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# VALUE ADDED TAX SYSTEM AND DYNAMICS OF RATE IN THE PERIOD OF EUROPEAN UNION CRISIS

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## Abstract

**Purpose** - the article aims to assess the economic efficiency of value-added tax as the prime indirect tax. The analysis focuses on flaws of the current value-added tax system; ways to eliminate the flaws and make European Union-wide improvements in the system are discussed. In her research article, the author also presents the research of the value-added tax rate dynamics in the European Union and assessment of value-added tax rate changes in Lithuania and Great Britain during the crisis.

**Design/methodology/approach** - descriptive method, analysis of scientific literature, statistical analysis of data, analytical method, mathematical analysis, analysis of legal instruments, and comparative analysis.

**Findings** – the author focuses on current scientific debates on ways to improve the value-added tax system according to the European Commission. In her article, the author presents the research of value-added tax rate dynamics in the European Union and the significance of value-added tax for the European Union budget revenue.

**Research limitations/implications** – in the next paper would be added the most recent data, now they do not exist.

**Practical implications** – the paper presents the theoretical framework for further study of value-added tax in European Union as basic material for classroom use.

**Originality/Value** – the author presents the research of value-added tax rate dynamics in the European Union during economic crisis.

**Keywords:** value added tax, indirect tax, dynamics, rate, European Union, economic crisis.

**Research type:** research paper.

## Introduction

In the opinion of most scientists around the world value added tax (hereinafter referred to as VAT) is the best form of the common consumption tax. If the state has introduced such a tax, as it is in most developing countries, naturally, in most cases it will be the only tax of this type. One of the reasons why VAT has successfully taken roots in the global tax systems is that the European Union (hereinafter referred to as EU) has been a good example. The EU introduced VAT very early and realized its benefit and this favourable experience encouraged to apply VAT in other states, too[1].

Actually most developing countries have already had VAT and the ones that still don't have it, are encouraged to introduce this indirect tax. Recently the European Commission together with population of the EU member-states have discussed about efficiency of VAT, its development level and other aspects related to VAT, especially in the view of its role in states with low income.

Value added tax in articles of some scholars is defined as a tax of wide scope applied in different stages of production. Its advantage is that revenue earned during production, is protected (other than retail sale taxes). In different countries one can come across taxes bearing the same VAT tax name, also one can come across the name of goods and services, however the purport of taxes may be not exactly the same[2].

All member-states of the European Union basically adopted the same VAT model, which is regulated in the 6th VAT Directive. No improvisation can exist among these states; all taxation, regulation, the subject and the rest is the same. However, currently the VAT system in the EU is operating in a not exactly unanimous principal: different VAT rates and individually selected groups of goods with granted exemptions are applied. The simpler VAT system would also mean reduction of tax payers' and tax administrators' operating costs and rise of the net profit of the budget. Thus, in view of regulation gaps in the VAT system and also serious difficulties that arouse during the financial crisis in the area of public finances, transition of the member-states from direct to indirect taxation, development of simpler and more efficient VAT system and grounding everything by economic assessment becomes important. The author makes the research of VAT rate dynamics in Lithuania and the European Union and analyses drawbacks of VAT system and possibilities how to remedy them.

## I. Flaws in VAT harmonisation and improvements to the system

Harmonisation of indirect taxes, VAT among them, has been debated since the dawn of the EU. In 1957 EC founding treaty, the provisions dealing with the harmonisation of indirect taxes are laid out in Articles 90 to 93 (Articles 95 to 99 in the new 1992 version). Article 99 states that *"the EC shall consider how the legislation of the various member states concerning turnover taxes, excise duties and other forms of indirect taxation, including countervailing measures applicable to trade between member states, can be harmonised in the interest of the common market"*[3].

The key EU Directive that governs VAT is the Directive 2006/112/EC on the common system of value added tax, which basically replaced the sixth VAT directive 77/388/EEC

[1] Bird, R. M. (2005). Value-Added Taxes in Developing and Transnational Countries: Lessons and Questions.

[2] Bird, R. M., and Gendron, P.-P. (2005). VAT Revisited. A New Look at the Value Added Tax in Developing and Transnational Countries

[3] The Treaty on European Union 1992. URL: http://eur-lex.europa.eu/lt/treaties/index.htm, [12/11/2012].

of 1977. The directive is regularly amended. It means that the EU is improving VAT taxation to make the tax even better harmonised. VAT rates and tax allowances, still different in individual EU member states, pose questions for debates on ways to improve the VAT system and its regulation.

Taking heed of these facts and aiming to create a simpler, more efficient and robust VAT system at the Community level, the EC has outlined the main flaws of the system and proposed possible ways to eliminate the flaws, to make the VAT system more efficient and to make improvements.

*"Simpler VAT system includes:*

- *Reducing the operational cost to tax administrations and taxpayers;*
- *Increasing the net benefit to the Treasury;*
- *Simplifying VAT compliance and regulation;*
- *Making VAT less susceptible to fraud.*

*Having analysed EC proposals, the on-going EU action programme Europe 2020 Strategy and legal instruments, the author's discretion was singled out the most important key areas to improve the VAT system"*[1]*:*

1. **Administrating of the VAT system.** The complicacy in the VAT regulations outcome in administrative burdens for businesses. Agreement with VAT accounts for almost 60% of the total burden measured and this is making the EU a less appealing place to invest[2]. The EU tax system lacks transparency and it has gaps; this gives rise to uncertainties about the applicable rules, and facilitates double taxation or tax discrimination. Businesses and citizens alike are interested to have any barriers to transactions inside the EU removed: the issue of cross-border loss compensation for companies needs to be tackled; the rules on VAT invoicing need to be simplified and modernised, which would then facilitate electronic invoicing. It is important to note that this proposal has been considered and, as of 1 January 2013, new provisions of the Law on Value Added Tax governing electronic VAT invoicing come into force (part of efforts to implement the directive 2010/45/EU). In contrast to the requirements of current legal acts, taxpayers, as of 2013, shall not be required to use any specific technology for electronic VAT invoicing[3]. Now that the requirements to hard copies and electronic copies of VAT invoices are the same, an emailed copy of a regular VAT invoice shall be deemed an electronic VAT invoice and treated as equal to a hard copy of a VAT invoice.

As proposed by the EC, one way to reduce the administrative burden on businesses is to exempt from VAT companies with their annual turnover below a certain threshold. In view of this proposal, as of 1 January 2012 Lithuania has raised its threshold for

[1] Žalioji knyga - PVM ateitis. Paprastesnės, stabilesnės ir veiksmingesnės PVM sistemos kūrimas. URL: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0695:FIN:LT:PDF [Retrieved 20/11/2012].

[2] 20 October 2009. Opinion of *Businesseurope* on partnership towards a fair and efficient VAT system. URL: http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_lt.pdf [Retrieved 20/03/2013].

[3] Advantages, disadvantages and changes in electronic VAT invoicing for 2013. URL: http://www.teisesforumas.lt/index.php/mokesciu-ir-finansu-teise/1961-elektronini-pvm-sskait-faktr-pranaumai-trkumai-ir-pokyiai-nuo-2013-met.html [Retrieved 15/11/2012].

compulsory registration as a VAT payer from LTL 100,000 (around EUR 29,000) to LTL 155,000 (around EUR 45,000)[1]. It is an attempt to simplify VAT administration and improve its efficiency; besides, the threshold has been raised in hope to promote small business. Importantly, Lithuania’s present VAT registration threshold is one of the highest among EU states. Many states with economies, companies and turnovers considerably larger than those in Lithuania, have lower or very similar VAT registration thresholds, for example, the threshold is EUR 6,700 in Denmark, EUR 18,300 in Hungary, EUR 17,500 in Germany, and EUR 30,000 in Italy and Austria.

2. **Complex regulation of the VAT system.** The VAT regime is cumbered by the derogations for member states under EU VAT law and existence of numerous options, which leads to divergent rules across the EU. With regard to EU-wide coordination of tax policies, Businesseurope singles out VAT as one of priorities and argues that variations in VAT tariffs affect trade and capital movements, at the least in the medium period, and are wherefore topical for the functioning of the single market[2]. In a context of a trend towards rising consumption taxes, coordination of policies directed at raising standard VAT tariffs or limiting the application of reduced VAT tariffs may be useful[3].

The issue of VAT deduction also needs deliberation. The VAT system based on payments, so that the VAT becomes deductible and payable when the goods and services are paid for, would be neutral for everyone. This system would also restrict VAT losses due to customer insolvency. With refund schemes for businesses fixed in a different Member State, the actual deduction of VAT is complicated and it takes a long time. This problem could be solved in One Stop Shop[4]. The One Stop Shop will foresee businesses to declare and pay the VAT in the Member State where they are established rather than where their customer belongs. The One Stop Shop system that is restricted to non-EU providers of electronic services is being extended to EU businesses and to telecom services and broadcasting. In the offing the intention is to expand the One Stop Shop to even more activities, including supplies of merchandise [5].

*“On 1 January 2015, the VAT rules on the place of supply of services will change for companies supplying telecommunications, broadcasting or electronic services to EU customers. The VAT becomes due where the customer belongs. This makes it necessary to broaden the current scope of the existing One Stop Shop system. Currently, a scheme is already in operation for non-EU businesses supplying electronic services. The scheme will now extend to both EU and non EU businesses and - in addition to electronic services -*

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1 Tax changes for 2012. URL: http://www.finmin.lt/web/finmin/2012mokesciai [Retrieved 14/03/2013].

2 20 October 2009. Opinion of *Businesseurope* on partnership towards a fair and efficient VAT system. URL: http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_lt.pdf [Retrieved 25/03/2013].

3 http://www.araco.org/infutile/noutatifiec/2010/mariomonti/2010-05%20FIEC%20note%20-%20Report%20Monti.pdf [Retrieved 15/05/2013].

4 Žalioji knyga - PVM ateitis. Paprastesnės, stabilesnės ir veiksmingesnės PVM sistemos kūrimas. URL: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0695:FIN:LT:PDF [Retrieved 10/03/2013]

5 http://www.sharedserviceslink.com/file/94185/taxation-developing-the-one-stop-shop-for-cross-border-vat-compliance.html [Retrieved 15/05/2013]

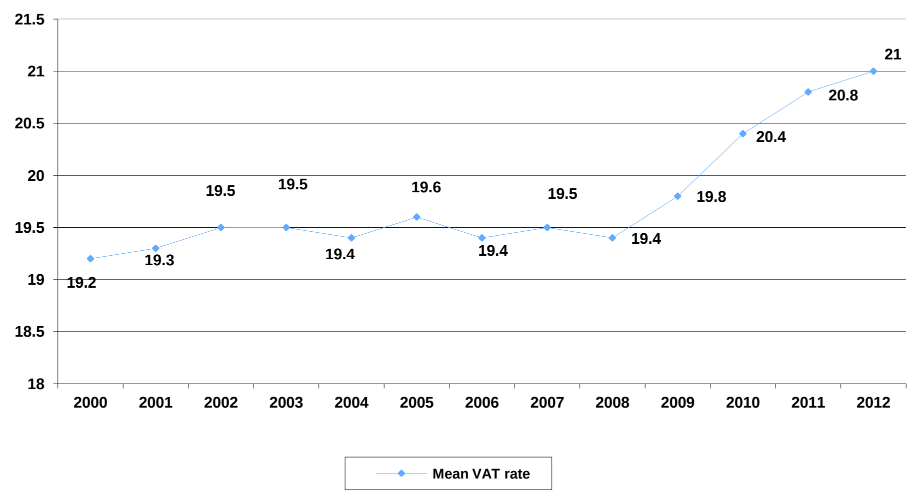
*incorporate telecommunications and broadcasting services. It will allow suppliers to use a web portal in the Member State in which they are identified to account for the VAT due in other Member States on supplies of these services to private consumers*"[1].

## 2. The Research of the Value-added Tax Rate Dynamics during the Crisis in the European Union

Right after the start of development of the value added tax system its regulations has been changing and improving. The countries have changed rates, exemptions and other relevant aspects that would facilitate the taxation process and would benefit to get closer to the Community target – to eliminate factors that generate competitive differences between the states, so they would not encumber free movement of goods and services but promote trade.

A lot of discussions arise regarding VAT rates. For years countries worked out what rates to apply in accordance with economic situation of the country in order to secure both collection of income to the budget and to avoid too big burden to population of the country.

VAT rates in member – states of the EU range from 15 % to 27 % (see Table 2). There are big differences not just in the level of standard rates, however countries apply different reduced rates and impose taxes on different groups of goods. The author of the article demonstrates the dynamics of the mean VAT rate in the EU in years 2000 – 2012.




Reference: made according to Eurostat data

**Figure 1. Dynamics of mean standard VAT rate in the EU in years 2000 – 2012**

Within 13 year-period the mean VAT slightly varied, however the biggest changes are seen since year 2009 when the standard rate of VAT started growing fast and the

[1] European Commission. Developing the One Stop Shop for cross border VAT compliance. URL: http://ec.europa.eu/commission_2010-2014/semeta/headlines/news/2012/01/20120113_en.htm [Retrieved 10/01/2013]

mean rate rose by 1.2 percentage points, i.e., from 19.8% to 21%. Not all countries increased rates; some of them introduced reduced rates or changed their application. The biggest change of the standard rate was made in Hungary in years 2008-2012, when it increased by 5 percentage points and Latvia – 4 percentage points (see Table 2).

Each country increases rates of the tax having their own targets in mind. Whereas the analysis is focused on the l4 recent years, we can state that increase of rates in most countries depends on financial situation of the country during the crisis. One of the reasons –the increase of rate was necessary for finding a way how to reduce the budget deficit.

In the view of the revenue of the governments of the EU we can see that revenue of all 27 states of the EU dropped from 174.15 billion Euros from year 2008 to 2010. This can be associated with reduction of the taxing income, which dropped within this period by 179.4 billion. We should note that in year 2009 the difference was even bigger, however in year 2010 the revenue increased in all countries with exception of some. Meanwhile the revenue from VAT after a big drop by 72.89 billion Euros in year 2009, the revenue in year 2010 exceeded the revenue of year 2008 by almost 4 billion Euros. This can be associated with increasing rates of VAT and in some countries consumption is promoted (e.g. Luxemburg) by development of reduced rates, which can also make big influence on increase of the revenue. Germany collects most revenue from VAT, the second on the list is France. Meanwhile Bulgaria is a country, which depends on the consumption tax. There the consumption tax makes 50.8% of all taxes. Meanwhile Italy (22.8%) and Spain (23.6%) are least dependent on these taxes.

## 3. Assessment of Value Added Tax Rate Changes in Lithuania and Great Britain during the Crisis

The Republic of Lithuania became a full member of the EU in year 2004. Naturally, one of the stages for preparation to become a member was harmonization of legislation; and Lithuania also joined a common VAT system. The Law of VAT of the Republic of Lithuania defined application of this tax. The main change in VAT Law was that the margin for being registered as a VAT payer as of 1st January 2012 from 100,000 Lithuanian Litas (around 29 thousand Euros) was increased to the margin of 155 thousand Lithuanian Litas (around 45 thousand Euros) allowed under resolution of the Council of the EU.

As we can see in Table 1 that since introduction of VAT in Lithuania, i.e. from 1st May 1994 to 1st January 2009 18% VAT rate was applied. 18% standard VAT rate was applied in Lithuania until the beginning of the crisis. The country could never boast about surplus budget, however during the crisis ways had to be found how to increase the revenue to the national budget[1]. In year 2009 the VAT rate was increased by 1

[1] Total general government revenue from VAT. http://appsso.eurostat.ec.europa.eu/nui/show.do [Retrieved 10/05/2013]

percentage point up to 19% and in year 2010 – by other 2 percentage points to 21%. However, as a result of disappointment in development of the Lithuanian economy the Ministry of Finance suggested to increase the VAT rate by other 2 percentage points (up to 23%) at the end of year 2011. Despite of such suggestions, yet VAT rate remained 21%[1].

**Table 1. Change of VAT rate in Lithuania.**

| Year | Standard rate | Reduced rate |
|---|---|---|
| 01/05/1994 | 18 | - |
| 01/08/1994 | 18 | 9 |
| 01/01/1997 | 18 | - |
| 01/05/2000 | 18 | 5 |
| 01/01/2001 | 18 | 5 \| 9 |
| 01/01/2009 | 19 | 5 \| 9 |
| 01/09/2009 | 21 | 5 \| 9 |

Most tax deductions were abolished during the period of crisis, e.g., for periodicals, cultural and passenger carriage services and meat products. Currently 5% rate is applied to pharmaceuticals and medical devices, however this reduction can be used by persons only who have a right to full or partial reimbursement for purchase of this type of goods under Social Insurance Law; and tax deduction of 9% is applied to books, heating and hot water in Lithuania. 0% rate is applied to internal and international transport[2].

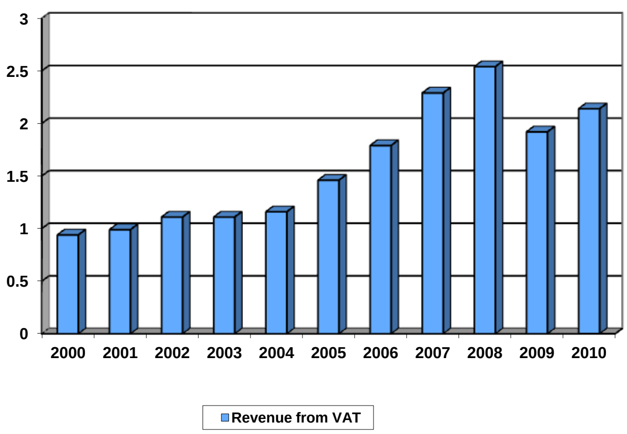
Lithuania is one of countries that have to harmonize its expenses, since there is always lack of revenue. However, during the crisis the revenue significantly dropped – by 1.68 billion Euros, taxable – by 2.25 billion Euros and unlike in other countries, the revenue did not rise in year 2010. The revenue was not raised even after „the overnight tax reform "that was implemented in year 2008 when the burden falling on population and companies was raised.

Meanwhile the revenue from VAT that dropped almost by one fifth in year 2009 – by 0.62 billion Euros, in year 2010 rose up to 2.14 billion Euros (the rise of 0.22 billion Euros). This can be seen in Figure 2. In year 2011 8.502.5 billion Euros was earned as VAT. The revenue plan was achieved by 102.9 percent. The state budget received 243.3 billion Euros revenue more than planned from VAT. Compared to the year 2010 1.208,5 million Lithuanian Litas was transferred to the budget or in other words, 16.6 percent more. 4.542,4 million Lithuanian Litas was earned from VAT during the 1st quarter. The revenue plan was achieved by 99.7 percent and the state budget received 15.9 million

[1] Lithuania proposes 2% VAT rise to 23%. http://www.tmf-vat.com/tmf-in-the-media/lithuania-proposes-2-vat-rise-to-23.html [Retrieved 13/05/2013]

[2] European Commission. VAT Rates Applied in the Member States of the European Union. 1049, Brussels, January, 2012.

Lithuanian Litas of revenue from VAT less than planned. Compared to the 1st quarter of year 2011 122.7 million Lithuanian Litas revenue from VAT was transferred to the budget, i.e. 2.8 percent more than planned. Collection of this revenue was determined by changes in surplus payment and VAT arrears: actual revenue from VAT in the 1st quarter of year 2012 was 404 million Lithuanian Litas or 10.2 percent more than the 1st quarter of year 2011. In the 1st quarter (in year 2011 the actual revenue from VAT as a result of dropped VAT arrears and bigger VAT surplus payments was 474 million Lithuanian Litas, while in year 2012 the bigger level of VAT arrears and bigger VAT surplus payment actually dropped revenue from VAT only by 192.7 million Lithuanian Litas). In year 2012 total VAT revenue was 8,719.9 million Lithuanian Litas. Compared to year 2011 215.4 million Lithuanian Litas was transferred to the state budget or 2.5 percent more revenue from VAT, the plan of year 2012 was achieved by 97.6 percent and the budget received 211.3 million Lithuanian Litas less than planned. Having made assessment of VAT arrears and VAT surplus payments, the actual revenue from VAT in year 2012 was 41.9 million Lithuanian Litas or 0.5 percent less than in year 2011[1].




Reference: made according to Eurostat data

**Figure 2. Revenue from VAT in Lithuania in years 2000-2010, billion EUR**

One of the financially strongest states of the EU – Great Britain until year 2008 still had reduced VAT tax from 17.5% to 15%, since it was presumed that the state may lose 12.5 million pounds as a result of economic recession because of reduced consumption[2]. Other biggest member-states of the EU such as Germany and France did not approve to such reduction of VAT. Although the European Commission has no right to make orders to members of the EU on establishing of taxes, however the standard VAT rate may not

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1 http://www.finmin.lt/finmin.lt/failai/nacionalinio_biudzeto_surinkimas/ketv/Ataskaita_2012_I_pusm.pdf[ Retrieved 11/05/2013]

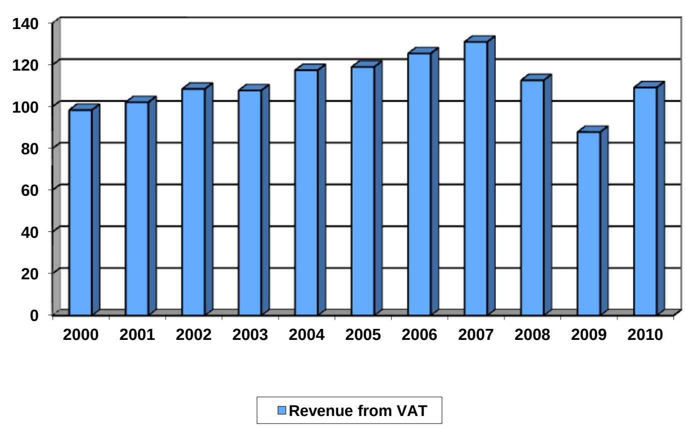
2 Ray Barrell and Martin Weale The Economics of a Reduction in VAT. National Institute of Economic and Social R
esarch, 2009.

be lower than 15% and not higher than 25%. One of the greatest changes in the VAT system without any mention of changes in rate is the amount when one must register as VAT payer. As of April 2012 this amount was increased to 77,000 pounds per year, the bigger margin than in Lithuania. Besides, there were changes in rates, however just the standard rate varied and there were no changes in zero or reduced rate application and exceptions.

Great Britain has retained a standard rate for a very long time and in year 2009 when most states were discussing about increase of this tax, this state made something unexpected and reduced the applied rate by 2.5 percentage point to minimal 15% rate. However, namely in year 2009, the highest budget deficit was registered in the state – actually 11.5% GDP[1]. Namely this determined that the standard VAT rate was restored to 17.5% and in year 2011 was raised to 20%.

However, when the standard rate was rising, there were no changes in reduced rates. From year 1997 and what is most important, throughout all period of crisis, one rate was reduced by 5% for child car seats, social dwelling and renovation of houses and also electricity and gas and also a reduced rate is applied to import under specific rules. Although it seems this state applies the reduced rate for just few areas, this state applies 0% in many areas (food, water, some pharmaceuticals, medical devices, books, newspapers and periodicals, internal ant international transport and elsewhere[2].

Great Britain was one of the states, which in year 2009 experienced big drop of the revenue within the state. It reached 144.67 billion EUR, the taxable revenue dropped to 137 billion EUR. The drop of revenue from the tax in question was not very significant compared to general decline of revenue. This is demonstrated in Figure 3.




Reference: made according to Eurostat data

**Figure 3. Revenue of Great Britain from VAT in years 2000-2010, billion EUR**

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[1] Total general government revenue from tax. http://appsso.eurostat.ec.europa.eu/nui/show.do [Retrieved 05/05/2013]

[2] European Commission. VAT Rates Applied in the Member States of the European Union. 1049, Brussels, January, 2012.

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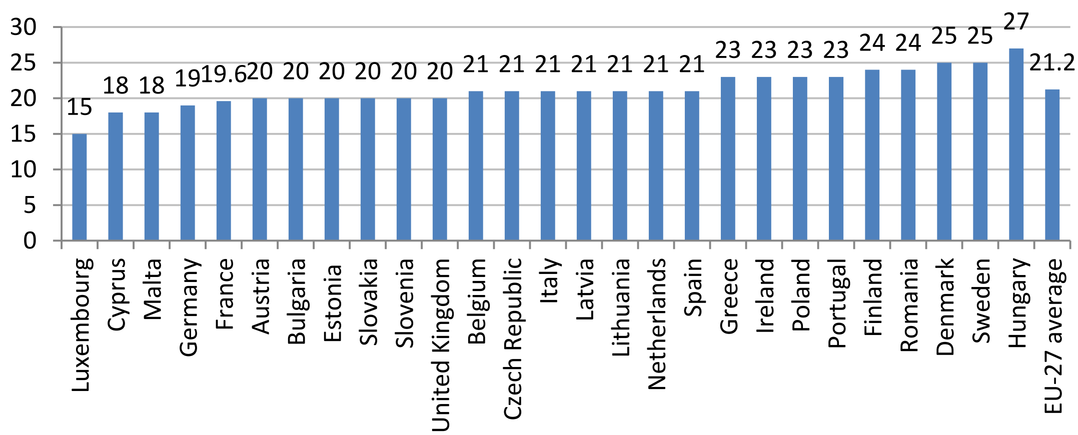
First, it should be mentioned that the first decrease of the revenue earned from the tax occurred in year 2008 (drop by 18.39 billion EUR from 131 to 112 billion). In 2009 it decreased even more and not just the crisis in Europe was guilty, but the decision of the government of Great Britain to reduce the standard rate to the minimal. However, as we can see such an action did not justify and the rate had to be restored to the initial level and this determined the rise of the revenue from VAT that reached the level of year 2008 (the increase from 21.35 billion EUR to 109.24 billion EUR). In Table 2 of VAT rates in EU states we can see how member-states changed the tax rates during economic regression. The analysis shows that most states increased the rate of VAT, except for Belgium, Denmark, Luxemburg, Austria, Slovenia and Sweden.

**Table 2. Comparative analysis of VAT rates in EU**

| State | Year | Standard rate | | State | Year | Standard rate | |
|---|---|---|---|---|---|---|---|
| **Belgium** | 1/01/2000 | 21 | did not change | **Luxemburg** | 1/01/1993 | 15 | did not change |
| Bulgaria | 1/01/2007 | 20 | changed | Hungary | 1/07/2009 | 25 | changed |
| | 1/04/2011 | 20 | | | 1/01/2012 | 27 | |
| Czeck Republic | 1/01/2008 | 19 | changed | Malta | 1/01/2011 | 18 | changed |
| | 1/01/2010 | 20 | | Holland | 1/10/2012 | 21 | changed |
| | 1/01/2012 | 20 | | **Austria** | 1/01/1995 | 20 | did not change |
| | 1/01/2013 | 21 | | Poland | 1/01/2011 | 23 | changed |
| **Denmark** | 1/01/1992 | 25 | did not change | Portugal | 1/07/2008 | 20 | changed |
| Germany | 1/01/2007 | 19 | did not change | | 1/07/2010 | 21 | |
| Estonia | 1/01/2009 | 18 | changed | | 1/01/2011 | 23 | |
| | 1/07/2009 | 20 | | Romania | 1/12/2008 | 19 | changed |
| Greece | 15/03/2010 | 21 | changed | | 1/07/2010 | 24 | |
| | 1/07/2010 | 23 | | **Slovenia** | 1/01/2002 | 20 | did not change |
| | 1/01/2011 | 23 | | Slovakia | 1/01/2007 | 19 | changed |
| Spain | 1/07/2010 | 18 | changed | | 1/05/2010 | 19 | |
| France | 1/01/2012 | 19,6 | changed | | 01/01/2011 | 20 | |
| Ireland | 1/01/2008 | 21,5 | changed | Finland | 1/10/2009 | 22 | changed |
| | 1/01/2010 | 21 | | | 1/07/2010 | 23 | |
| | 1/07/2011 | 21 | | | 1/01/2013 | 24 | |
| | 1/01/2012 | 23 | | **Sweden** | 1/01/1996 | 25 | did not change |
| Cyprus | 1/03/2012 | 17 | changed | Great Britain | 1/09/1997 | 17,5 | changed |
| | 14/01/2013 | 18 | | | 1/12/2008 | 15 | |
| Latvia | 1/01/2009 | 21 | changed | | 1/01/2010 | 17,5 | |
| | 1/01/2011 | 22 | | | 4/01/2011 | 20 | |
| | 1/07/2012 | 21 | | Lithuania | 1/01/2009 | 19 | changed |

From the mentioned states during the economic crisis Ireland implemented a different VAT reform (not increased but reduced the rate), which at first in year 2008 increased the standard rate from 21 percent to 21.5 percent and in year 2010 it reduced it to 21 percent. However, from year 2012 the rate was increased to 23 percent. Besides, *Portugal* reduced the standard rate that was in effect since 1st July 2005 in year 2008 to 20 percent. Great Britain temporary reduced VAT rate that was in effect since year 2008 from 17.5 percent to 15 percent and in year 2010 it restored to 17.5 percent.

It should be noted that in year 2013 three states of the EU implemented VAT reforms, i.e., **Check Republic** increased the reduced rate as of 1st January 2013 from 14% to 15% and the standard rate from 20% to 21%. **Cyprus** increased the standard rate as of 14th January from 17 to 18%. **Finland** increased the reduced rate from 13.9% to 14.10% and the standard rate from 23 to 24%.




Reference: Data of the European Commission

**Figure 4. Current standard VAT rates in states of the EU**

As we can seen from Figure 4 the lowest standard VAT rate in year 2013 is in Luxemburg (15%). Lithuania, applying 21% VAT rate, alongside Belgium, Czeck Republic, Latvia, Italy and Holland share 13-18 position. In this case, the mean VAT rate in the EU is 21.13%. Comapred VAT rate with the one applied in the neighbour states we can state that Estonia applies the VAT rate that is lower by 1%, Latvia - the same and Poland – 2% higher.

Summarizing the above-mentioned we can state that making an overview of the rates applied in foreign countries we see that VAT is common in most states. Different rates are applied in different states. Most countries apply reduced rates that are determined for the basic goods. However, as a result of long improvement of taxes and harmonization in member-states of the EU, the tax systems remain diverse and complex.

## Conclusions

VAT system defects are often recognizable: excessive administrative VAT burden on business, the VAT system regulatory complexity, inefficient revenue collection from VAT, a big fraud on VAT, the difference in tax rates applied in the member states and the preferential tariff issues. The author of the article has signed out the most important key areas to improve the VAT system, which has been proposed by the European Commission: one of the grounds is to reduce the administrative burdens and promote cross-border activity. VAT is a key element in this respect[1]. The complicacy in the VAT regulations results in administrative onus for business sector. Associated with VAT accounts for almost 60% of the total burden measured and this is making the EU a less engaging place to invest. The second area, which was singled out by the author - complex regulation of the VAT system. "*The legal base for the harmonisation of VAT requires unanimity but does not specify the legal instrument to be used for that purpose. The use of Council directives gives Member States some freedom in transposing EU VAT law into their national legislation, taking account of their legal particularities. The outcome, however, is often that VAT legislation in the different Member States is inconsistent. Using Council regulations rather than directives would achieve greater harmonisation, enabling in particular the EU to avoid double or non-taxation or to set out the VAT obligations of non-established businesses"[2].*

Having made analysis of the main provisions of the Green Book designated for improvement of VAT system we can make a conclusion that it is necessary to make corrections in the legal base and the process of lawmaking in order to reduce the administrative burden and improve operation of the general market. This can be achieved by replacing directives with regulations, developing counselling system and improving regulations for enforcement of legislation. Besides it is necessary to correct the procedure enabling to diverge from imposition of regulations, which would allow simplifying VAT system: its regulation and administration. The allowed diverging regulations should be abolished or they should be applied to all states, to make its imposition procedure more transparent so no exclusive conditions were provided for separate states. We can state that in order to unify VAT system and eliminate competitive distortion and change the procedure for Standard and reduced rates; one of the ways is to gradually reach standard rate harmonization and elimination of reduced rates or application of a uniform rate in all member-states.

In most states VAT plays a very important role in the system of all consumption taxes. In Lithuania VAT is one of the principal state revenue sources. VAT makes a very big share of collected taxable and government revenue (average 54.13% VAT share in taxable revenue during the period of 1999-2013 and average 47.7% VAT share in the government revenue).

During the recent financial crisis in the EU almost all states changed, i.e. increased rates of VAT in order to collect as much revenue from VAT as possible. In Lithuania, after increase of the standard rate by 3% in year 2009, the revenue from this tax dropped by 26.44%. This proves that the revenue of the planned tax have dropped even when the rate was increased during the crisis.

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[1] http://mksz.eu/en/hirek/adozas-egyablakos-ugyintezesi-rendszer-az-europai-hea-eloirasoknak-valo-megfeleles-elomozditasara/ [Retrieved 15/05/2013]

[2] http://eur-lex.europa.eu/lt/treaties/index.htm [Retrieved 12/05/2012]

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