



EUROPEAN COMMISSION  
DIRECTORATE-GENERAL  
TAXATION AND CUSTOMS UNION  
Indirect taxation and Tax administration  
**Administrative cooperation and fight against fiscal fraud**

13 August 2007

## **Consultation paper**

### **Possible introduction of an optional reverse charge mechanism for VAT – Impact on businesses**

#### **Note**

**This document is being circulated for consultation to all parties concerned by the potential introduction of an optional reverse charge mechanism for VAT.**

**The sole purpose of this consultation is to contribute to the debate,  
to collect relevant information  
and to help the Commission develop its thinking in this area.**

**This document does not necessarily reflect the views of the European Commission  
and should not be interpreted as a commitment by the  
Commission to any official initiative in this area.**

The parties concerned are invited to submit their comments no later than

**15 October 2007.**

Comments may be sent by letter, fax or electronic mail to Ms. Petra Spaniol under the following correspondence:

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## **1. INTRODUCTION AND BACKGROUND**

The European Commission considers the effective functioning of the internal market to be a cornerstone to its Growth and Jobs Strategy as it is important for the achievement of increased efficiency and competitiveness for EU businesses. Taxation policies can contribute to these objectives, notably through combating tax fraud that creates a significant distortion in the functioning of the internal market, prevents fair competition and also erodes revenues that should be used for the implementation of public services at national level.

VAT fraud, and in particular the so-called carousel or missing trader fraud, is highly important on the political agenda in several Member States. It is a type of fraud involving relatively few persons but the amounts at stake are considerable. However, it is obvious that there are other types of fraud like black economy, false deductions or under-reported supplies which also contribute to the losses in VAT receipts.

The Commission's Communication of 31 May 2006 concerning the need to develop a co-ordinated strategy to improve the fight against fiscal fraud (COM(2006) 254) presented a range of ideas as a basis for a debate with all stakeholders involved. Since many of the ideas developed in this Communication - which range from the improvement of administrative procedures to substantial changes in the VAT system - are likely to have a direct impact on businesses, it is crucial to engage them in the dialogue.

This consultation would be one of the opportunities for European businesses to get involved in the debate and to present their views.

## **2. CURRENT SITUATION**

Discussions on the content of the Communication and possible measures in the fight against VAT fraud are ongoing with the Member States in expert group and Council meetings.

In its conclusions of the 5th of June on combating tax fraud, the ECOFIN Council invited the Commission to carry out further substantial work within a very short timeframe. In addition to further elaboration of conventional measures in the fight against fraud, the Council reflected also on the possibility of more far reaching measures implementing a fundamental change to the current VAT system and invited the European Commission to analyse the effects of different options on the internal market. Findings should be submitted to the Council by the end of 2007, at the latest.

The Commission is prepared to examine such amendments to the common VAT system if they were to reduce the possibilities for fraud. The starting point of these reflections is that missing traders exploit a weakness in the current VAT system which stems from the exemption of intra-Community supplies.

One option advocated by some Member States for tackling this problem consists in introducing a generalised reverse charge mechanism, which implies shifting the tax liability from the supplier to the recipient with respect to domestic commercial transactions whose value exceeds a certain threshold. To this extent it is likely that a reverse charge system would eliminate missing trader fraud. However the potential effects of such a change have to be considered carefully. The Commission in particular has to pay attention on the potential internal market consequences of an optional generalised reverse charge and it would have to examine this issue carefully. In this context, a very important element to focus on will be its **impact in terms of additional costs for taxpayers and to what extent it might prevent traders from operating cross border.**

The objective of this consultation is to gain businesses' view and opinion on this question.

### **3. STUDY ON THE INTRODUCTION OF AN OPTIONAL REVERSE CHARGE SYSTEM FOR VAT**

In practical terms the introduction of an optional reverse charge system would mean that those Member States that opted for it would require that, where invoices were issued above a threshold amount (5.000€ would be an indicative figure), the customer, when he is identified as a taxable person, would be liable to pay the VAT instead of the supplier. For any supply below the threshold or to a non-taxable person the supplier would remain liable for the VAT as is the case today under the normal rules.

In order to control the movement of "untaxed" goods subject to the reverse charge businesses would be required to fulfil extra reporting obligations. The exact nature of these obligations remains to be decided. However, as a minimum it is likely that the supplier would provide a periodic global listing detailing his customers (VAT number or perhaps specific reverse charge identifier) and the value of supplies. The customer may also be required to provide a purchase listing containing the supplier's details and the value of transactions to enable the tax authorities to match in global terms the supplies with the purchases.

What is clear is that for businesses a general reverse charge system would inevitably have consequences. Some of the key issues are the reporting obligations, the identification of the customer, effects on cash flow etc.

Taking this into consideration the Commission has launched a study to analyse the impact of the introduction of such a general reverse charge system for businesses. The final report of this study is annexed to this document and might serve as basis for this consultation.

#### 4. QUESTIONS SUBMITTED TO THE PARTIES CONCERNED

In relation to the above mentioned study, the Commission would be particularly interested in receiving contributions from the public in response to the following points:

- Please give a short description of your company (size, business branch, position in the supply chain, etc.)
- Please indicate what impact you expect an optional general reverse charge system as described in the attached study would have for your company, in particular related to
  - Administrative costs
  - Cash flow impact
  - Impact on your cross border competitiveness
  - Any other impact (costs or benefits) you can think about

We would be grateful if you could analyse these impacts and costs for both of the following scenarios:

- Where the Member State in which your business is established decides to implement a general reverse charge mechanism but other Member States decide not to do so, and
  - Where the Member State in which your business is established decides not to implement a general reverse charge mechanism but other Member States decide to introduce it.
- Please distinguish – where appropriate – between one-time and recurring costs.
  - Any other comment