



Generalized reverse charge – temporary derogation

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VAT fraud – key issue

- VAT = important source of MSs and EU budgets
- Reduction of VAT gap – not very successful
- EU VAT loses - 170 bln. EUR every year
- Average EU VAT gap – 15 % of the total VAT liability
- VAT fraud causes internal market distortion, connected with organized crime
- Quick solution is needed



Short term solution

- Use of tools that current VAT system allows:
 - **Conventional measures** – in some conditions not working, increasing administrative burden, no sufficient preventive effect
 - **Reverse charge** – by its substance it does not allow fraud to arise, successful, verified, used by the majority of MSs to tackle VAT fraud /but only on the sectorial basis – shifting of fraud/



Tackling VAT fraud – CZ perspective

- Massive conventional measures implemented in CZ did not result in significant reduction of the VAT gap
- Reverse charge is applied to almost all items where it is allowed by the VAT directive
- Effect of the reverse charge in CZ is convincing – the total volume of the carousel fraud has been reduced by 98 %, their number by 89 %



Temporary derogation - generalized reverse charge (I)

- The Czech Tax Administration see the temporary derogation allowing to apply the generalized reverse charge mechanism to domestic transactions exceeding defined threshold as an effective way to tackle VAT fraud in the short-term perspective
- By generalized approach the shifting of fraud from one sector to another will be eliminated
- The application of the threshold targets this measure to huge carousel fraud



Temporary derogation - generalized reverse charge (II)

- The Czech Republic stands out for the possibility to apply the temporary derogation as already mentioned in the April Commission VAT Action Plan
- Administrative measures already applied in CZ allow to use the generalized reverse charge without need to implement additional obligations to traders or to the tax administration
- Temporary derogation can confirm the effectiveness of this measure and will provide the relevant data about the impact of such a system = invaluable contribution to the discussion on the VAT definitive regime



Temporary derogation – CZ impact

- CZ state of play:
 - Approx. 500 000 VAT payers
 - 170 000 of them already involved in sectorial reverse charge (1-6/2016, the tax base 525 bln. CZK)
- Expected impact of the generalized reverse charge with a threshold (data for 1-6/2016, threshold 250 000 CZK, additional to the sectorial reverse charge):
 - 116 000 traders involved
 - 53 600 newly involved traders
 - Expected tax base: 1 939 bln. CZK



Benefits of the temporary derogation

- VAT fraud causes the distortion of the internal market → its reduction in any way thus represents a benefit for the internal market and honest traders
- **Temporary** examination of one possible way of to tackle VAT fraud in practice
- Collection of the valuable data and information to be further exploited – „short term study“
- No impact on those Member States that do not wish to apply such a scheme



Combating VAT fraud is our common goal!

Thank you for your attention.