EUROPEAN
COURT
OF AUDITORS

EN

Press Release

Luxembourg, 29 November 2018

VAT reimbursement in Cohesion spending is problematic, say EU Auditors

The reimbursement of value-added tax (VAT), an important cost element in EU Cohesion spending, is prone to error and does not always represent the best use of EU funds, according to a rapid case review by the European Court of Auditors. The auditors consider that public bodies should no longer be reimbursed for the VAT related to Cohesion spending in the post-2020 period.

EU spending in Cohesion often involves subsidising the purchase of goods or services, and the VAT on such purchases can account for up to one fifth of a project's total cost. As a general rule, VAT is only eligible for EU co-financing if it cannot be recovered under national legislation.

Having analysed data collected over a number of years, the auditors point out that the reimbursement of VAT is not only a frequent source of errors but may also lead to the sub-optimal use of EU funds. This particularly affects public bodies receiving EU support, such as national, regional and local government authorities.

The auditors highlight a number of cases which do not represent the best use of EU funds. For example, a Member State ministry may implement an infrastructure project and claim VAT as an eligible cost for reimbursement by the EU. At the same time, however, the Member State will receive the VAT revenue associated with the project via its tax collection system. The reimbursement will therefore overcompensate the actual expenditure incurred by the Member State.

"*The EU reimbursement to a Member State may even exceed the actual cost of a project*", **says Tony Murphy, the Member of the European Court of Auditors responsible for the rapid case review**. "*This is particularly relevant for large infrastructure projects with a high co-financing rate*."

In its proposal for the post-2020 Cohesion legislation, the European Commission suggests that VAT - whether recoverable or not - should be reimbursed for projects costing less than €5 million. Based on their review, the auditors maintain their previously expressed opinion that VAT should not be reimbursed to public bodies; they therefore suggest a reworking of the proposed legislation.

The purpose of this press release is to give the main messages of the rapid case review adopted by the European Court of Auditors.
The full review is on www.eca.europa.eu.

ECA Press

Mark Rogerson – Spokesperson T: (+352) 4398 47063 M: (+352) 691 55 30 63
Damijan Fišer – Press Officer T: (+352) 4398 45410 M: (+352) 621 55 22 24
12, rue Alcide De Gasperi - L-1615 Luxembourg
E: press@eca.europa.eu @EUAuditors eca.europa.eu

Notes to Editors

VAT is an indirect tax on the consumption of goods and services, governed by rules laid down at Member State level. Standard VAT rates in the EU range from 17% in Luxembourg to 27% in Hungary. To ensure a degree of harmonisation across the EU, the 2006 VAT Directive established a common system for Member States to build into their national rules. Registered businesses charge VAT on sales and forward the amounts collected to the national tax authority. In return, they can request refunds of the VAT charged on their own purchases of goods and services. At the end of the process, the state budget receives the total VAT component of the final price. End consumers are not entitled to a refund and therefore bear the full amount of VAT.

A rapid case review presents and establishes the facts surrounding a specific issue or problem; it is not an audit report.

This review paper complements the observations made on VAT in the European Court of Auditors' annual reports and the views expressed in its Opinion No 6/2018 on the Commission's proposal for the future treatment of VAT in the Common Provisions Regulation. It is available in English on the ECA website eca.europa.eu; other languages will be available in due course.