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**Customs**  
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**January 2016**

*Dear Commissioner Moscovici*

**EU COMMISSION CONSULTATION: “MODERNISING VAT FOR  
CROSS-BORDER E-COMMERCE”**

I am writing to you to welcome the European Commission’s consultation on “Modernising VAT for cross-border e-commerce”.

I understand that the purpose of this work is to help identify ways to simplify VAT payments on cross-border e-commerce transactions in the EU, and that this is also part of the ongoing assessment of the new rules for VAT payments on cross-border telecommunications, broadcasting and electronic services which came into force on 1 January 2015. Quickly bringing forward proposals in this area following this consultation is important to demonstrate the EU’s commitment to competitiveness reforms for the benefit of all 28 Member States.

As you know, the Chancellor of Exchequer wrote to you in January, attaching a copy of the UK’s paper on the Digital Single Market, which



the Prime Minister had sent to Commission President Juncker and members of the European Council (relevant copies attached).

The UK Digital Single Market paper highlighted that the European tax regime should encourage entrepreneurship. Noting that small and micro businesses operating across borders may have disproportionate difficulties meeting the requirements of the 1 January 2015 VAT changes and thus be discouraged from selling outside their home Member State, the paper proposed that consideration be given to a single cross-border VAT threshold. Since whilst the changes do ensure that large companies pay tax fairly, they were agreed before the rise of small, agile online businesses. It also suggested that the Commission should consult on the impact of the 2015 VAT changes and propose reforms to alleviate the burdens on small businesses.

I hear regularly from UK businesses that they are concerned about the cross border tax system. If I hear this, I am sure that other Member States are concerned. A single cross-border VAT threshold below which SMEs in the EU would not have to apply the rules, or deal with the requirements, of multiple (potentially up to 28) Member States would reduce their administrative burdens. This would serve to deepen the single market, with benefits to both consumers and businesses. For those that must comply with the rules and requirements of multiple Member States, simplification for SMEs, such as reducing both the evidence needed to establish customer location and the 10 year record keeping requirements would reduce



their administrative burden. We would welcome ambitious proposals from the Commission to deal with these challenges.

The UK Government was therefore pleased to see the Commission's Digital Single Market Strategy, published in May. This commits the Commission to reducing VAT-related burdens and obstacles when selling across borders. It includes the prospect of introducing a common EU-wide simplification measure – a VAT threshold for cross-border Business-to-Customer supplies of goods and services – to help small start-up e-commerce businesses. The UK Government continues to consider this to be a key priority for VAT in the Digital Single Market. Indeed, the Prime Minister has mentioned this on several occasions and I urge you to bring forward this proposal swiftly.

We are also grateful for Heinz Zourek's recent letter regarding implementation of the 2015 VAT rule changes and methods of alleviating the associated burdens placed on the smallest businesses. The UK Government supports the case for a 'soft landing' approach, including simplified requirements, to help reduce the burdens on smaller businesses across the European Union.

My officials and I look forward to seeing the outcome of, and next steps arising from, the current consultation exercise, which is due to conclude on 18 December 2015. We note that the Commission intends to make legislative proposals in these areas in 2016. It is our hope that these will ideally emerge before June European Council



(and at the latest by the summer), so that work can begin in earnest in the autumn.

I would also like to take the opportunity to thank you for your recent reply to my letter of 3 November regarding the rate of VAT applicable to sanitary products. In my letter, I urged you to bring forward a proposal to enable greater flexibility on VAT rates for sanitary products. In your reply, you indicate that the Commission is aiming to publish an Action Plan on the definitive VAT regime in March 2016. You also note that the Commission intends to publish at the same time a Green Paper on reforming the rules on VAT rate setting by Member States.

On this basis, I assume that VAT rate issues will not feature as part of the Digital Single Market legislative proposal, and instead look forward to working with you separately on these as part of the Green Paper process.

Yours sincerely  
David Gauke

**David Gauke MP**