

## TAX NEWS

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# Inflation concerns hit European VAT increases

**The latest TMF EU VAT Tracker highlights the impact of the credit crunch and increasing inflationary worries on plans for VAT rate increases.**

In a bid to stay competitive for global business investment, EU states have been looking in recent years to shift the burden of tax from business-related taxes (e.g. corporate and labour taxes) to consumption taxes, such as VAT. The most dramatic example of this was Germany's 2007 3% VAT increase to 19%.

However, the recent financial market turmoil and re-emergence of international inflationary pressures have put the brakes on this strategy. TMF's EU VAT Tracker, which plots the average GNP-weighted VAT rate across the European Union, highlights this change.

The 2007 weighted EU VAT rate showed an increase from 18.6 % to 19.2%. Going into 2008, intense debate around increases in France, Greece and others, following Germany's move, indicated that the Tracker would make a further leap to 19.9% by the end of 2008.

However, the fears of adding to inflationary pressure with such rises appear to have now reduced this likelihood. Portugal introduced a sudden 1% cut in June. Last month, the Netherlands retreated from plans to increase its standard VAT rate from 19% to 20% in January 2009 due to worries about the impact of such a rise on the economy. This means the Tracker 2008 forecast has now leveled out at 19.2%.

Richard Asquith, head of TMF's Global VAT Network, said:

"It seems amazing how quickly this situation has turned around. Just six months ago it was an article of faith amongst government officials and business tax leaders that EU VAT rates were on the increase. Indirect tax increases, as part of the tax burden shift, were seen as a vital tool to regain lost economic competitiveness from emerging economies. With the reappearance of inflation this year, this route is been closed off for the foreseeable future.

It is not just the EU hit by this – the issue is global. Other countries, such as Japan, have backed off from potential VAT increases. The UAE has now also cooled on its enthusiasm to launch a Goods & Services Tax regime (similar to VAT) in 2009."

TMF VAT Services provides international VAT compliance (non-advisory) services. It is one of the core services of the TMF Group, which offers global independent management and accounting outsourcing. The TMF Group operates 79 wholly-owned offices in 61 countries.

## Link

[TMF VAT Services](#)

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## About the author

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Sarah is a Chartered Tax Adviser. She has been writing professionally since joining CCH Editions in 1998 as a Senior Technical Editor, contributing to a range of highly regarded publications including the British Tax Reporter, Taxes - The Weekly Tax News, the Red & Green legislation volumes, Hardman's, International Tax Agreements and many others. She became Publishing Manager for the tax and accounting portfolio in 2001 and later went on to help run CCH Seminars (including ABG Courses and Conferences).

Sarah originally worked for the Inland Revenue in Newbury and Swindon Tax Offices, before moving out into practice in 1991. She has worked for both small and Big 5 firms. She now works as a freelance author providing technical writing services for the tax and accountancy profession.

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