

# VAT Focus Comment on EU VAT rates

## EU VAT increases as recession bites

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### European VAT on the rise

Whilst the UK cut its VAT rate last year to produce a much needed fiscal stimulus, the rest of Europe has been rushing through emergency VAT rises to combat spiralling fiscal deficits. This has been part of a long-term strategy, increasing revenue share from indirect taxes in favour of company and employment taxes.

### VAT – the growth tax

Threatened by low-cost labour countries in Eastern Europe and the Far East, the EU trend in the past five years has been to cut business taxes to stimulate job creation. To fund this strategy, VAT had been on the rise, with the most notable rise being in Germany from 16% to 19% in 2007. Whilst other countries were set to follow (notably France and the Netherlands), the fears around inflation in 2008 put a stop to this.

### Credit Crunch restarts the hikes

As the worldwide recession dug in during 2009, the resulting ballooning state borrowing put VAT back on the agenda. Many countries faced with bursting property bubbles and crippling debts were forced into crisis VAT increases.

Leading the pack were the Baltic States, which broke their much cherished flat tax regimes with repeated rises in 2009. Hungary, buckling under foreign currency household debt, produced an eye-watering 5% increase towards the end of 2009. Other countries following the trend included the Czech Republic and Croatia, which both increased their VAT rates. Iceland's miserable recession was underlined by its 1% VAT increase to 25.5% – higher than permitted in the EU.

### Bond markets stalking their next targets

As the Euro zone countries have emerged out of recession, the financial markets are demanding further fiscal reconciliation, which may well come in the shape of further VAT rises.

Greece is under intense pressure to slash its enormous debt mountain, yet has repeatedly denied it will increase its 19% VAT rate. Next in line for pressure will be Portugal, which actually cut its VAT rate by 1% to 20% in 2008 in an overtly populist move prior to elections. Romania is also a possible candidate for a VAT rise should it breach its recent IMF bailout terms.

### VAT increases, only next year please

One increasingly popular trick being adopted in Europe is the pledge of a VAT rise sometime in the future.

This seems to put off the risk of killing off the early signs of recovery, but at the same time assures the worried financial markets that governments are serious about bringing down debt.

The best examples are Finland and Spain, which last year promised to increase their VAT rates by 1% and 2% respectively this summer. Perhaps this could be the answer for the UK?

## European VAT rates

	Jan 2008	% change	Jan 2010
Austria	20.0%	0↔	20.0%
Belgium	20.0%	0↔	20.0%
Cyprus	15.0%	0↔	15.0%
Czech Republic	19.0%	1↑	20.0%
Denmark	25.0%	0↔	25.0%
Estonia	18.0%	2↑	20.0%
Finland	22.0%	0↔	22.0%
France	19.6%	0↔	19.6%
Germany	19.0%	0↔	19.0%
Greece	19.0%	0↔	19.0%
Hungary	20.0%	5↑	25.0%
Ireland	21.0%	0↔	21.0%
Italy	20.0%	0↔	20.0%
Latvia	18.0%	3↑	21.0%
Lithuania	18.0%	3↑	21.0%
Luxembourg	15.0%	0↔	15.0%
Malta	18.0%	0↔	18.0%
Netherlands	19.0%	0↔	19.0%
Poland	22.0%	0↔	22.0%
Portugal	21.0%	1↓	20.0%
Romania	19.0%	0↔	19.0%
Slovakia	19.0%	0↔	19.0%
Slovenia	20.0%	0↔	20.0%
Spain	16.0%	0↔	16.0%
Sweden	25.0%	0↔	25.0%
UK	17.5%	0↔	17.5%
Switzerland	7.6%	0↔	7.6%

23% from July 2010  
Temporary 0.5% increase in 2009  
Postponed 1% rise in 2008  
18% from July 2010  
Temporary 2.5% cut in 2009  
8% from 2011

The map shows the movement in VAT rates over the last 2 years

