What does neutrality mean?

**A) Neutrality for the trader**
- Is neutrality respected in exempt transactions?
- Zero rate as an alternative solution that guarantees the neutrality in physiological hypotheses

**B) Neutrality for the market**
- Are neutrality and competition respected in VAT fraud or in case of distorted use of regulations at a national level (e.g., in Italy, doubts arise in relation to the flat tax)?
- Payment of VAT in intra-community acquisitions and no flat-rate regimes as alternative solutions

**STATE OF ART**

Scholar puts at the same level:
- Deduction and
- Obligation to recover the tax without different functions

Consequences (like a short-circuit) of this “state of art”: research starting point

1. Deduction and Obligation to recover the tax cannot automatically be placed on the same level
2. The two components of neutrality have different functioning and it is not correct to refer to neutrality indifferently by referring to one or the other
3. What ensures neutrality for that trader is precisely-only his right to deduct

On one hand, Scholars, EU Court of Justice, VAT Directive affirm the centrality of the neutrality as a principle that informs the VAT discipline

On the other hand, the principle of neutrality is sacrificed **(no right to deduct)** in balancing with other EU principles/interests:
- Physiologically by VAT Directive (e.g. in exempt transactions, in favor of social interests)
- Pathologically by EU Court of Justice (e.g., for para-sanctionary reasons, in favor to Union's financial interests)

**RESEARCH QUESTIONS & POSSIBLE SOLUTIONS**

**PRINCIPLE OF NEUTRALITY IN A FUNCTIONAL PROSPECTIVE**

**A) Neutrality for the trader**
- Is neutrality respected in exempt transactions?
- Zero rate as an alternative solution that guarantees the neutrality in physiological hypotheses

**B) Neutrality for the market**
- Are neutrality and competition respected in VAT fraud or in case of distorted use of regulations at a national level (e.g., in Italy, doubts arise in relation to the flat tax)?
- Payment of VAT in intra-community acquisitions and no flat-rate regimes as alternative solutions

**METHODOLOGY**

Compare systems of the various Member States, in order to understand how the VAT Directive has been transposed differently, in line with the principle of neutrality.

Analysis of the case law of the Court of Justice, in order to understand how the principle is 'used' and interpreted at EU level.