

CEE VAT Antifraud Conference PWC (19.11.2015 Budapest)

Dear Ladies and Gentlemen,

Being a finance minister, I am obviously worried about taxes. **EU Member States are losing a huge amount of VAT every year and I think something must be done.**

In 2013, for example, EU Member States lost almost 170 billion euro of VAT. Experts call this "VAT Gap". I cannot say anything but **VAT gap has been constantly too high to be ignored.**

On 20 June 2014 I talked about solutions to VAT fraud in the EU at the **Ecofin Council for the first time**. Since then, I have made numerous steps to alert key stakeholders, so that we could swiftly find the solution. I wrote letters, I organised and participated in many meetings and I brought the topic to the attention of my counterparts.

I have mentioned many times that a wider application of the reverse charge mechanism in the EU could be the solution to this problem. The key advantage would be that a missing trader and a carousel fraud would be eliminated and a level playing field ensured. I have always been open to discussing efficient alternatives, but there do not seem to be very many.

In June 2015, I applied together with another three finance ministers for the authorisation of derogation under Article 395 of the VAT Directive to test and demonstrate that the reverse charge mechanism works. Unfortunately the Commission found our application unlawful. I respect the decision, but I will continue and strive for better collection of VAT.

I have serious **doubts about EU priorities in the tax area**. EU Member States led by Germany, France, UK, Spain and Italy are most worried about corporate tax base erosion and profit shifting. I share the view that timely solutions to aggressive tax planning are necessary, but I am very much worried about 170 billion euro we are losing due to VAT fraud every year. VAT fraud affects Member States 'budgets even more than aggressive planning in corporate tax area. **I am very determined to see some progress in the area of VAT** in near future.

In my country, the substantial part of the **VAT Gap is caused by the organized crime - the carousel fraud**. It is rather obvious that a wider application of the reverse charge is a viable solution of the problem.

Nevertheless, I keep hearing from the European Commission that the reverse charge would not lead to less VAT fraud and better collection and I have to focus on the conventional measures only. The Czech Republic has **introduced a number of conventional measures**, other than reverse charge, and the **amount of fraud remains basically unchanged**. The same situation prevails in a number of other Member States.

We have heard in September from the European Commission that the **collection of VAT in Member States must improve**. I could not agree more. Unfortunately we have not heard anything of how this should be done for a long time. The reverse charge is a simple, fair, and efficient solution of the problem.

The first thing you notice when you visit the EU Directorate for Taxation is a large poster saying: "Towards simple, fair and efficient taxation."

I am convinced that the biggest EU issue is not the VAT Gap, but the HUGE GAP BETWEEN THE WORDS AND THE ACTION. We need to close more gaps between the words and the action within the EU.

I was feeling rather frustrated about this issue. I have been calling for making appropriate steps in the area of VAT fraud for a year and half and I could see no progress. Now, after October Ecofin, I have some hope that this will improve. It seems that **VAT fraud will finally be discussed as a separate point on Ecofin agenda shortly.**

The Czech Republic volunteered to test this respective option through a **pilot project**. I am not seeing any reason why the Commission should not let us all benefit from the experience gained.

Let me summarize:

1. Reverse charge would eliminate any carousel fraud
2. Cash-flow of business would improve
3. Last, but not least the operation of VAT would be much simpler. Majority of businesses would report input and output transactions but no tax would be paid. Hence there will be much smaller risk of mistakes.
4. The risk of VAT not being paid at the end of the chain can be eliminated by electronic reporting of sales. Many countries are introducing such systems anyway.
5. I realize the cash-flow impact on the budget. But this is the very same cash that the business would save.
6. Yes, there would be a one-off implementation cost. However, it will be very quickly recovered by the benefits.

We need **more discussion** and progress on EU solutions for VAT fraud. I think that wider application of reverse charge needs to be elaborated further in a structured professional debate therefore I am hosting the international expert **conference „Closing VAT GAP through Reverse Charge Mechanism“ on 4 December in Prague**. I sincerely invite you to this event.