



# COMBATTING VAT FRAUD IN THE EU

## USE OF THE REVERSE CHARGE MECHANISM



# Possibilities for future VAT

- Live with the current regime
- One-stop-shop
  - X need to change well established regime on intra-community supplies
- Reverse charge
  - X need to change well established (though substantially derogated) regime on domestic supplies
- Unanimity in any case except the first



# ECOFIN Steer

- Work on VAT should intensify
- All alternatives for definitive regime must be analysed including RCM
- Pilot scheme for a Member state as a part of the alternatives



# RCM – state of play

- Applicable on some domestic supplies
- Intra-community supplies – comparable situation
- Sectoral RCM – increasing use
  - Tool against missing trader fraud
- Debate of RCM extension not new
  - 2006 – 2008 generalised RCM
  - 2011 – 2014 sectoral RCMs incorporation



# Domestic vs Intra-community RCM

## Domestic

- Part of VAT Directive (articles 194-199, broadened in 2013 by articles 199a and 199b)
- Used by most of MSs in fraud sensitive sectors
- No evidence of the internal market distortion

## Intra-community

- The taxation of IC transactions results in the situation similar to the RCM
- No evidence of the internal market distortion



# Is the internal market at risk?

- Potentially, but not specifically because of RCM
- In reality less than expected
- 28 tax administrations
  - Same options different choices
  - Diverging capacity
  - Does „No RCM in one MS“ prevent neighbouring countries from carousel fraud?
- VAT fraud causes IM distortion



# New risks?

## Risks

- Unpaid tax at the end of the transaction chain
- Transfer of fraud
- Administrative burden

## Solution?

- VAT administration evolves dramatically. Everyday use of new technologies (data crosschecking, IT tools, electronic declarations)
- Not a problem if RCM used in all MS, in case of pilot comparable to current situation
- Depending on MS, often not really



# More RCM in future?

## What?

Definitive  
regime

Broad  
Derogation/  
Pilot

## When?

Longer –  
term  
(but asap)

Short-term

## Who?

All

Interested  
MS





# Scope of RCM

- Fraud is characterized by big volume of transactions and high flexibility
- Shifting of fraud from one commodity to another
- Very fast
- RCM scope determination by size of a supply?



# Legal instruments

- Individual derogations according to the Art. 395 of the VAT Directive
  - Not possible to use in wider scope (the request of 4 MSs rejected by the EC)
- RCM as one of options for the definitive regime
  - Not a solution in a short time perspective
- Pilot project
  - Possibility to try out impacts of the system before the final decision



# Pilot project advantages

- Could serve as a short-term study with a possibility to use outputs
- Conditions: technical and legal base in the MS involved (legislation, appropriate declarations)
- Solves the lack of the data about the impact of such a system



# CZ perspective

- Possible parameters of the CZ pilot:
  - For all domestic transactions higher than 10.000 EUR (taxable event)
  - For period of 5 years
- Legal and technical conditions fulfilled:
  - Electronic filling of VAT listings (since 1/2016)
    - permit to crosscheck invoices
  - Electronic filling of sales (to be introduced soon)



Thank you for your attention.