

Andrej BABIŠ
First Deputy Prime Minister and Minister of Finance

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Dear

First of all let me wish you all the best for the New Year 2015.

Fight against the carousel fraud and making the existing VAT system more operational remain one of my key priorities for this season. Estimated losses on VAT collections amounting to more than EUR 177 billion and representing between 5 and 44 % of the Member States VAT revenues send an alarming message requiring a swift and comprehensive response.

Many are persuaded that carousel fraud, which causes a significant proportion of the VAT gap, can be tackled through a wider application of the domestic reverse charge. The reverse charge is easy to apply and can simplify the administration of VAT. In addition to that, any broadening of domestic reverse charge further harmonizes the treatment of domestic and intra-community transactions.

The adoption of VAT EU Directive amendment in 2013 was a move in the right direction. It broadened the possibilities of Member States to use the reverse charge mechanism in the fight against tax fraud, though still limited to particular circumstances and commodities. However, the positive trend, we have recently commonly pursued in the EU legislation on VAT, must be developed further.

I am deeply convinced that the anti-fraud measures should be more operational. Member States need to have more power to decide on application of reverse charge mechanism so that they can target the critical sectors in more rapid, flexible and efficient way. Unfortunately, the European Commission remains reserved about the application of the domestic reverse charge mechanism.

In my opinion, wider application of the domestic reverse charge supports the key EU objectives and does not infringe any EU freedom. Positive experience of Member States over last 15 years should be kept in mind. The recent history shows that the reverse charge mechanism proved to be very efficient in combating VAT fraud and gradually becomes more and more conventional in the selection of anti-fraud measures, when available to tax administrations. From my point of view, potential risks connected with the change of the system, such as the state budget cash flow, collection of VAT at the stage of final consumer and the implementation costs, can be tackled with less effort than the carousel fraud.

In the longer term, the EU must strive for delivery of a “Robust, Resilient and Fraud-proof VAT System”. The Czech Republic will support the work of the European Commission to create a simpler, more efficient and more robust VAT system in the EU. In our view, a wide and flexible approach to the reverse-charge mechanism can serve these priorities very well. I suggest that Member States are given discretion to apply general domestic reverse charge based on their needs as long as such application has no adverse impact on internal market and unless it is rejected by the Council. I believe this goal should be upheld both in short-term and long-term perspective. Significantly higher tax revenues will be collected in a more business-friendly way.

I am very much determined to promote the discussion of this particular issue among us, Ministers of Finance, as well as with the Commissioner Moscovici. For your information, I enclose the copy of my letter to Pierre Moscovici sent in November 2014.

I shall be very grateful for sharing experience with the issue in your country and your feedback on the above suggestions and also any thought complementing potential solutions to this burning problem. Indeed, I sincerely look forward to our cooperation in this area.

With kind regards,