Reverse charge mechanism and harmonized VAT system

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ROZŠÍŘENÍM SYSTÉMU REVERSE CHARGE PROTI DAŇOVÝM ÚNIKŮM

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CLOSING VAT GAP THROUGH THE REVERSE CHARGE MECHANISM

The EU VAT system today

- Article 113 of the Treaty
- The EU Internal Market and the need for a common VAT system
- The VAT Directive – transitional regime put in place in 1993
- Exemption of intra-EU supplies and taxation of intra EU acquisitions
- The fractionated payment system and its self-policing character
- Problems linked with the transitional rules on intra-EU transactions and impact on VAT fraud.
- Carrousel fraud.

Measures taken up to now to tackle VAT fraud

- So-called "conventional" measures (registration checks, risk analysis, administrative cooperation…)
- Targeted reverse charge in specific sectors, based on specific options and derogations.
- Long and difficult negotiations in 2013 – as most MSs opposed a too wide application of the reverse charge mechanism
- Impact – EY study of Nov 2014
  - +/- 2 % of GDP covered (+/- 5 % if all options used by all MSs)
  - Very diverse use by MSs
  - Very diverse conditions / obligations on businesses
  - Increase of administrative burden (+ 40 %)
- A lot of complaints from business
- Impact on fraud moving within the Internal Market
- Little efficiency on the evolution of the VAT gap overall

Setting a definitive VAT system

- VAT Action Plan in March 2016
- COM examining different options:
  - Taxation of intra-EU transaction with wide use of the One Stop Shop concept
  - Generalized use of the reverse charge mechanism
- Need consistency between treatment of intra-EU transactions and domestic transactions :
- - "Tax the whole chain" or "suspend VAT on the whole chain"
- Need to avoid fragmentation of the Internal Market
- Comparison with international experience.

Thank you!