



EUROPEAN COMMISSION
DIRECTORATE-GENERAL
TAXATION AND CUSTOMS UNION
Indirect Taxation and Tax administration
Value added tax

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**VALUE ADDED TAX COMMITTEE
(ARTICLE 398 OF DIRECTIVE 2006/112/EC)
WORKING PAPER NO 984**

**CONSULTATION
PROVIDED FOR UNDER DIRECTIVE 2006/112/EC**

ORIGIN: Croatia
REFERENCE: Article 167a
SUBJECT: Cash accounting

1. INTRODUCTION

Article 66(b) of the VAT Directive¹ allows Member States to provide that VAT is to become chargeable, in respect of certain transactions or certain categories of taxable persons, “no later than the time the payment is received”. Article 167a of the VAT Directive as introduced by Directive 2010/45/EU², allows Member States as from 1 January 2013 to introduce an optional scheme under which a taxable person, whose VAT becomes chargeable according to Article 66(b) of the VAT Directive, can only deduct VAT when he pays his supplier for a supply he receives.

This optional “cash accounting” scheme may be open to all businesses with an annual turnover no higher than EUR 2 000 000 subject to the Member State wanting to apply a threshold above EUR 500 000 consulting the VAT Committee. Article 167a states:

“Member States may provide within an optional scheme that the right of deduction of a taxable person whose VAT solely becomes chargeable in accordance with Article 66(b) be postponed until the VAT on the goods or services supplied to him has been paid to his supplier.

Member States which apply the optional scheme referred to in the first paragraph shall set a threshold for taxable persons using the scheme within their territory, based on the annual turnover of the taxable person calculated in accordance with Article 288. That threshold may not be higher than EUR 500 000 or the equivalent in national currency. Member States may increase that threshold up to EUR 2 000 000 or the equivalent in national currency after consulting the VAT Committee. However, such consultation of the VAT Committee shall not be required for Member States which applied a threshold higher than EUR 500 000 or the equivalent in national currency on 31 December 2012.

Member States shall inform the VAT Committee of national legislative measures adopted pursuant to the first paragraph.”

In this respect, Croatia already applies an optional “cash accounting” scheme which is open to all taxable persons established in Croatia whose annual turnover from the preceding calendar year does not exceed HRK 3 000 000.

As from 1 January 2020, Croatia would like to increase the threshold set for their optional “cash accounting” scheme to HRK 7 500 000 (approximately EUR 1 000 000). Croatia therefore requests a consultation of the VAT Committee (see *Annex*).

2. THE COMMISSION SERVICES' OPINION

The Commission services take note of the intention of Croatia to allow all businesses established in Croatia with an annual turnover that does not exceed HRK 7 500 000 (approximately EUR 1 000 000) to opt to apply a “cash accounting” scheme.

¹ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (OJ L 347, 11.12.2006).

² Council Directive 2010/45/EU of 13 July 2010 amending Directive 2006/112/EC on the common system of value added tax as regards the rules on invoicing (OJ L 189, 22.7.2010, p. 1).

The measure is being introduced in Croatia within an optional scheme available to all taxable persons established in Croatia for which the VAT on their output transactions solely becomes chargeable when they receive the payment from their customers, in accordance with Article 66(b) of the VAT Directive.

The objective of the measure pursued by Croatia is to allow, following requests from business and business associations, a greater number of businesses (an estimated additional number of 10 002 businesses) to independently decide whether or not to apply the “cash accounting” scheme. The businesses that would be eligible to apply the “cash accounting” scheme carry out 14% of total supplies in Croatia.

According to the information provided by Croatia, 59 775 businesses currently apply the cash-accounting scheme, out of 126 702 businesses eligible for it. By increasing the threshold, the cash accounting scheme will be open to 10 002 additional businesses or 136 704 businesses, out of a total of 147 076 businesses that appear in the VAT Register in Croatia.

3. DELEGATIONS' OPINION

Croatia and the other delegations are requested to give their opinion on this matter.

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Consultation from Croatia

Based on comprehensive analysis of the tax system, it is planned for the Act on Amendments to the Value Added Tax as of 1 January 2020 to provide for the taxation on the basis of consideration collected to be applicable to all the taxpayers established in Croatia, taxpayers with permanent establishment, permanent residence or habitual residence in Croatia, whose supply of goods and services in the previous calendar year did not exceed HRK 7,500,000.00 (approx. EUR 1,000,000.00) excluding VAT. Taxation on the basis of consideration collected implies that the taxpayer to whom the taxation applies is entitled to deduct VAT only when the supply is paid to the supplier. Pursuant to the valid Value Added Tax (Official Gazette, no. 73/13, 99/13, 148/13, 153/13, 143/14, 115/16 and 106/18), taxation on the basis of consideration collected is applicable to all the taxpayers established in Croatia, taxpayers with permanent establishment, permanent residence or habitual residence in Croatia, whose supply of goods and services in the previous calendar year did not exceed HRK 3,000,000.00 excluding VAT.

Available indicators show that there are 147,076 taxpayers entered in VAT Register in the Republic of Croatia. Considering the long deadlines for the payment of supplies for which VAT became chargeable in the taxation period when the supplies were made, the taxpayers and taxpayer's associations frequently requested the increase of the threshold of HRK 3,000,000.00 for applying the taxation procedure on the basis of consideration collected. Therefore, it has been decided to increase the threshold to HRK 7,500,000.00. Increasing the threshold would provide for the greater number of taxpayers, i.e. the total of 136,704, to independently decide whether or not to apply the special taxation procedure on the basis of consideration collected. Even though a relatively high number of taxpayers may decide to apply the special taxation procedure on the basis of consideration collected, we would like to point out that only the taxpayers who experience certain difficulties in meeting their VAT liabilities due to long payment deadlines decide to apply it.

Therefore, we do not expect a significant rise in the number of taxpayers that would apply the taxation procedure on the basis of consideration collected due to the threshold increasing to HRK 7,500,000.00. Namely, there are currently 59,775 taxpayers that apply the taxation on the basis of consideration collected, although 126,702 are entitled to such taxation. Increasing the threshold would enable the additional 10,002 taxpayers to decide whether or not to apply the taxation procedure on the basis of consideration collected. Although this is a large number of taxpayers, because the total of 136,704 of them would be able to independently decide to apply the special taxation scheme on the basis of consideration collected, these taxpayers realise only 14% of the total supplies in the Republic of Croatia.

The provisions of Article 167a of the Directive 2006/112/EC proscribe that Member States may provide within an optional scheme that the right of deduction of a taxable person whose VAT solely becomes chargeable in accordance with Article 66(b) be postponed until the VAT on the goods or services supplied to him has been paid to his supplier. Member States which apply the optional scheme set a threshold for taxable persons using the scheme within their territory, based on the annual turnover of the taxable person calculated in accordance with Article 288 the Directive 2006/112/EC. That threshold may not be higher than EUR 500,000 or the equivalent in national currency.

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Member States may increase that threshold up to EUR 2,000,000 or the equivalent in national currency after consulting the VAT Committee.

Under Article 398 of the Council Directive 2006/112/EC, we hereby inform you of the need to consult the VAT Committee in relation to the option to increase the threshold for applying the taxation procedure on the basis of consideration collected to HRK 7,500,000.00 (approx. EUR 1,000,000.00).