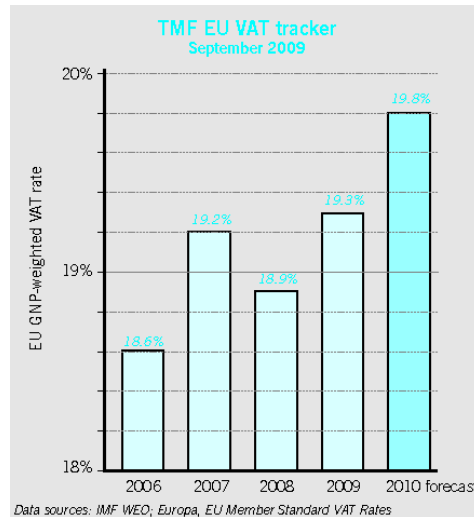


Tax Planning International

Spain and UK to lead Europe in fresh round of VAT increases

The latest TMF EU VAT Tracker is indicating that VAT rates are set to reach new heights as member states push through rises to cope with the financial crises. With a likely 2 percent rise in Spain, the ending of the UK's 2.5 percent reduction and a 1 percent rise in Finland next year, the average weighted rate will hit nearly 20 percent by 2010. This compares to just 18.6 percent in 2006.



VAT rises are back on the EU agenda

The annual TMF EU VAT Tracker charts changes in standard VAT rates around the 27 European Union countries. Up until 2007, it was showing countries implementing big VAT increases to subsidise cuts in business taxes. This strategy was seen as vital to securing job-creating inward investment and preventing the leakage of employment to low-cost emerging markets. The biggest success in this strategy came in Germany, which pushed through a 3 percent rise in 2007. Other countries were set to emulate this, notably France and the Netherlands, but fears of inflation and then the start of the credit crunch in 2008 put an end to their interventions.

However, with rocketing deficits in most countries over the past year, governments are being forced back to VAT rises. In the past six months, Ireland, Lithuania, Hungary, Estonia, and Latvia have rushed through emergency VAT rises as they grapple with their debts and pressure from the currency markets.

This trend is now spreading into the larger EU countries. At the end of this year, the UK's temporary 2.5 percent VAT reduction comes to an end, with much conjecture of a potential new Conservative government increase to 20 percent in mid-2010. The Spanish premier, Jose Zapatero, in mid September spoke of the need for a major increase by the year end, which the local financial press is speculating as meaning a 2 percent rise. This will accompany the preliminary scheduled Finnish VAT increase of 1 percent in mid-2010.

Richard Asquith, MD of TMF VAT Services commented:

"A Spanish increase has always been widely anticipated – especially since its current rate of 16 percent is so low compared to the rest of the EU. The bursting of the local property bubble and subsequent economic turmoil has forced this through. Outside of the EU, we expect indirect tax rises too as Switzerland votes on a VAT increase next year and Japan considers a rise in Consumption Tax.

"Across the EU, 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."