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VAT across Europe is about to be set at new high levels as members of the European Union introduce rises in a way to cope with the financial crises that confronts them all.

The average weighted rate was 18.6% in 2006, but the annual TMF EU VAT Tracker predicts that that figure will rise to nearly 20% by 2010. Spain are already believed to have pencilled a 2% rise in their VAT rate with their Premier, José Zapatero, recently speaking of the need for a major increase by the end of 2009. The Spanish financial press think that this means a 2% rise.

Finland is to up their rate by 1% next year and the UK will shortly end their 2.5% VAT reduction.

Standard VAT rates around the 27 European Union are tracked by the annual TMF EU VAT chart and up until 2007, it showed that countries were implementing big VAT increases to subsidise cuts in business taxes. The basis of this strategy was the belief that this was a vital way of securing job-creating inward investment and preventing the leakage of employment to low-cost emerging markets.

Germany was said to be the best exponent of this strategy, which pushed through a 3% rise in 2007. France and Netherlands were said to be following German's lead, but fears of inflation and then the start of the credit crunch in 2008 put an end to their interventions.

Nonetheless, VAT rises are back on the respective Government agendas because of rocketing deficits emerging over the past year. In order to cope with their debts and pressure from the currency markets, the last six months have seen emergency VAT rises in Ireland, Lithuania, Hungary, Estonia and Latvia. And more countries are expected to follow suit.

Richard Asquith, MD of TMF VAT Services, said:

“It now seems that the earlier fears around inflation and recession have now fallen away as economies stabilise. With record-breaking government deficits in all countries, we may now see a rapid re-acceleration of this policy with an expansion of the VAT burden on consumers. Without doubt, other large European countries will follow suit and push VAT rises back to the top of their tax strategies.”