

Kiel Study: EU's Trade Self-Surplus Goes Back to VAT Fraud

Thomas Wahl



News

In a [working paper](#) published in January 2020, the Kiel Institute for the World Economy (IfW) and the ifo Institute in Munich, Germany elucidate that the main reason for the EU's large trade surplus with itself is apparently large-scale VAT fraud. By applying forensic accounting methods, the researchers observed that the EU runs a trade surplus with itself of €307 billion or 1.9 percent of the Union's GDP in 2018. The working paper analysed data over a large period of time. Apparently, the EU's trade self-surplus has become persistent over time: the EU has had a self-surplus since 1993, when the single market was established. This surplus has increased considerably with the 2004 enlargement of the EU and grown to a total of €2.9 trillion over the past twelve years.

The researchers argue that the figure should be zero if all transactions were properly reported and recorded. The phenomenon cannot be explained by measurement errors or incidental inaccuracies only, but rather the large fraction of the EU's self-surplus seems to be related to fraud in value added tax. It is estimated that EU-wide VAT revenue shortfalls could range from €27 to 35 billion per year in a realistic scenario. At worst, revenue shortfalls would even amount to €64 billion.

The researchers also point out that data quality varies among the Member States. The differences were most pronounced between EU neighbouring countries and also between Member States with the more divergent VAT rates. As a result of the study, the following recommendations were made:

- Institutions in charge should substantially improve the quality and reliability of intra-EU data on the balance of payment;
- An electronic clearing procedure should be established to make tax fraud and data misreporting very difficult;
- The non-disclosure or non-collection of certain balance-of-payment items (e.g., primary income) should be dealt with urgently.

The study shows that tackling VAT fraud in the EU should be a top priority, because the large trade self-surplus is fuelling international disputes.



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