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Commissioner Ansip
Commissioner Moscovici
European Commission
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Dear Commissioners Ansip and Moscovici,

NEW RULES ON VAT FOR DIGITAL SERVICES

On 1 January 2015, new European rules came into effect changing the way in which VAT was charged for digital services - from now on, VAT would be charged based on the country of consumption rather than the country where the supplier was based. There is a sound rationale for introducing these new rules: it means that Member State governments can rightly receive VAT on transactions that take place within their country, rather than seeing that tax revenue lost because large digital retailers can relocate to a country with a lower tax rate. Indeed, when the file was negotiated in 2008, the UK Labour government was supportive of the principle of the regulation.

However, the UK Labour government at that time also argued that the new rules should include a threshold below which certain companies would not be liable for paying VAT. This would have been in keeping with existing rules in the UK and in other Member States, and would have allowed small and micro-businesses to function without the burden of having to calculate VAT rates for 28 different Member States.

In the last few months we have seen why such a threshold would have been so important. Thousands of constituents have written to me and my Labour colleagues in desperation at the new rules, which they fear are impossible to comply with. Independent studies estimate that over 250,000 small businesses are affected in the UK alone, and that number will be much greater across Europe as a whole. While a new VAT Mini-One Stop Shop (VAT MOSS) has been established to help these businesses comply with the new legislation, it is clear that this is not enough. The vast majority of micro-businesses cannot, for example, collect the required three pieces of evidence that they need for the VAT MOSS process to prove the place of supply in order to calculate the VAT rate that they are supposed to pay. They face a choice of withdrawing their services or almost certainly falling foul of the law.

My fellow Labour MEPs and I have drawn this to your attention on numerous occasions. I met with you, Commissioner Ansip, in February to set out the concerns of our constituents, and followed up with a detailed briefing showing you exactly what the problems were (enclosed again with this letter). I asked for your proposals as to how these problems could be mitigated or resolved, and had no answer for three months. When we finally heard back from your office, it was to say that you had passed the letter to Commissioner Moscovici. This is simply not good enough. During that time, many small and micro businesses will have stopped trading altogether or severely restricted their operations (and so their profits, which for many of these people are their very livelihoods).

Earlier this month, we saw a glimmer of hope in the Commission's communication 'A Digital Single Market Strategy for Europe', in which you said that "The Commission will make legislative proposals in 2016 to reduce the administrative burden on business arising from different VAT regimes including ... introducing a common EU-wide simplification measure (VAT threshold) to help small start-up e-commerce businesses". This seems encouraging, if still very light on detail. My colleague Neena Gill MEP asked Commissioner Ansip on Monday of this week if you could tell us more about this proposal, but again I'm afraid the answer was very vague.

For the many small and micro-businesses across Europe affected by these changes, there is no time for such vague answers. They need certainty right now, and to know how they can be expected to comply with legislation that does not seem to have been designed with their specific needs in mind.

I therefore would like to ask you both, directly:

- How precisely does the Commission intend to introduce a new VAT threshold for small start-up e-commerce businesses?
- At what level does the Commission expect that VAT threshold to be set?
- What is the proposed timetable for the introduction of such a threshold? The Communication mentions bringing forward legislative proposals in 2016, but by what date do you expect the new threshold to be in force?
- Most importantly: what does the Commission propose small and micro-businesses do in between 1 January 2015 and the date that the new threshold comes into effect? Is there any way of introducing a transitional period to lighten the burden on these companies during this period?

I would be grateful for an answer to these questions as soon as possible. Thousands of European citizens - running the very entrepreneurial, innovative start-up companies that we as a Union are supposed to be promoting - are waiting on your reply.

Yours sincerely,



Anneliese Dodds

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