

Common system of value added tax (VAT): period of application of the optional reverse charge mechanism in relation to supplies of certain goods and services susceptible to fraud and of the Quick Reaction Mechanism against VAT fraud

2018/0150(CNS) - 25/05/2018 - Legislative proposal

PURPOSE: to amend Council Directive 2006/112/EC on the common system of VAT in order to combat fraud affecting certain supplies of goods and services and to assist Member States in dealing with cases of sudden and massive VAT fraud.

PROPOSED ACT: Council Directive.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: Article 199a of [Council Directive 2006/112/EC](#) (the VAT Directive) allows Member States to optionally use the reverse charge mechanism for payment of VAT on supplies of pre-defined goods and services, which are susceptible to fraud, and in particular, to **missing trader intra-Community (MTIC) fraud**. Article 199a offers an option of applying the reverse charge mechanism for listed supplies and Article 199b by offering an accelerated procedure for the introduction of the **reverse charge mechanism** in case of sudden and massive fraud. Both Articles **expire on 31 December 2018**.

The Commission recently presented two legislative proposals which aim at **tackling VAT fraud more fundamentally**. The first is a proposal for administrative cooperation and fighting fraud in the field of VAT. The second is the [proposal](#) outlining the cornerstones for a simpler and fraud-proof definitive VAT system for intra-Union trade. A two-step approach will be followed for the implementation of these cornerstones. As a first step, the Commission will present in the first semester of 2018 a proposal containing the detailed provisions for the operation of the definitive arrangements for intra-Union Business-to-Business (B2B) supplies of goods.

These arrangements, which should enter into force on 1 July 2022, provide a fundamental response to missing trader intra-Community (MTIC) fraud. Since VAT would be effectively charged on intra-Union supplies, a trader can no longer acquire goods, transported or dispatched from another Member State, exempt from VAT which is at the root of the MTIC fraud.

On 8 March 2018, the Commission presented a [report](#) on the effects of the mechanisms on combating fraud referred to in Articles 199a and 199b of VAT Directive. The report concluded that these **mechanisms have proved useful as temporary** and targeted measures. Their expiration on 31 December 2018 would deprive Member States of an efficient tool to fight fraud. The Commission therefore proposes to prolong the measures included in Articles 199a and 199b until 30 June 2022, the date on which the definitive regime for intra-Union B2B supplies of goods should enter into force.

CONTENT: this proposal to amend the VAT Directive seeks to **prolong until 30 June 2022:**

- the possibility for Member States to apply the reverse charge mechanism to combat existing fraud in supplies of goods and services included in Article 199a(1) of the VAT Directive;
- the possibility to use the Quick Reaction Mechanism to fight sudden and massive fraud.

The current proposal is without prejudice to the Commission's [proposal](#) as regards the temporary application of a generalised reverse charge mechanism which would provide Member States that are particularly affected by fraud with the possibility to introduce a general (and not sector specific) reverse charge mechanism for domestic supplies of goods and services provided strict conditions are met.