

# EU enlargement brings big market and big VAT

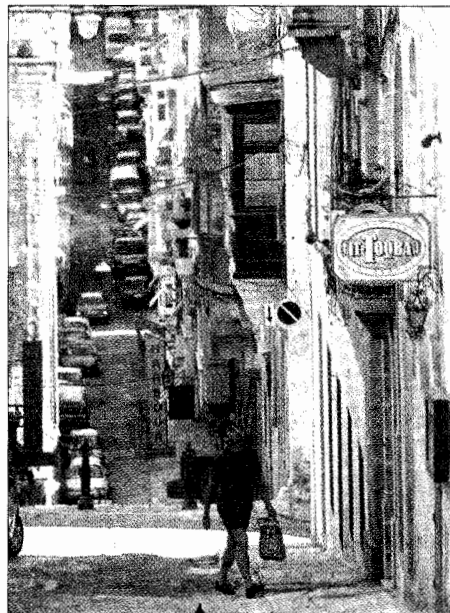
**What not a lot of people know about EU expansion is that it might be the start of a VAT explosion. Sally Kinnear reports**

New EU members may be planning VAT rates of up to 80 per cent, making indirect taxation one of the most difficult and sensitive areas of EU enlargement.

The European Union now has ten new Member States, which means there are an additional 75 million EU citizens and the UK belongs to the world's largest market.

This will affect thousands of businesses, even if it's only a matter of dealing potentially with 21 new languages. A PwC survey of the UK's top 100 companies carried out in 2003 showed, startlingly, that they already reached a long way into the new area – only 2 per cent have no presence at all.

Of the rest, 18 per cent have a presence in one accession country, and about 45 per cent are present in between two and five of these



Indirect route: It's time to note the VAT regimes in Malta (pictured) and the other new EU countries

	Super reduced	Reduced	Standard
Austria	-	10	20
Belgium	-	6	21
Cyprus	-	5	15
Czech Rep.	-	5	22
Denmark	-	-	25
Estonia	-	5	18
Finland	-	8	22
France	2.1	5.5	19.6
Germany	-	7	16
Greece	4	8	18
Hungary	-	12	25
Ireland	4.3	13.5	21
Italy	4	10	20
Latvia	-	9	18
Lithuania	-	5	18
Luxembourg	3	6	15
Malta	-	5	15
Netherlands	-	6	19
Poland	-	-	-
Portugal	-	5	19
Slovak Rep.	-	-	19
Slovenia	-	8.5	20
Spain	4	7	16
Sweden	-	6	25
UK	-	5	17.5

countries. Ten per cent are present in six to nine countries. The remaining 25 per cent have done their homework and are in all ten countries.

So how could VAT trip up these businesses? European law says that the minimum VAT rate in an EU country must be 15 per cent, but there is no maximum and some new EU states are planning VAT rates of between 25 and 80 per cent.

However, the new countries will be imposing negotiated transitional VAT provisions. There will be lower duty on cigarettes for three to five years in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia. The rest of the exemptions concern small companies, basic services and tourism-related items like restaurants, international passenger transport and construction (see table, right).

One other plus in general for UK firms is that these accession states have high growth rates, according to their statistics, but are intrinsically poorer than the 'older' EU countries. Gross National Product per head for these accession countries is only 40 per cent of the EU average. And although most of these accession countries do not yet have proper regulatory frameworks to meet their EU obligations, there are some extremely well-run companies there.

## CYPRUS

- VAT exemption threshold for small companies set at turnover of €15,600
- Zero rate on food and pharmaceuticals, and reduced rate on restaurants until 31 Dec 2007
- VAT exemption on building land and on international passenger transport ('IPT').

## CZECH REPUBLIC

- Threshold for small companies – €35,000
- Reduced rates on heating and construction until 31 Dec 2007
- VAT exemption on IPT.

## ESTONIA

- Threshold for small companies – €16,000
- Reduced rate on heating until 31 Dec 2007
- VAT exemption on IPT.

## HUNGARY

- Threshold for small companies – €35,000
- Lower rate on heating and restaurants until 31 Dec 2007 and gas/electricity to May 2005.

## LATVIA

- Threshold for small companies – €17,200
- VAT exemption on IPT and on royalties
- Reduced rate on heating until 31 Dec 2004.

## LITHUANIA

- Threshold for small companies – €29,000
- VAT exemption on IPT.

## MALTA

- Threshold for small companies – €37,000 if supplying goods, €24,000 if supplying service with low value added, €14,600 for all others
- Zero rate VAT on foodstuffs and pharmaceuticals until 31 Dec 2009
- VAT exemption on water, new buildings, building land, inland passenger transport and domestic inter-island sea passenger transport.

## POLAND

- Threshold for small companies – €35,000
- Zero rate on books and reduced rates on restaurants and construction to 31 Dec 2007
- Lower duty on 'green' fuel until 1 May 2005
- Very reduced rates on food and agricultural inputs except machinery
- VAT exemption on IPT.

## SLOVAKIA

- Threshold for small companies – €35,000
- Reduced rate on electricity and gas until 1 May 2005, on heating until 31 Dec 2008 and construction until 31 Dec 2007
- VAT exemption on IPT.

## SLOVENIA

- Threshold for small companies – €25,000
- VAT exemption on IPT
- Reduced rates on construction and restaurants until 31 Dec 2007.