



VAT alert Belgium

EU Council agrees on measures to combat VAT fraud

On 2 October 2018, the Council of the European Union reached a political agreement on the introduction of a generalised reverse charge mechanism and adopted measures to strengthen administrative cooperation in the field of VAT. Furthermore, the Council decided to extend the application of two existing temporary measures until 30 June 2022: (1) the optional reverse charge mechanism and (2) the quick reaction mechanism.

Generalised reverse charge mechanism or 'GRCM'

The Council agreed to allow Member States heavily affected by VAT fraud to temporarily apply a domestic reverse charge mechanism in order to curb the endemic VAT 'missing trader' or 'carousel fraud'.

Member States will only be able to use the GRCM for domestic supplies of goods and services between taxable persons, above a threshold of EUR 17,500.00 per transaction and under very strict technical conditions. For example, a Member State planning to apply this measure:

- Should have a VAT gap in 2014, expressed as a percentage of the VAT Total Tax Liability, of at least 5 percentage points above the Community median VAT gap.
- That Member State should prove that 25% of that VAT gap is due to carousel fraud.

Based on these criteria, only two Member States will be able to apply this measure: the Czech Republic & Slovakia.

The general reverse charged mechanism will only offer a short-term solution for containing fraud, pending the definitive VAT system's introduction, which is expected on 1 July 2022. Therefore, the GRCM can only be applied until 30 June 2022.

Based on the agreement, the directive will take effect 20 days after its publication in the Official Journal of the European Union.

Strengthening administrative cooperation

The Council also adopted a regulation containing measures to strengthen administrative cooperation and improve VAT fraud prevention.

These measures will tackle the most widespread forms of cross-border fraud by improving how tax administrations cooperate with each other and other law enforcement agencies.

Most of this regulation's provisions will be applicable as of 1 January 2020.

Extension of optional reverse charge and quick reaction mechanisms

Finally, the Council agreed to continue two temporary mechanisms that were set up several years ago to allow Member States flexible and swift legislative changes to combat VAT fraud situations:

- The optional reverse charge mechanism, which allows Member States to apply a reverse charge mechanism on a common list of goods and services deemed fraud sensitive. Based on this measure, many Member States have implemented a reverse charge mechanism on (e.g.) IT material, supply of scrap metals, etc.
- The Quick Reaction Mechanism (QRM), which allows Member States a faster procedure to introduce a reverse charge mechanism on specific supplies of goods and services upon detection of sudden and massive fraud that could lead to considerable and irreparable financial losses. Although this mechanism is yet to be used by a Member State, it was considered useful and therefore extended.

These two temporary mechanisms will be extended until 30 June 2022, the planned date for the definitive VAT regime's entry into force.

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