

## News Analysis: Spain, U.K. Likely to Lead EU in Fresh Round of VAT Increases

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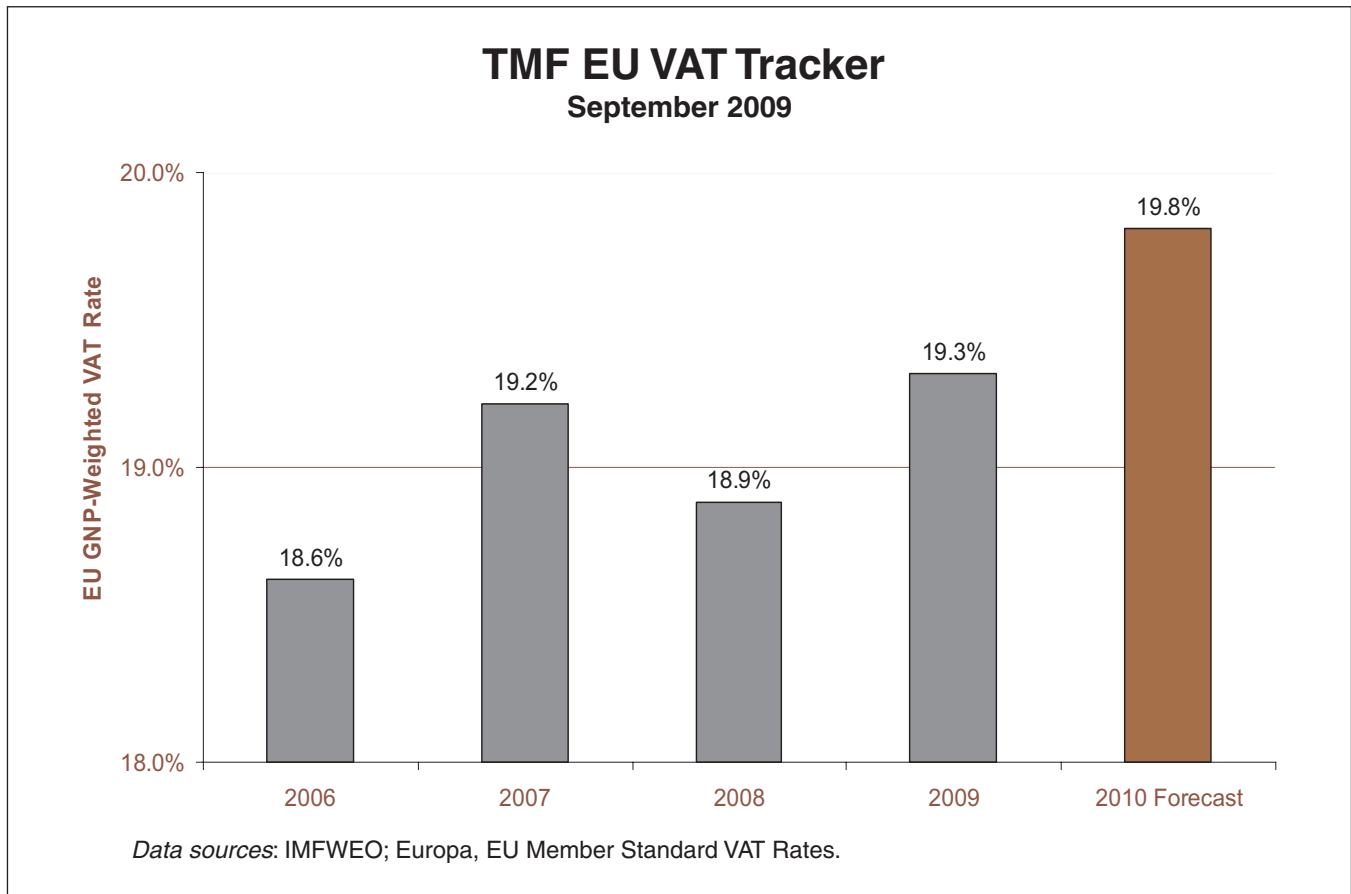
An annual EU VAT Tracker published by international VAT registration and return firm TMF VAT Services indicates that VAT rates are set to reach new heights as member states push through increases to cope with the financial crisis.

With a likely 2 percent increase in Spain, the expiration of the U.K.'s 2.5 percent reduction, and a 1 percent increase in Finland next year, the average

weighted rate will hit nearly 20 percent by 2010, compared with 18.6 percent in 2006.

### VAT Increases Back on EU Agenda

Until 2007, member countries were implementing big VAT increases to subsidize cuts in business taxes. That strategy was seen as vital to securing job-creating inward investment and preventing the leakage of employment to low-cost emerging markets. Germany, which pushed through a 3 percent increase in 2007, had the most success using that strategy. Other countries — notably France and the Netherlands — were



set to emulate Germany's example, but fears of inflation and then the start of the credit crunch in 2008 put an end to their intervention.

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

This trend is now spreading to the larger EU countries. At the end of 2009, the U.K.'s temporary 2.5 percent VAT reduction expires, and there has been much conjecture about a potential new Conservative government increase to 20 percent in mid-2010. Spanish President José Zapatero has called for a major increase by year-end, which the local financial press is speculating as meaning a 2 percent increase. Finland has also scheduled a preliminary VAT increase of 1 percent in mid-2010.

A Spanish increase has been widely anticipated — especially since Spain's current rate of 16 percent is so low compared with the rest of the EU. The bursting of the local real estate bubble and subsequent economic turmoil has forced the increase through.

Across the EU, it seems that earlier fears about inflation and recession have subsided as economies stabilize. With record-breaking government deficits in all countries, there may now be a rapid reacceleration of the higher VAT strategy, with an expansion of the VAT burden on consumers. Without doubt, other large European countries will follow suit and push VAT increases back to the top of their tax strategies. ◆

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