



Reverse-charge system

Evolution in the EU

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„International“ Reverse charge

- Agreed principle among the EU
 - VAT should be paid in the **state of consumption**
 - The administration costs should be minimized
- Shifting the place of supply of services (and some goods) to the country of consumption
- Shifting the obligation to pay the VAT to the recipient of the service (and certain goods)



„International“ reverse-charge in the EU Directives

- Taxable persons to whom services (or certain goods) are supplied if they are carried out by a taxable person established abroad
 - Art. 21 1. (b) of Sixth Directive (since 1977 only for services covered by Art. 9 (2) e)
 - Art. 28g 1. (b) (since 1993 extended to further services -transport, ancillary to transport, etc.)
 - Art. 194 to 197 of Recast Directive (for majority of services, installed goods or goods supplied through distribution systems, etc.)



„Local“ reverse charge

- Measure against **carousel fraud**
- Local reverse-charge **eliminates**:
 - fractioned payments of the standard VAT system
 - possibility to recover input VAT which had not been paid by the supplier
- General reverse-charge discussed in 2006 - 2008 but not agreed
- Specific reverse-charge implemented gradually from 1982



„Local“ reverse charge in EU Directives

- **Derogations** from provisions of the Directive may be introduced or (existing kept) in order to simplify the taxation or prevent tax evasion
 - **Art. 27** of Sixth Directive (since 1977)
 - **Art. 394 and 395** of the Recast Directive (since 2006)
- **Specific reverse-charge** on construction services and supply of real estate, supplies by debtor in insolvency, supplies of waste and scrap, supplies of goods provided as security, etc.
 - **Art. 199** of recast Directive (since 2006)



„Local“ reverse charge in EU Directives

- The **list** of „reverse-chargeable“ goods and services **extended**:
 - **Art. 199a** of Recast Directive
 - Emission allowances (2010)
 - Mobile phones, integrated circuits, gas and electricity, telecommunication services, game consoles, tablet PC's and laptops, cereals and industrial crops, raw and semi-finished metals (2013)
- Quick reaction mechanism:
 - **Art. 199b** of Recast Directive (since 2013)
 - **Any goods** or **services** affected by the VAT fraud
 - Applicable for 9 months only



Implementation of reverse charge in the EU

- First case:
 - Netherlands – construction works – since 1982
- Initial period
 - Measure against VAT **non payment due to insolvencies**
 - Construction services – Austria (2002), Germany (2004)
 - Supply of goods provided as security – Germany(2002)
- Subsequent period (since 2006)
 - Fight against **carousel fraud**
 - Mobile phones – United Kingdom (2007)
 - Computers – Italy (2007)
 - Emission Allowances – most countries (2010 and 2011)
 - Other goods in Article 199a – many countries (2010 and further)



Implementation of reverse charge in the EU

- Reverse charge is used mainly for:
 - Construction services (17 member states)
 - Waste and scrap (23 member states)
 - Emission allowances (21 member states)



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