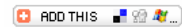


Inflation Concerns Hit European VAT Increases

By by Amanda Banks, Tax-News.com, London

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The latest TMF EU VAT Tracker, released last week, has highlighted the impact of the credit crunch on plans for VAT rate increases in Europe.

According to the tracker, recent financial turmoil and the re-emergence of international inflationary pressures have put the brakes on several attempts by EU states to shift the burden of tax from corporate and labour taxes to consumption taxes, such as VAT.

In 2007 an increase from 18.6 % to 19.2% was highlighted by the tracker, which plots the average GNP-weighted VAT rate across the European Union.

TMF, which provides international VAT compliance services, explained that:

"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, commented that:

"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."

He concluded by observing that:

"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."