliance Risk Management System (CRM System). Although the CRM System on the basis of which the automatic VAT refund was developed, has been implemented and in

operation for more than two years, in this time of crisis the instrument has proven to be more than a satisfactory solution for the development of digitization. Compliant taxpayers automatically receive a VAT refund on their account, which relatively improves their liquidity in times of crisis, while, on the other hand, the organization of the tax administration also had to adapt to the new pandemic conditions, but not to the detriment of their work. Digitization has undoubtedly facilitated the adaptation of the tax administration in the circumstances of a global pandemic. Consider, for a moment, a situation without digitization, in which, in order to protect the health of tax officials and taxpayers, workload would be organized in a reduced volume in offices, and VAT refunds would be covered by a reduced number of tax officials. In a similar situation, it is easy to predict that it would be much more difficult to secure VAT refunds within the prescribed deadlines, which would again result in a lack of financial resources of entrepreneurs at a time when those resources are most needed.

Member States of the European Union have achieved different levels of digitization, as shown by the “[The Digital Economy and Society Index \(DESI\)](#)” for 2020. Digital evolution is, however, unstoppable and it is necessary to take advantage of all its benefits, which can be crucial in unpredictable situations such as the outbreak of the global crisis has shown. In this regard, it is necessary to consider what else can be done to facilitate the business of entrepreneurs, especially at present, and reduce the administrative burden on them. The European Union, as a community of countries, has managed to achieve a common legal framework for value added tax (VAT), which is binding for all Member States. And yet, no EU-harmonized VAT return still exists. The global crisis, with its effects of slowing down economic activities, might prove the right time to address this issue.

It is not difficult to imagine how much the business of undertakings operating in different Member States would benefit by a step in that direction. Lower costs for taxpayers, a reduced administrative burden, increased tax compliance, simplified data exchange between tax authorities of different Member States, combined with a less likelihood of mistakes are just some of the major advantages associated with an EU-harmonized VAT return.

The need to take steps in that direction, indeed, more urgent at present. The [VAT Directive](#) as it is now, in fact, prescribes on what information a VAT return should contain. Notably, Article 250(1) of the VAT Directive prescribes that „every taxable person shall submit a VAT return setting out all the information needed to calculate the tax that has become chargeable and the deductions to be made including, in so far as is necessary for the establishment of the basis of assessment, the total value of the transactions relating to such tax and deductions and the value of any exempt transactions“.

In today’s age of digitization and the benefits of new technologies, the complexity of the legal framework should not be an obstacle to a qualitative solution for all EU Member States. The adoption of an EU-harmonized VAT return, possibly by taking into account new technologies such as blockchain technology and Distributed Ledger Technology (DLT), can contribute to mitigate the current complexity of the VAT legal framework to a significant extent. The early adoption of those technologies might also enable the European Union to assume world leadership in this regard.

It is an old proverb that “every evil for some good”. In a dire time of health and economic crisis such as at present, it seems that an EU-harmonized VAT return might contribute to ease entrepreneurs’ lives to a significant extent. Let’s then take this as one of the most urgent steps towards a new economic course. After all, taxes are just a product of the economy.

The content of the article is the personal view of the author.

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