



# REVERSE CHARGE MECHANISM AND HARMONISED VAT

Milena Hrdinková  
Ministry of Finance



Ministerstvo financí  
České republiky

# Scene setting

- VAT harmonised since 1977
- Subsidiarity + proportionality principles
- Common system with many derogations
- Fragment and neutrality
  - Assessment + payment level
- Collection of harmonised tax – always country specific with 28 TA



# Structural elements of VAT

	<b>Do we have a common rule?</b>	<b>Do we have the same treatment in all MS?</b>	<b>Do they change with RCM?</b>
<b>Basic rates</b>	Yes	No	No
<b>Reduced rates</b>	Yes	No	No
<b>Taxable supply</b>	Yes	Yes	No
<b>Deduction</b>	Yes	Yes	No
<b>Exemptions</b>	Yes	No	No
<b>Taxable persons</b>	Yes	Yes	No
<b>Taxable period, filing</b>	Yes	No	Yes
<b>Audit</b>	No	No	Yes
<b>RCM intra EU</b>	Yes	Yes	xxx
<b>RCM domestic</b>	Yes	No	xxx



# Reverse charge mechanism application

- Intra EU supplies – a general rule
- Domestic supplies – an exception
- Various procedures
- Based on sectors
- Growing number of exceptions with the internal market development



Ministerstvo financí  
České republiky

# Is the internal market at risk?

- Potentially YES, but not specifically because of RCM
- In reality less than expected
- 28 tax administrations
  - Same options different choices
  - Diverging capacity





Ministerstvo financí  
České republiky

# What are the risks?

- Flexibility of carousel and missing trader fraud
  - Geographical
  - Commodities
  - Common denominator - size
- Speed
- Combination of internal market and MS autonomy in tax administration

**Does „No RCM in one MS“ prevent neighbouring countries from carousel fraud?**



Ministerstvo financí  
České republiky

# Legal instruments

- Article 395 VAT Directive
- Change of current VAT Directive
  - Universal
  - Pilot scheme
- Future regime



Ministerstvo financí  
České republiky

# More reverse charge in future?

## When?

## Who?

Definitive regime

Longer – term  
(but asap)

All MS

Broader Individual  
Derogation

Short-term

Interested MS





Ministerstvo financí  
České republiky

# Reverse charge in future regime of VAT (1)

- Intra EU transactions and domestic transactions the same procedure
- Easy / possible to administer with 28 different administrations
- Adjustable to diverging needs of tax administrations
- Future regime = new level of VAT administration



Ministerstvo financí  
České republiky

# Reverse charge in future regime of VAT (2)

- No carousel and missing trader fraud
- New risks can be tackled
- Suitable to contemporary environment (Cross checking of VAT invoices – almost a standard)
- Worth testing