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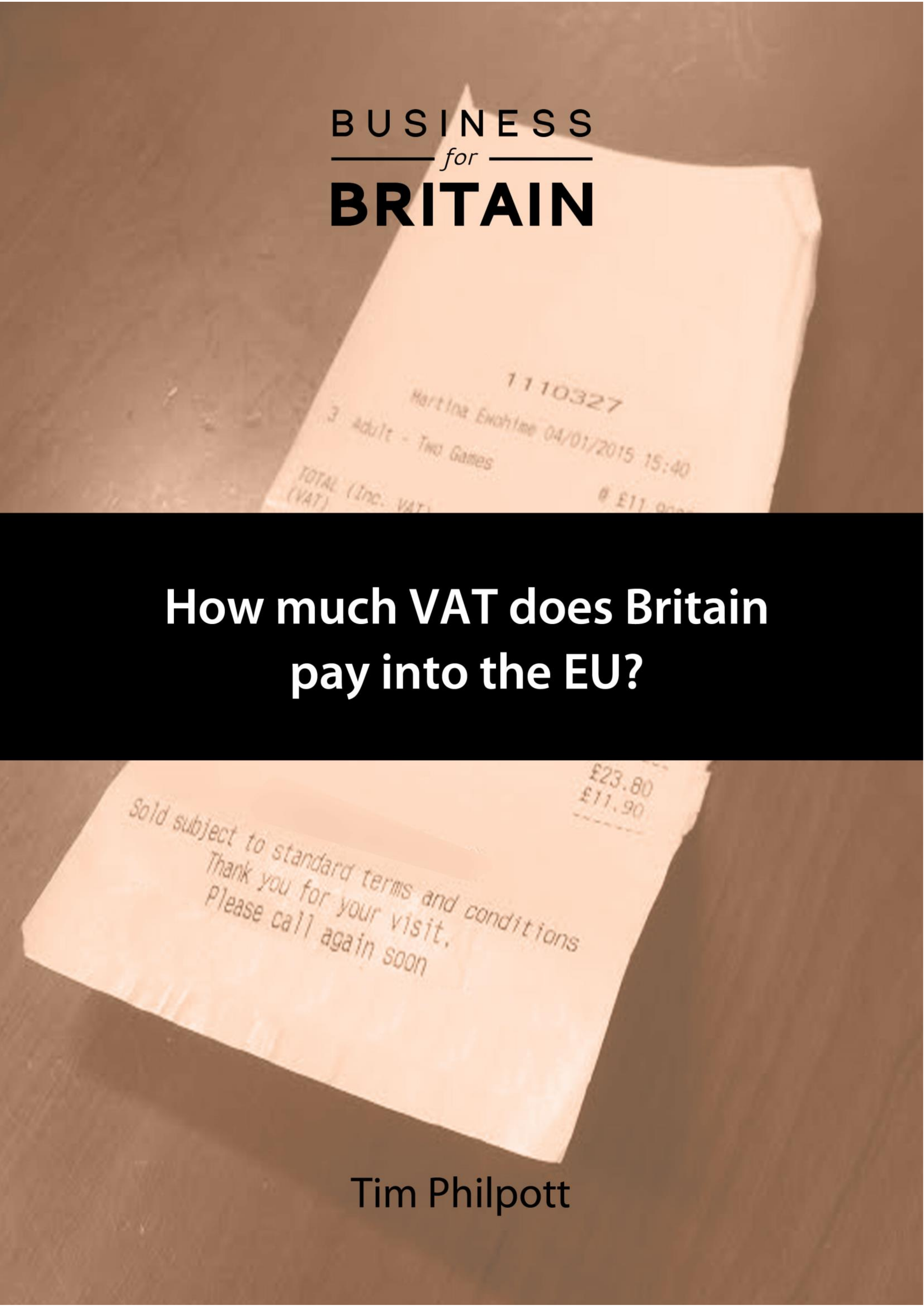

How much VAT does Britain pay into the EU?

Tim Philpott

BUSINESS *for* BRITAIN

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How much VAT do British taxpayers pay to the EU?

BfB Briefing Note 9

Value Added Tax (VAT) is a charge levied on goods and services within the European Union (EU). Every member state had to introduce a form of this tax when they joined the EU (Britain introduced it on accession in 1973) and are obliged to send a proportion of all VAT receipts collected straight to the EU to finance its budget. Additionally, EU rules state that UK VAT rates cannot be lowered below an EU harmonised standard rate of 15% or adjusted on specific goods without approval of the Commission.

Using information from Eurostat and the European Commission, new analysis from Business for Britain shows that VAT payments from the UK into the EU budget are far higher than the EU average and that contributions are higher than average per capita for Britain's population.

Our research finds:

- Over the seven years from **2007-13**, the UK paid over **£15.4 billion** in VAT contributions to the EU, an average of **£2.2 billion** a year. This amounts to just under **18 per cent** of the EU's annual VAT revenue, despite the UK population being only **13 per cent** of the EU whole.[1]

- The VAT contribution per capita in the UK is **£246** in total in 2007-13. This is **£78 more than the average for the EU population**.

- The Office for Budget Responsibility has forecast that the UK's VAT contributions to the EU budget will rise by **32 per cent** from 2013-14 to 2019-20.

- The European Commission's proposals to abolish zero and reduced rates for VAT would have cost the average UK household **£1,697** in 2007-13, according to HM Treasury VAT receipts.[2] Basic food cost increases represent £629 of this.

- Despite ongoing campaigns, the UK Government is currently unable to reduce VAT on energy bills, charity donations and other commodities and services without EU Commission approval.

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[1] Eurostat, Population on 1 January, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00001>

[2] European Commission, *Green Paper: On the future of VAT: Towards a simpler, more robust and efficient VAT system*, found at <http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/future_vat/com(2010)695_en.pdf>

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How VAT contributes to the EU budget

The budget for the European Union draws funds from a variety of sources. Duties on goods imported into the EU, fines from breaches of regulations and VAT payments make up a certain percentage of the total. The rest is made up from contributions derived from the relative Gross National Income (GNI) of each member state. GNI comprised 74 per cent of EU revenue in 2014, though was only 15 per cent in 1992.[3] VAT constitutes a declining proportion of EU revenue, being 13 per cent in 2014, having been as high as 62 per cent in 1992.[4]

This briefing note will discuss a number of issues covering the UK's VAT interactions with the EU; first, how much VAT the UK pays in; second, the relative contribution of the UK population per capita; and finally, the reforms to the system that have been debated by the EU institutions.

1. UK VAT contributions

HM Government collects VAT on behalf of the EU and is obliged to send a percentage of the total each year directly to the EU budget. The precise percentage depends on European Commission calculations**;** but using Commission figures, BfB can reveal that between 2007 and 2013, the UK paid a contribution of **£15.4 billion** in VAT payments, an average of **£2.2 billion** each year (see Table 1).[5] This can be broken down into a total contribution of **£246 per capita** in Britain over the seven years. All of this is in addition to the GNI payments explained above. Data was deliberately restricted to the previous EU Multi-Annual Financial Framework (2007-13), where figures are easily accessible, up to date, and give a substantial period over which to measure consistency in payments.

[3] House of Lords European Union Committee, *Funding the European Union*, 14 March 2007, found at <http://www.publications.parliament.uk/pa/ld200607/ldselect/ldeucom/64/64.pdf>
European Commission, EU expenditure and revenue, found at <http://ec.europa.eu/budget/figures/interactive/index_en.cfm>
One slight caveat here is that in 1992 lump contributions were calculated as Gross National Product (GNP) rather than GNI
[4] House of Lords, *Funding the European Union*, <http://www.publications.parliament.uk/pa/ld200607/ldselect/ldeucom/64/64.pdf>
European Commission, EU expenditure and revenue, <http://ec.europa.eu/budget/figures/interactive/index_en.cfm>
[5] All figures in Table 1 are exact contributions for the years in question from the European Commission. The calculation that the Commission performs in order to come up with these amounts is nominally 0.3 per cent of the base rate of 15 per cent from the UK contributions, rather than 0.3 per cent of the full 20 per cent. However the Commission itself admits that these calculations are overly intricate and a "result of complex statistical calculations and adjustments (leading to a purely theoretical VAT base)."
European Commission, High Level Group on Own Resources, First Assessment Report, found at <http://ec.europa.eu/budget/library/biblio/documents/multiannual_framework/HLGOR_1stassessment2014final_en.pdf>

Table 1: VAT contributions to the EU from the UK, 2007-13

Calendar year	UK VAT contribution (€)	UK VAT contribution (£)[6]	Contribution per capita (€)	Contribution per capita (£)
2007	3,409,000,000	2,334,329,795	55.82	38.22
2008	2,940,000,000	2,335,918,200	47.75	37.94
2009	2,124,000,000	1,890,529,920	34.23	30.47
2010	2,629,000,000	2,253,841,700	42.06	36.06
2011	2,513,000,000	2,182,037,900	39.58	34.37
2012	2,794,000,000	2,265,095,800	43.72	35.44
2013	2,527,000,000	2,144,412,200	39.54	33.56
Total	**18,936,000,000**	**15,406,165,515**	**302.70**	**246.05**

2. The UK pays more than most member states

We can understand how the UK compares to other member states by applying the same methodology to every EU member state. According to European Commission figures, the UK's contribution of **£246** per capita is **£78 more** than the average paid in the EU across the same period (see Table 2). This is significantly higher than many member states, including the EU's largest member by population and size of economy, Germany.

These statistics show that 18 per cent of the VAT contributed to the EU over the 2007-13 period in question was paid by the UK. By comparison, the UK population makes up 12.6 per cent of the total EU population and contributes on average 14.5 per cent of the EU's total GNI contributions.[7]

The total VAT collected by the EU over the period amounts to £87.2 billion according to European Commission figures.

[6] Values are converted based on exchange rates for each year.
HMRC, Exchange Rates – Yearly Lists, found at <http://www.hmrc.gov.uk/exrate/yearly_rates.htm>
[7] The UK GNI payment has been on average 14.5 per cent of EU GNI revenue in the period 2007-2013.
European Commission, EU expenditure and revenue, <http://ec.europa.eu/budget/figures/interactive/index_en.cfm>

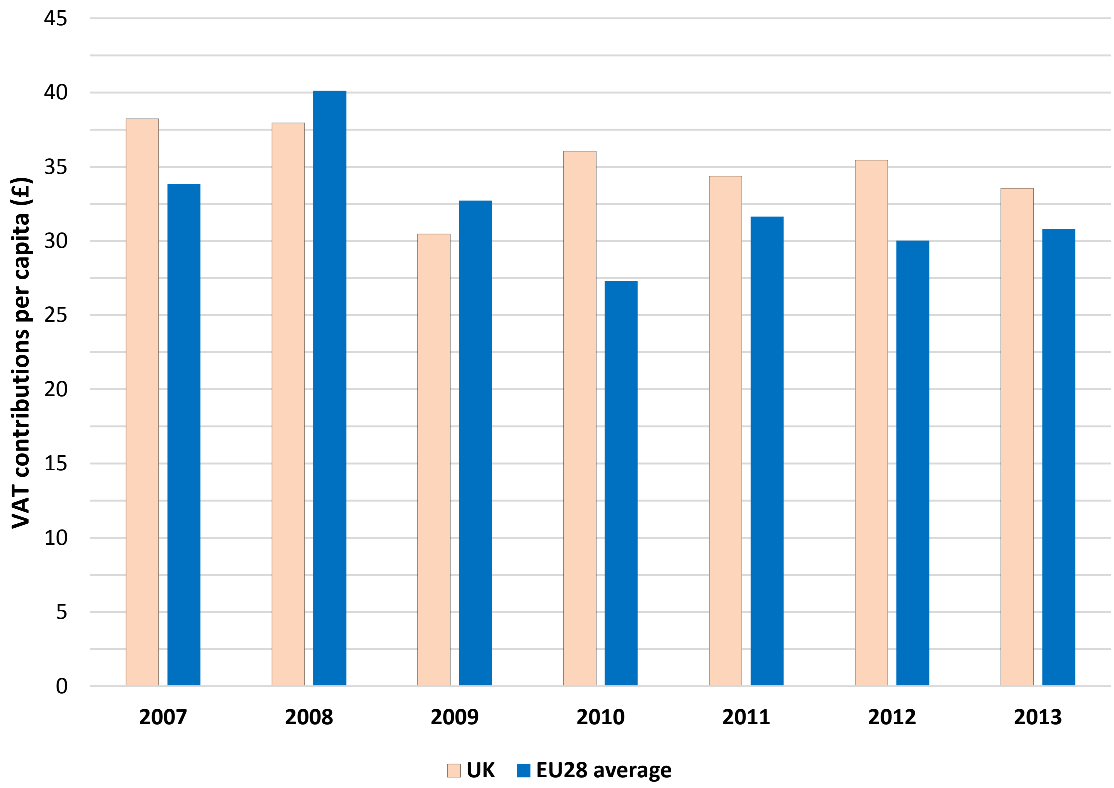
Table 2: VAT contributions from EU countries, 2007-13 by per capita (£) contribution

Country[8]	Total VAT paid into EU budget 2007-2013 (€)[9]	Total VAT paid into EU budget 2007-2013 (£)[10]	VAT paid per capita (€)[11]	VAT paid per capita (£)
Croatia	32,000,000	27,155,200	8	6
Bulgaria	355,000,000	292,403,890	48	39
Romania	1,048,000,000	858,403,130	51	42
Latvia	168,000,000	135,425,135	79	64
Hungary	834,000,000	681,739,535	83	68
Lithuania	278,000,000	226,482,255	89	73
Slovak Republic	494,000,000	403,182,560	92	75
Poland	3,586,000,000	2,941,479,760	94	77
Estonia	156,000,000	127,393,140	117	96
Czech Republic	1,374,000,000	1,126,613,075	132	108
Malta	63,800,000	52,406,766	154	127
Portugal	1,782,000,000	1,463,360,285	169	139
Netherlands	3,119,000,000	2,452,901,600	189	149
Slovenia	375,000,000	307,733,665	184	151
Germany	15,539,000,000	12,459,506,425	190	153
Sweden	1,799,000,000	1,426,393,180	194	154
EU Average	**3,973,177,778**	**3,229,289,928**	**207**	**168**
Greece	2,409,000,000	1,922,256,495	216	172
Cyprus	172,000,000	141,444,190	211	173
Spain	10,236,000,000	8,373,425,190	222	181
Italy	13,710,000,000	11,163,967,300	232	189
Austria	2,320,000,000	1,888,075,465	278	226
Belgium	3,188,000,000	2,613,973,310	293	240
United Kingdom	**18,936,000,000**	**15,406,165,515**	**303**	**246**
France	19,659,000,000	16,085,534,045	304	249
Ireland	1,516,000,000	1,233,777,960	337	274
Finland	1,797,000,000	1,475,572,140	336	276
Denmark	2,057,000,000	1,682,021,740	372	304
Luxembourg	305,000,000	249,190,315	607	495
EU Total	**107,275,800,000**	**87,190,828,066**	**5,576**	**4,540**

[8] Since Croatia joined the EU on 1 July 2013, it only has data for a single year. It was decided therefore that the EU Average and EU Totals should not include Croatia as they would distort the overall statistic.
[9] European Commission, EU expenditure and revenue, <http://ec.europa.eu/budget/figures/interactive/index_en.cfm>
[10] Values are converted based on exchange rates for each year.
HMRC, Exchange Rates – Yearly Lists, <http://www.hmrc.gov.uk/exrate/yearly_rates.htm>
[11] Eurostat, Population on 1 January,
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00001>

Historic figures show that UK contributions per capita have been, in general, slightly higher than the EU average (see Figure 1). Occasionally the UK has paid less than average. In November 2008, the then Chancellor Alistair Darling cut VAT from 17.5 per cent to 15 per cent in an attempt to boost consumer spending during the financial crisis. However, this ultimately led to far lower revenue and the receipts collected remained below the EU average until 2010.

Figure 1: VAT contributions: UK vs EU average per capita[12]



In the 2015 Budget the Office for Budget Responsibility forecast that the amount the UK will pay to the EU in VAT will increase by 32 per cent in the next six years.

Table 3: Projected UK VAT contributions to the EU budget[13]

Tax year	VAT paid to EU (£ billion)
2013-14 outturn	2.2
2014-15 projected	2.4
2015-16 projected	2.5
2016-17 projected	2.6
2017-18 projected	2.7
2018-19 projected	2.8
2019-20 projected	2.9

[12] European Commission, EU expenditure and revenue, <http://ec.europa.eu/budget/figures/interactive/index_en.cfm>
[13] Office for Budget Responsibility, Economic and fiscal outlook supplementary fiscal tables – March 2015, <http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2015/>

3. VAT policy is largely determined by the EU

The UK Government is obliged to seek European Commission approval to lower VAT rates. Only a select group of commodities and services can have their VAT lowered without seeking permission. Many of these are already covered by the UK's reduced or zero rate system, ranging from basic foodstuffs and water distribution to medical supplies and renovations on housing. The full list, drawn from the consolidated VAT Directive is reproduced in the annex of this briefing note.[14] This means recent efforts, requesting that the Government eliminate VAT on items like mountain rescue equipment or child car seats, for example, will not succeed without EU permission.[15] Similarly, campaign pressure for a VAT reduction on expensive energy bills has been dismissed by the Government itself with ministers insisting that "VAT is at the legal minimum rate it can possibly be."[16] If the Government was to unilaterally lower VAT below 15% or create exemptions for specific goods or services beyond the items already allowed, the consequences would be costly. In a recent case, the European Commission referred the Dutch Government to the European Court of Justice (ECJ) for allowing exemptions on boat moorings that had not been approved at European level.[17]

Previous EU action on VAT policy

This follows another unsettling trend; the ECJ has been known to unilaterally legislate on VAT matters to fill ambiguities in the rules, generally ruling in favour of the European Commission. In 2005 the Court of Justice assessed the case of Arthur Andersen and ruled that certain services did not qualify for VAT exemption. Since then, despite there being no official update to EU legislation, HMRC has had to modify VAT arrangements in the UK to take account of this ruling.[18]

A further example of the controversy surrounding the European Commission's actions on VAT are the reforms that came into force on 1 January 2015 for VAT on services. Before this date, VAT was charged in the country where the business supplier was based, but afterwards, this switched to a charge in the country where the customer was based. While the aim of the legislation was to prevent large multinational firms exploiting lower rates of VAT across the EU, the change has caused havoc among small online firms (especially ebook and app retailers), with ten per cent of these micro businesses in danger of bankruptcy.[19] These are

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[14] COUNCIL DIRECTIVE 2006/112/EC on the common system of value added tax, *Official Journal of the European Union*, 28 November 2006, p.96, found at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0112&from=EN>

[15] HM Government, e-petition, VAT Exempt Health & Fitness, found at <http://epetitions.direct.gov.uk/petitions/65980>
HM Government, e-petition, Remove VAT for mountain rescue gear found at <http://epetitions.direct.gov.uk/petitions/44778>
Change.org, Abolish VAT on child car seats, found at <http://www.change.org/p/european-union-abolish-vat-on-child-car-seats>

[16] BBC News, 'Treasury dismisses idea of VAT cut on energy bills', 18 October 2013, found at <http://www.bbc.co.uk/news/uk-24580089>

[17] European Commission, Press Release Database, 'Taxation: Commission refers The Netherlands to the Court over VAT exemption for water sport activities', found at <http://europa.eu/rapid/press-release_IP-14-1040_en.htm?locale=en>

[18] HMRC, VATINS5210 - Services of an insurance intermediary: insurance brokers and insurance agents: decision of the ECJ in Arthur Andersen & Co Accountants C472/03 (Andersen), found at <http://www.hmrc.gov.uk/manuals/vatinsmanual/vatins5210.htm>

[19] Elizabeth Rigby, 'David Cameron to seek EU VAT exemptions for small UK companies', *Financial Times*, 19 March 2015, found at <http://www.ft.com/cms/s/0/56fa06a0-cd63-11e4-9144-00144feab7de.html?siteedition=uk#axzz3UoTLZbAq>

businesses that have previously been exempt from VAT, having been below the UK threshold of £81,000 in annual turnover.[20]

Now, however, they must register for VAT in 28 different member states or register with the EU's central system known in the jargon as VAT MOSS (VAT 'mini one-stop-shop'). Neither of these allow VAT exemptions for small businesses, causing an immediate increase in prices (of on average 22 per cent) and increasing administrative costs.

As an additional administrative process, companies have to be first registered for VAT with the UK before registering with VAT MOSS, even if before they would have been eligible for UK Government exemptions.

It could be argued that VAT MOSS rules reflect the EU's wider approach to business; issues are addressed with EU wide regulations that place a burden on larger firms, which is costly but manageable, while the rules more severely impact smaller businesses that don't have the resources to overcome the extra administrative costs.

The EU's ambition to re-impose VAT on essential goods

The European Commission has on various occasions made clear its desire to eliminate zero and reduced rates of VAT in member states as an important part of its plan to reform the EU budget. As recently as 2010, a green paper advocated "a broad based VAT system, ideally with a single rate across the EU", transposed directly into national law via Council Regulations. It also stated that "… revenue would be increased if the Member States' national VAT bases were broadened (i.e. the scope of zero or reduced rates diminished)." This was proposed as a method of shifting the EU budget's reliance from GNI contributions on to European consumers. The VAT and other taxation plans in the green paper were advanced in the MFF package for the 2014-2020 period, but were rejected by the European Council in 2013.[21]

Last year, the EU's High Level Group on Own Resources reappraised this plan, noting resistance in the European Council to the MFF package was due to; "(a) a few Member States worried about higher GNI-based contributions to the EU budget, and (b) the UK refused any modification of the VAT-based own resource since it would require re-defining the calculation of its rebate." However, the High Level Group also noted that the European Council at the time encouraged work to continue, with the implication that changes could be implemented beyond 2020.[22] The European Commission's country specific recommendations for the UK released in 2014 also advanced the idea of assisting 'fiscal consolidation', again by

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[20] Ebook retailers are further deemed to be offering 'services' rather than 'goods' and thus have to charge full VAT on their product, despite well-publicised protests.
Reuters, 'France, Luxembourg lose lower VAT rate battle on ebooks', 5 March 2015, found at
<http://www.reuters.com/article/2015/03/05/us-europe-ebooks-tax-idUSKBN0M11A120150305>

[21] European Commission, *Green Paper: On the future of VAT*,
<http://ec.europa.eu/taxation_customs/resources/documents/common/consultations/tax/future_vat/com(2010)695_en.pdf>

[22] European Commission, High Level Group, *First Assessment Report,*
<http://ec.europa.eu/budget/library/biblio/documents/multiannual_framework/HLGOR_1stassessment2014final_en.pdf>

"broadening the tax base" and specifically advocated the "greater use of the standard rate of VAT."[23]

The UK has eleven significant categories of items that are sold at the zero rated VAT charge (where no VAT is charged at all).[24] It also has two significant categories of items sold at the reduced rate of VAT (charged at five per cent).[25] The rationale for HM Government has always traditionally been to keep the costs of certain essential items low to help the poorest in society.

HM Treasury statistics (see Table 4) indicate the cost of re-imposing VAT on exempt items. VAT would cause the prices of reduced and zero rate goods to rise by 20 per cent, a cost placed directly on consumers, especially on the least well-off, who tend to spend a greater percentage of their disposable income on VAT than the wealthier income brackets.

Table 4: Revenue forgone by HM Treasury due to zero rated and reduced VAT rates[26]

Zero rates	2013-14 tax year (£m)
Food	16,600
Construction of new dwellings (includes refunds to DIY builders)	8,050
Domestic passenger transport	4,050
Drugs and supplies on prescription	2,950
Water and sewerage services	2,200
Children's clothing	1,800
Books, newspapers and magazines	1,700
Vehicles and other supplies to disabled people	700
International passenger transport (UK portion)	300
Supplies to charities	300

Reduced rates	2013-14 tax year (£m)
Domestic fuel and power	5,200
Certain residential conversions and renovations	200

Given bills such as food and energy are often treated as a household expenses it is worth calculating the potential VAT rise in these terms to. The total increase would cost households on average £1,697 for the 2013-14 tax year rise and the in food prices alone would cost £629

[23] European Commission, *Recommendation for a COUNCIL RECOMMENDATION on the United Kingdom's 2014 national reform programme and delivering a Council opinion on the United Kingdom's 2014 convergence programme,* found at <http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_uk_en.pdf>

[24] For the full list, see: GOV.UK, VAT rates on different goods and services, found at <http://www.hmrc.gov.uk/vat/forms-rates/rates/goods-services.htm>

[25] GOV.UK, VAT rates, <http://www.hmrc.gov.uk/vat/forms-rates/rates/goods-services.htm>

[26] HMRC, *Estimated costs of the principal tax expenditure and structural reliefs*, found at <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/302317/20140109_expenditure_reliefs_v0.4published.pdf>

per household, something consumers are unlikely to welcome just to fund the EU.[27] Unprocessed foods such as bread, cereals, raw fruit and vegetables, raw meat and poultry, uncooked fish, milk, fresh cakes, raw nuts and plain biscuits are all classified as zero rated and would be affected.[28]

Table 5: Estimated cost per household if various zero and reduced rates of VAT had been abolished under EU proposals (2013-14)

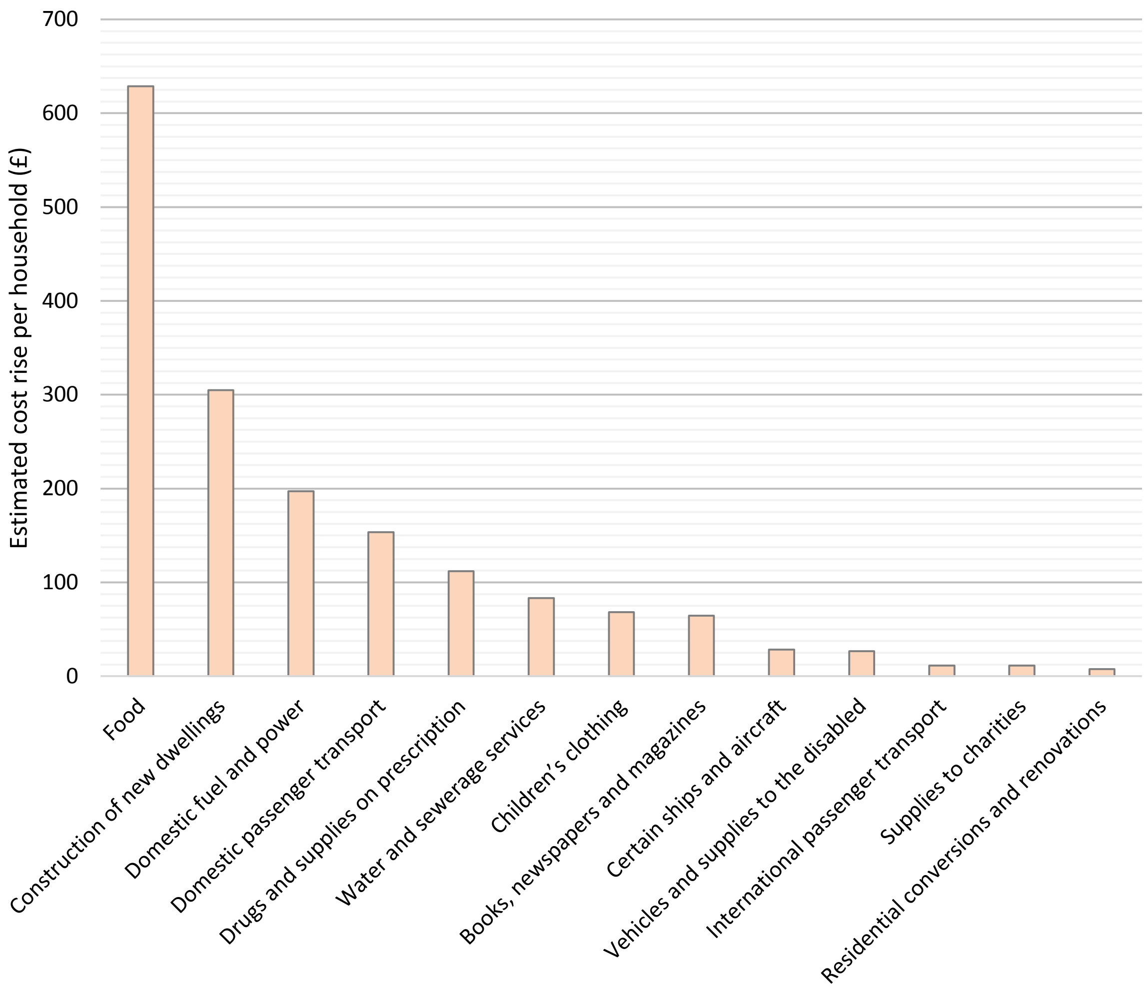
VAT extra cost, 2013-14 tax year	per household (£)[29]
Food	629
Construction of new dwellings	305
Domestic passenger transport	153
International passenger transport	11
Books, newspapers and magazines	64
Children's clothing	68
Water and sewerage services	83
Drugs and supplies on prescription	112
Supplies to charities	11
Certain ships and aircraft	28
Vehicles and supplies to the disabled	27
Domestic fuel and power	197
Residential conversions and renovations	8
Total	**1,697**

[27] Allister Heath, *The Daily Telegraph*, 'IMF tax bombshell: its plans for higher VAT and a property raid are wrong', 28 July 2014, found at <http://www.telegraph.co.uk/finance/economics/10996542/IMF-tax-bombshell-its-plans-for-higher-VAT-and-a-property-raid-are-wrong.html>

[28] HM Revenue & Customs, Notice: VAT Notice 701/14: food, 10 February 2014, found at <https://www.gov.uk/government/publications/vat-notice-70114-food/vat-notice-70114-food>

[29] Number of UK households 2013: 26.4 million
Office for National Statistics, *Families and Households, 2013*, 31 October 2013, found at <http://www.ons.gov.uk/ons/dcp171778_332633.pdf>

Figure 2: Estimated cost increases per UK household in 2013-14 if various zero and reduced rate goods had been abolished under EU proposals



Conclusion

The EU's budgetary process remains an incredibly complex and opaque process. VAT across the EU contributes to the EU budget, yet many people are unaware of the relationship between the EU and the level and application of VAT across the UK.

The UK contributes a significant amount through its VAT revenues to the EU, nearly a fifth of the entire VAT contribution made to the EU budget. There are countries that contribute more, such as Luxembourg and Ireland, but this can be in part explained by the extraordinary amount of technology sales that have in the past been routed through these countries.

The European Commission's repeated aim to re-impose VAT on essential goods in the UK should cause alarm. It would undeniably hit the most vulnerable in society hardest and is an example of policy that clearly should be the sole preserve of the UK authorities. Even when the EU has sort to address a genuinely perceive problem the result has been disastrous for some. While the VAT MOSS legislation may appear to be driven by a 'logical' argument that is right to charge VAT where the consumer is based, the Commission's reforms to VAT on services have ignored the impact on SMEs and put hundreds of small tech companies out of business in just a few months. Add to that the inability of HM Government to adjust taxes to evolving local demands and the current role of the EU in VAT policymaking appears to be deeply flawed.

These mistakes are made worse by the political motivations behind the EU's changes. The ultimate objective of the VAT system, according to the EU's High Level Group on Own Resources, is to reduce the budget's reliance on national contributions because there is an "increased awareness at the national level about the costs of the EU budget." Trying to cover up consistent EU budget growth is surely one of the worst justifications for increasing pressure on the poor and creating unnecessary administrative disorder for business.

With the large burden that VAT places on the poorest society and recent controversies created by VAT MOSS legislation, the EU should think twice about using increased VAT contributions as a way of solving its budget woes. Instead it should recognise member states continued unhappiness with the EU budget and focus on spending its current budget more effectively and cutting the overall 'cost of Brussels'.

Annex I – Supplies of goods and services on which VAT may be reduced[30]

- Foodstuffs (including beverages but excluding alcoholic beverages) for human and animal consumption; live animals, seeds, plants and ingredients normally intended for use in the preparation of foodstuffs; products normally used to supplement foodstuffs or as a substitute for foodstuffs.

- Supply of water.

- Pharmaceutical products of a kind normally used for health care, prevention of illnesses and as treatment for medical and veterinary purposes, including products used for contraception and sanitary protection.

- Medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, including the repair of such goods, and supply of children's car seats.

- Transport of passengers and their accompanying luggage.

- Supply, including on loan by libraries, of books (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript form, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or predominantly devoted to advertising.

- Admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities.

- Reception of radio and television broadcasting services.

- Supply of services by writers, composers and performing artists, or of the royalties due to them.

- Provision, construction, renovation and alteration of housing, as part of a social policy.

- Supply of goods and services of a kind normally intended for use in agricultural production but excluding capital goods such as machinery or buildings.

- Accommodation provided in hotels and similar establishments, including the provision of holiday accommodation and the letting of places on camping or caravan sites.

- Admission to sporting events.

- Use of sporting facilities.

[30] COUNCIL DIRECTIVE 2006/112/EC on the common system of value added tax, *Official Journal of the European Union*, 28 November 2006, p.96, found at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0112&from=EN>

- Supply of goods and services by organisations recognised as being devoted to social wellbeing by Member States and engaged in welfare or social security work.

- Supply of services by undertakers and cremation services, and the supply of goods related thereto.

- Provision of medical and dental care and thermal treatment.

- Supply of services provided in connection with street cleaning, refuse collection and waste treatment.