

Combating VAT Fraud

Recent initiatives by the Commission

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Why should the EU react to VAT Fraud?

- Existing rules were intended to be transitional and are 25 years old
- Vulnerability of the common VAT system to fraud
- Cross border VAT fraud is responsible for around **€50 billion** revenue losses per year in the EU

- Two main actions towards a **fraud-proof VAT System**
 - General Reverse Charge, COM(2016) 811
 - Definitive VAT System, COM(2018) 329 final

General Reverse Charge

COM(2016) 811

- Upon a request of certain Member States
- Derogation from normal VAT rules

Art 1 VAT Directive:

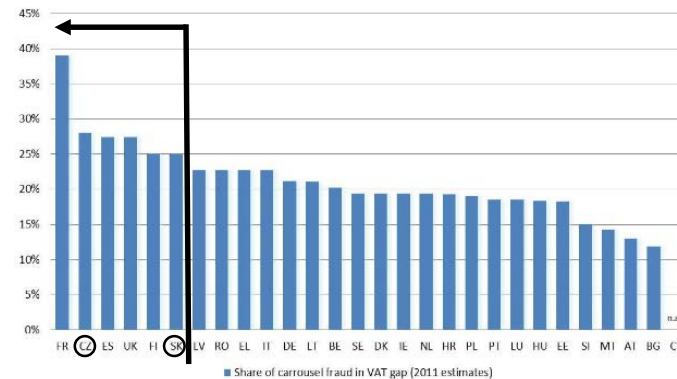
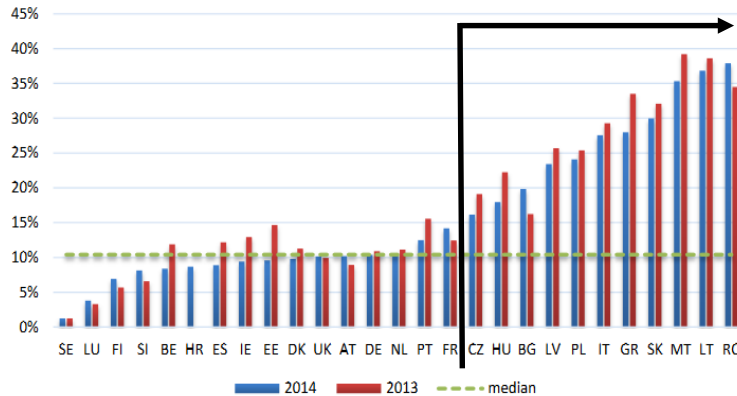
“The principle of the common system of VAT entails the application to goods and services of a general tax on consumption exactly proportional to the price of the goods and services, (...).

On each transaction, VAT, calculated on the price of the goods or services at the rate applicable to such goods or services, shall be chargeable after deduction of the amount of VAT borne directly by the various cost components.”

- Proposal for the General Reverse Charge published on 21 December 2016
- On **2 October 2018** the Council agreed on an amended version

How would the General Reverse Charge System work?

- Personal scope: Only Member States with a certain level of fraud



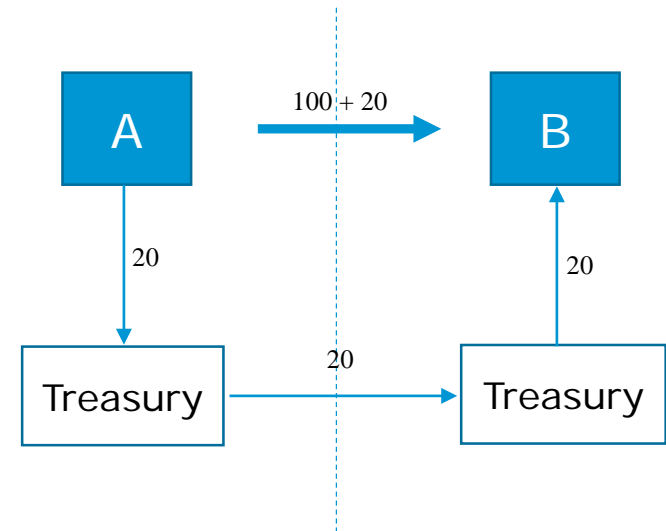
- Temporal scope: Until 30 June 2022
- Material scope: All non-cross-border B2B supplies of goods and services above a threshold of 17.500 EUR per transaction

General Reverse Charge as a Solution?

- **What can be achieved:**
 - Ultimate solution for Carousel Fraud
 - Avoidance of any cash flow disparity
 - No differentiation between the exiting reverse charge provisions
- **Open issues:**
 - Consumers will try to pose as taxable persons: Should the supplier be held liable, if the consumer does not pay the VAT?
 - Difficult to ensure the status of the taxable person
 - Creates the existence of four different VAT regimes at the same time

Definitive VAT System COM(2018) 329 final

- At the request of the Commission
- Destination-based taxation
- Intra-Community supply /
intra-Community acquisition are abolished
- Replaced by **ONE single intra-Union supply**
- Implementation of a One Stop Shop
- Intra-EU supplies are taxed in the same way
as domestic operations.



How would the Definitive System work?

- Personal scope: Definitive System has to be applied by all taxable persons in all Member States (liability of supplier)
 - Option: **Certified Taxable Person** can apply Reverse Charge (liability of acquirer)
 1. Compliance
 2. Record keeping
 3. Solvency
- Material scope: Almost all supplies of goods (some exemptions)
- Temporal scope: Definitive System should enter into force in 2022

Impacts of the Definitive VAT System?

What does **not** change?

- Cross-border B2B services
- Cross-border B2C supplies and services
- Almost everything related to domestic supplies
- Almost everything related to the importation of goods and the Customs procedures No 42

What does change?

- Expanded One Stop Shop (**OSS**) to reduce administrative burden
- Challenges in cross-border tax enforcement
- Goods are **taxed in**, and **at the rate of**, the Member State where the transport of goods ends
 - rates discrepancy – across Member States?
 - rates differentiation – across products?

Thank you for your attention!



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