



Ministerstvo financí  
České republiky



# Reverse charge

Jan Čapek  
Ernst & Young, VŠE in Prague



Ministerstvo financí  
České republiky

# Czech VAT today

- CZK 322bn (2014)
- Output VAT of 1,653bn less input VAT of 1,331bn (approx.)
- VAT fraud (missing trader)
- Significant effort of the Tax Authorities to combat fraud
- Huge costs for the business (compliance and assessments)



# Czech VAT in 2016

- Similar to 2015, plus:
  - Electronic VAT ledgers
  - Electronic evidence of sales
- A unique combination by European standards
- ... and a great environment for the reverse charge.



Ministerstvo financí  
České republiky

# Reverse Charge Proposal

- All local B2B supplies subject to reverse charge
- “Small value” B2B supplies – taxed (or optional reverse charge)



# Is this still “the good old VAT”?

- Yes. And this is not a sales tax!
- The same amount of tax is paid by the same final consumer
- The key principle of VAT neutrality remains unchanged
- The only change: “ the fractional payment principle” is abandoned





# Benefits

- VAT fraud is dead
- Cash-flow of business improves
- VAT is fun (**no** tax **payment** within the chain means **no** tax **risk** within the chain)



# Disadvantages

- One-off implementation costs
- Cash-flow of the state is harmed (but this can be solved)
- Collection risk at the end of the chain (but payment cards and of course ... electronic evidence of sale would solve this)



# Is this a genius idea?

- Not really
- We just have more smart phones, payment cards, and computing power than in 1954 (i.e. when the VAT idea was born)





# So what is the problem?

- Not clear to me... and do not forget: we already have reverse charge!

Output taxable supplies	Tax base (2014 approx.)	%
Local	8,300bn	68%
Intra-community	3,300bn	27%
Local reverse charge	600bn	5%



# Summary

- The existing technology can serve VAT better than fractional payments
- Huge benefits for business and tax administration
- Limited implementation costs (compared to benefits)