The Reverse Charge Pros & Cons

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SCOPE OF THE REVERSE CHARGE MECHANISM

- **Coverage of particular/selective supplies only**
  - It limits tax evasions in a specific business and reduces political tendencies to increase a nominal tax burden 👍
  - It increases complexity of the tax administration

- **General RCH**
  - It simplifies cash flows B2TA and TA2B, it saves money 👍
  - It eliminates tax evasions based on a siphoning effect 👍
  - It breaks the traditional European approach to the VAT

TREATMENT OF THE FOREIGN TRADE

- **Compatibility of a RCH with the destination principle**
  - There is no necessity to change existing rules for the intracommunitary trade, exports are exempt 👍
  - Taxing imports should be interpreted as a simple extension of a domestic RCH abroad 👍
  - It would be problem if the doctrine were to be changed
  - If, however, the consumer imports the good directly, the strict destination principle can be maintained only if the consumer is taxed by a „use tax“ or if the „exporting“ retail firm collects the tax on behalf of the importing country ⇨ insist on a consistency or seek a compromise?

SIMILARITIES BETWEEN A REVERS CHARGE AND A RETAIL SALES TAX – DÉJÀ VU

- **Tax equity**
  - The general RCH reduces double taxation of value added/profit for substantial part of businesses, namely wholesalers and producers 👍
  - Gradual fractional payments within the existing VAT system appear to be more fair
- **Tax administration and revenue collection**
  - RCH should mobilize and concentrate tax authorities when monitoring and auditing problematic taxpayers 👍
  - RCH is more resistant to tax evasions in manufacturing and wholesaling 👍
  - Collection at a final stage brings organizational problems into the tax administration
  - Tax compliance at a final sales stage is at risk

Thank you for your attention

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