

## The 2010 VAT reform

### Evaluation of the impact on the Tax Administration and taxpayers

#### Key facts

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Value added tax (VAT) is the most important source of receipts for the Confederation. In 2015, approximately CHF 22.5 billion flowed from 361,000 taxpayers into the federal coffers. The Federal Council wanted to simplify the tax system with the 2010 VAT reform but without affecting tax revenue. The maximum turnover for the net tax method was thus increased from CHF 3 million to CHF 5 million. Moreover, the position of the taxpayer according to procedural law was improved by means of various measures. These include, for example, the definitive effect of tax audits, the shortening of the absolute limitation period from 15 to 10 years and renewed criminal law. The administrative burden on companies was also to be eased. However, Parliament did not carry out any further simplifications in the reform by way of a standard rate or the abolition of exceptions.

The Swiss Federal Audit Office (SFAO) examined the impact of the 2010 VAT reform on the Main VAT Division of the Federal Tax Administration (FTA) and on the taxpayers' administrative burden.

#### **The reform created a considerable burden for the Administration, albeit one that was one-off**

The introduction of the law caused a considerable amount of one-off work. Around 200 Main VAT Division part-time and in part full-time employees (FTE) were involved in its implementation. The reform had little impact on the procedures and the organisational structure of the Main Division. The number of staff in the Main VAT Division has remained stable at around 650 FTEs. In the run-up, the FTA had predicted an additional requirement of 30 FTEs.

Today, it is still the Legal Division of the Main VAT Division which has been most affected by the 2010 reform. The total revision of the Value Added Tax Act (VATA) shifted a number of the evidence requirements from the part of taxpayers to the FTA, which led to an additional burden in terms of legal procedures. With the reform, fewer than 10 FTEs overall were shifted to the Legal Division, above all in connection with the creation of the new Criminal Affairs Unit in 2013.

The FTA had to introduce the new law in a very short period of time. The corresponding implementation work was accompanied by motivational problems on the part of many Main VAT Division employees because Parliament brought the law into force very swiftly, the law was largely based on preliminary work of the Swiss Institute of Certified Accountants and Tax Consultants (now EXPERT-suisse) and was geared to taxpayers' needs. Employees consider the current influence of the reform on motivation and the working atmosphere to be largely unproblematic.

#### **Already in 2006, there was a sharp drop in receipts from checks**

The net tax method simplifies VAT returns and also eases the administrative burden of the Main VAT Division. The FTA's assumption that the higher turnover limit due to the reform would lead to up to 16,000 new taxpayers submitting their returns using this method did not materialise.

The Main VAT Division conducts internal and external checks. A sharp decline in audit receipts had already been recorded from 2006. This was above all due to the introduction of the so-called "pragmatism article" in the Value Added Tax Ordinance. The Federal Council had thus responded to political calls already before the 2010 legislative revision that the Main Value Added Tax Division should



no longer make subsequent tax claims on account of mere formal deficiencies. The adoption of the corresponding provisions in the 2010 law had virtually no further impact on audit receipts.

### **Improved monitoring of the duration of legal proceedings**

Speeding up legal proceedings was a key demand of the 2010 VAT reform. An important measure in this was the shortening of the limitation period of a tax claim from 15 to 10 years. Meeting this deadline is a challenge for the Main Value Added Tax Division. However, a re-extension of the limitation period to 15 years was clearly rejected by the Economic Affairs and Taxation Committee of the National Council in spring 2015.

The actual limitation risk stems from many unknowns (among other things, the number and complexity of the disputes, the workload of the courts and the taxpayers' behaviour). Currently, the Main VAT Division only has insufficient data on the duration of proceedings. It is important that limitation periods are documented and monitored so that tax claims do not have to be written off unnecessarily. The SFAO thus recommends that the Main VAT Division supplement the monitoring of limitation periods and to do everything necessary to draw up useful statistics on the duration of proceedings.

### **The activities of the Criminal Affairs Unit are largely unknown**

Since 2013, the Criminal Affairs Unit has been responsible for the implementation of criminal proceedings. It concentrates on major suspicious cases. Smaller and more medium-sized cases are subject to company fines where possible. For prevention purposes, the SFAO recommends that the FTA should provide more information on the Criminal Affairs Unit's activities and prepare a legislative amendment with the goal of generally being able to use evidence from audits in criminal proceedings.

The SFAO concluded that the administrative costs for taxpayers were reduced thanks to the VAT reform. This has also been confirmed by two expert studies. Relief is provided above all in the case of the simplified input tax deduction system. The precise extent cannot be determined, however. International comparisons show that VAT in Switzerland is much simpler than in other countries and taxpayers have to spend four to five times less time on it.

**Original text in German**