

“EU expansion to include 10 new states: the VAT position”

by Sally Ramage ®



The European Union had ten new Member States on the 1st May 2004. This meant an additional 75 million EU citizens. The enlargement established the world’s largest market and undoubtedly had an impact on your company.

Even if only that you have to deal, potentially, with 21 new languages !

A 2004 survey of the UK’s top 100 companies showed , startlingly, that 18% had a presence in only 1 accession country, and about 45 % had a presence in between 2 and 5 countries, 2 % had no presence at all, and 10% were present in 6 to 9 countries.

But of out top 100 countries the remaining 25% had done their homework and were in all ten countries.

The EU enlargement had a big effect in relation to Value Added Tax.

Although the European Directive stipulates that the minimum VAT rate in any EU country must be 15%, there is no maximum stipulated, and some of the accession states were planning VAT rates of between 25 to 80%.

The following is the negotiated transitional VAT provisions country by country in 2004:

BULGARIA

- *VAT exemption for small companies set at 25,000 euros.
- *Vat exemption for international passenger transport.
- *Lower excise duty rates on cigarettes until 31.12.2007

CYPRUS

- *VAT exemption threshold for small companies set at 15,600 euros.
- *Zero rate on foodstuffs and pharmaceuticals until 31.12.2007.
- *Reduced VAT rate on restaurants until 31.12.2007
- *VAT exemption on building land
 - Vat exemption on international passenger transport.

Czech Republic

- Turnover threshold for small companies set at 35,000 euros
- Reduced VAT rates on heating and construction until 31.12.2007.
- Lower excise duty rates on cigarettes until 31.12.2007.
- VAT exemption on international passenger transport.

ESTONIA

- *Turnover threshold to exempt small companies from VAT set at 16,000 euros.
- *Reduced VAT rate on heating until 31.12.2007.

*Lower excise duty rates on cigarettes until 31.12.2009.

*VAT exemption on international passenger transport.

HUNGARY

*Turnover threshold to exempt small companies from VAT set at 35,000 euros.

*Reduced VAT rate on heating until 31.12.2007.

*Reduced VAT rate on gas and electricity until 1st May 2005.

*Reduced VAT rate on restaurants until 31.12.2007.

- Lower excise duty rate on cigarettes until 31.12.2008.

LATVIA

*Turnover threshold to exempt small companies from VAT set at 17,200 euros.

*VAT exemption on international passenger transport and on royalties.

*Reduced VAT rate on heating until 31.12.2004.

*Lower excise rates on cigarettes until 31.12.2009.

LITHUANIA

- Turnover threshold to exempt small companies from VAT set at 29,000 euros.
- Vat exemption on international passenger transport.
- Lower excise duty rates on cigarettes until 31.12.2009

MALTA

*Turnover threshold to exempt small companies set at 37,000euros where the company is supplying goods, 24,00 euros for small companies supplying services with low value added, and

14,600 euros for all other small companies.

*Zero rate VAT on foodstuffs and pharmaceuticals until 31.12.2009.

*VAT exemption on water and on new buildings and on building land and on inland passenger transport and domestic inter-island sea passenger transport.

POLAND

- Turnover threshold to exempt small companies from VAT set at 35,000 euros.
- Zero VAT rate on books until 31.12.2007.
- Reduced VAT rates on restaurants and on construction until 31.12.2007.
- Reduced excise duty on ecological fuels until 1.5.2005.
- Lower excise duty rate on cigarettes until 31.12.2008.
- Very reduced rates on foodstuffs and on agricultural inputs except machinery.
- VAT exemption on international passenger transport.

ROMANIA

*VAT exemption threshold for small companies set at 35,000 euros.

*VAT exemption on international passenger transport.

*Lower excise duty rate on cigarettes.

SLOVAKIA

*Turnover threshold to exempt small companies set at 35,000 euros.

*Reduced VAT rate on heating until 31.12.2008.

*Reduced VAT rate on construction until 31.12.2007

*Reduced VAT rate on electricity and gas until 1.5.2005.

*Lower excise duty rates on cigarettes until 31.12.2008.

*VAT exemption on international passenger transport.

SLOVENIA

*Turnover threshold to exempt small companies from VAT set at 25,000 euros.

*VAT exemption on international passenger transport.

*Reduced VAT rates on construction and on restaurants until 31.12.2007.

The following were the pre-2004 VAT regimes of the EU:

Member State	standard rate	Super-reduced	reduced rate
Belgium	-	6	21
Czech Republic	-	5	22
Denmark	-	-	25
Germany	-	7	16
Estonia	-		5
Greece	4	8	18
Spain	4	7	16
France	2.1	5.5	19.6
Ireland	4.3	13.5	21
Italy	4	10	20
Cyprus	-	5	15
Latvia	-	9	18
Lithuania	-	5	18
Luxembourg	3	6	15
Hungary	-	12	25
Malta	-	5	15
Netherlands	-	6	19
Austria	-		10
Poland	-	-	-
Portugal	-	5	19
Slovenia	-	8.5	20

Slovak Republic	-	-	19
Finland	-	8	22
Sweden	-	6	25
UK	-	5	17.5

One plus point is that these accession states have high growth rates, according to their statistics, but there are intrinsically much poorer countries than the present EU countries. For example, the Gross National Product per head for these accession countries is only 40% of the EU average. And most of these accession countries do not yet have proper regulatory frameworks to meet their EU obligations. Nevertheless there are some extremely well-run companies there.
ENDS

