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# Reverse Charge Mechanism and Harmonized VAT

Martin Diviš  
PricewaterhouseCoopers ČR



# Principle of VAT

## EU VAT system

- Fractionised payments
- VAT collected at each stage of the production and distribution chain
- Offsetting the input VAT paid on purchases against the output VAT received on sales
- Article 193 of Council Directive 2006/112/EC (“**VAT Directive**”):  
*„VAT shall be payable **by any taxable person carrying out a taxable supply** of goods or services, except where it is payable by another person in the cases referred to in Articles 194 to 199 and Article 202.“*



# Principle of Reverse Charge

## Standard practice

- Supplier – calculates VAT, the relevant document must contain VAT amount, which is reported in the VAT return
- Customer – claims the entitlement to VAT deduction

## Reverse charge mechanism only between VAT payers

- Supplier – issues the tax document without VAT, reports taxable supply without VAT in the VAT return
- Customer – calculates VAT, reports received taxable supply and claims VAT deduction



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# Reverse Charge Mechanism

## VAT Directive

- Article 199
- Article 199a
- Article 199b
- Article 394
- Article 395



# Article 199 of VAT Directive

***Member States may provide that the person liable for payment of VAT is the taxable person to whom any of the following supplies are made:“***

- A. Construction work, including repair, cleaning, maintenance, alteration and demolition services
- B. Supply of staff engagement in activities covered by point A
- C. Supply of immovable property, as referred to in Article 135 (1)(j) and (k), where the supplier has opted for taxation of the supply pursuant to Article 137
- D. Supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and certain goods and services
- E. Supply of goods provided as security by one taxable person to another in execution of the security
- F. Supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee
- G. Supply of immovable property sold by a judgment debtor in a compulsory sale procedure



# Article 199a of VAT Directive

***"Member States may, until 31 December 2018 and for a minimum period of two years, provide that the person liable for payment of VAT is the taxable person to whom any of the following supplies are made:,,***

- A. Transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 13/10/03
- B. Transfer of other units that may be used by operators for compliance with the same Directive
- C. Supply of mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use
- D. Supply of integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end use products
- E. Supplies of gas and electricity to a taxable dealer as defined in Article 38(2)
- F. Supply of gas and electricity certificates
- G. Supply of telecommunication services as defined in Article 24(2)
- H. Supply of game consoles, tablet PCs and laptops
- I. Supply of cereals and industrial crops including oil seeds and sugar beet, that are not normally used in the unaltered state for final consumption
- J. Supply of raw and semi-finished metals, including precious metals, where they are not otherwise covered by point D of Article 199(1), the special arrangements for second-hand goods, works of art, collector's items and antiques pursuant to Articles 311 to 343 or the special scheme for investment gold pursuant to Articles 344 to 356



# Article 199b of VAT Directive

## Quick reaction mechanism

„A Member State may, **in cases of imperative urgency** and in accordance with paragraphs 2 and 3, designate the recipient as the person liable to pay VAT on specific supplies of goods and services by derogation from Article 193 as a Quick Reaction Mechanism ("QRM") special measure to combat sudden and massive fraud liable to lead to considerable and irreparable financial losses.

The QRM special measure shall be subject to appropriate control measures by the Member State with respect to taxable persons who supply the goods or services to which that measure applies, **and shall be for a period not exceeding nine months.**“



# Article 394 of VAT Directive

- „Member States **which, at 1 January 1977, applied special measures** to simplify the procedure for collecting VAT or to prevent certain forms of tax evasion or avoidance may retain them provided that they have notified the Commission accordingly before 1 January 1978 and that such simplification measures comply with the criterion laid down in the second subparagraph of Article 395(1).“



# Article 395 of VAT Directive

- „The Council, acting **unanimously on a proposal from the Commission**, may authorise any Member State to introduce special measures for derogation from the provisions of this Directive, in order to simplify the procedure for collecting VAT or to prevent certain forms of tax evasion or avoidance.“



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# Thank you for your attention!



***Martin Diviš***

**[martin.divis@cz.pwc.com](mailto:martin.divis@cz.pwc.com)**

**+420 251 152 574**